

WHEN YOU SWEEP THE STAIRS, YOU ALWAYS START FROM THE TOP¹

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Case 1: Mr. Hussam Leheta, the chairman of the Egyptian Transport and Commercial Services Corporation (EgyTrans), a logistics and transportation provider, sought IFC help to improve its performance through better corporate governance. This idea came to Mr. Leheta while attending a training course on corporate governance—the Board Development Series—organized by IFC’s Egypt Corporate Governance Project (CGP). Under the chairman’s leadership, EgyTrans made bold corporate governance improvements, including: (i) professionalizing the board and audit committee; (ii) recruiting a professional corporate secretary; and (iii) drafting a policy on related party transactions. The company also published its corporate governance improvement plan on its Web site, underlining its commitment to transparency and accountability. The process was expensive in the short term (it cost 5 percent of the company’s annual profit to make the upgrades). However, the share price soared 29 percent after the changes were made, and several equity firms expressed interest in making an investment after the overhaul.

Case 2: An IFC team conducted a corporate governance assessment for a Dubai-based company, a potential investment client. The company’s CEO was eager to pursue corporate governance improvements for his institution. However, the IFC team failed to obtain the board’s commitment. One year after the submission of the final corporate governance assessment report—and the ouster of the CEO by the board—the company has yet to implement any of the report’s recommendations.

The two cases above from the PEP-MENA Corporate Governance Program highlight the importance of securing a real and demonstrable commitment by a company’s senior officers and directors before embarking on the journey of corporate governance reform.

Indeed, two issues highlight the challenges in improving corporate governance. First, directors and officers often do not understand the meaning of corporate governance. Second, there is a lack of understanding of how corporate governance can improve the bottom line. Issues such as this can lead to resistance to change, and overcoming them is a formidable but necessary task to building the business case for companies to implement corporate governance. This SmartLesson focuses on how such commitment is obtained when implementing any company-level work to effect change to a company’s governance framework, policies, and practices.² The note is targeted to advisory staff implementing corporate governance projects; however, it may also be applicable to other staff who engage with private sector clients.

The issue: How do you overcome resistance to change?

Most project teams implementing corporate governance reforms at the company level may be confronted with initial skepticism, lack of knowledge, and resistance to change. For one, most company directors and officers may not truly understand the meaning of corporate governance. A recent IFC survey on corporate governance practices across the MENA region showed that 59.2 percent of respondents could not define corporate governance properly. Most confused “corporate governance” with “corporate social responsibility.”

In relation to the level of understanding about how good corporate governance can add value to the bottom line, only 49.3 percent of respondents in the same survey thought corporate governance was important or very important to their organization. And those that did mostly cited compliance as the main driver for reforms. To illustrate resistance issues, imagine yourself as a project officer who has to make the business case for corporate governance during a meeting with the company founder and chairman. The issue at hand: How do you change the board’s composition

¹ A German proverb.

² This is the second SmartLessons paper on corporate governance, after [Structuring Corporate Governance Projects](#). Four additional SmartLessons will be published over the next year focusing on CGP’s other strategic objectives, i.e., to assist investors in improving the corporate governance practices of their investee companies; support the development of an effective corporate governance regulatory framework; building sustainable institutions capacity for corporate governance advisory services; and strengthen the role of the financial media in covering corporate governance.

from one composed exclusively of family members (in particular, sons and daughters who may not be qualified to sit on the board) to one with independent directors? A proper explanation is needed to overcome any skepticism and build a sound and compelling business case, showing how corporate governance pays off and how independent directors can help ensure that a business sustains the livelihood of future generations.

One answer: A three-step approach, built around commitment

Experience shows that to effect real change at the boardroom level, the best means of doing so is through a three-step approach built around commitment.

Step 1: Sow the seeds. The first step a project team may wish to take is to properly define and build the business case for corporate governance among potential clients. Awareness-raising events are an excellent means of doing so. However, the project team should keep the following lessons in mind:

Organize events for senior decision-makers that are interactive and fun. Roundtables and seminars during which participants can interact and pose questions, even if in a limited manner, are preferable to one-dimensional (and often boring) conferences, although the latter type of event, if organized with interactive elements, may be suitable for introducing the topic of corporate governance. Interactive elements may include discussions around case studies as well as breakout groups, role-playing, and mock board meetings. Ensuring that high-level decision-makers (board chairmen, directors, and senior managers) participate is important to increasing the chance of implementation at the corporate level. How? Partnering with a local institution with strong contacts in the business community is probably your best bet to ensure that the audience is indeed made up of senior directors and managers.³ The IFC brand name usually does the rest. Take a look: In case 1, EgyTrans' chairman, Mr. Leheta, attended not one but several IFC training events; in case 2, none of client company's directors attended similar courses offered by IFC in the UAE.



Picture 1: Award ceremony for the best annual report during a corporate governance conference in Egypt.

Give them something they can touch and feel. Integrating local case studies and success stories into these events will help demonstrate that corporate governance works in practice. Indeed, EgyTrans is already being used as a model case study, the Dubai's client as its antithesis. When local case studies are unavailable, such as during a project's start-up phase, the project team can fall back on success stories from other regions or corporate governance programs, e.g., the Banca Commerciale Romana (BCR) story.⁴ For example, the program team recently organized a large-scale conference on corporate governance for banks in Riyadh—the first such conference in Saudi Arabia—for over 258 bankers and other stakeholders. The team not only allowed for interactive elements to be integrated into the event, such as a panel discussion, but also invited the CEO of BCR to present his views on how to implement corporate governance and the positive impact this had on his bank.

Be smart: Use these events as business development opportunities. While many will rightly argue that training as such is not a core competency of IFC, it is an effective means of reaching out and explaining the benefits of corporate governance to a broad audience. In addition, training events are opportunities for developing business — both advisory and investment services—and promoting IFC's brand name among a country's private sector, which may not always be familiar with the topic at hand (or with IFC, for that matter).

Use these events to identify future champions. Awareness-raising events also let staff identify key players such as Mr. Leheta who are likely to emerge as future corporate governance champions, who may well request more in-depth (and profitable) advisory services, and who can serve as future case studies. To cite another example, in 2003, while implementing the Russia Corporate Governance Project, the local team leader in Samara noticed that both the CEO and the chairman of a company called KubyshevAzot traveled almost two hours each way to participate in the awareness-raising events organized by their office. A relationship was quickly forged between the company and IFC,

³ Another reason for partnering with local organizations is better allocation of staff time. Organizing events can be extremely time-consuming with procurement, conference organization, and administration. Having a local partner plan, organize, and carry out such events will enable project staff to focus on providing value-added services—e.g., preparing and delivering course materials—and is also an excellent means of passing knowledge on to the local partner organization. In the end, it just makes business sense for IFC staff to focus on providing corporate governance know-how and not conference management.

⁴ Details on the Banca Commerciale Romana case study can be found at www.ifc.org/ifcext/corporategovernance/

and the project team agreed to conduct a full corporate governance assessment for the firm. One year later, following an on-site visit by IFC's former EVP, Peter Woicke, the company became an investment client.

And finally, do not be afraid to charge! One argument frequently cited in this respect is that fees would lessen the outreach due to lower attendance levels. However, the corporate governance project team in Egypt found the opposite to hold true: when it organized a free conference in April 2006, 69 participants attended. The project team went on to organize three further events and charged between \$45 and \$60 per person; to everyone's surprise, they attracted an average of 73 participants over the three events. To date, the Egypt Corporate Governance Project has generated \$132,192 in revenues and \$58,243 in net profits from its training activities alone! Moreover, charging fees not only helps cover IFC project expenses, it also adds drive for IFC staff (who may work that extra 10 percent to meet higher expectations) and also increases the likelihood that participants will act on the takeaways from the conference. Finally, although some may argue that conferences and seminars are "public goods" and should not be subject to participation fees, offering free conferences may undermine the market for conferences and training events, contrary to IFC's mandate to support and not displace the private sector.

Step 2: The drill-down phase. Focus on providing in-depth and targeted advice to support individual banks and companies, or groups of individuals (e.g., directors or company secretaries) in implementing good corporate governance. Examples of such targeted assistance may include corporate governance assessments and reviews, company-specific workshops, and consultations.⁵ The following lessons learned in implementing step 2 again show the necessity to obtain buy-in and commitment:

Map, but do not forget to gauge commitment. A project should strategically define, select, and approach its future clients to ensure that the right companies are chosen for maximum development impact and demonstration effect, in particular when engaging in single company projects, such as corporate governance assessments or reviews. A mapping exercise will help project staff strategically approach and select future client companies that are best placed to serve as case studies. The CGP's experience is that there are three types of companies ideally suited to become best practice case studies: (i) private, family-owned companies that are seeking a public listing; (ii) companies that are in financial difficulty, or coming out of a scandal, that now seek to turn their operations around and rebuild stakeholder trust; and (iii) state-owned enterprises that are seeking to privatize. All will likely have the motivation and commitment for real change, rather than treat corporate governance as a window-dressing project. This mapping exercise should be done in close collaboration with the investment side to ensure that a future investment is a possibility and also to help demonstrate IFC's value-added proposition. EgyTrans was a company in the process of a turnaround; Dubai company was a start-up company, preoccupied with thousands of other management issues.

Quality over quantity. Because of the amount of work required to implement the recommendations contained in a corporate governance assessment/review, it is advisable to focus on a few highly committed companies, making the selection process acutely important. This will ensure that these selected companies reap the full benefits of corporate governance, rather than dilute the potential impact by working with a large number of companies on a one-off basis. This will further help ensure the business case is properly built.

CEO and chairman buy-in. Prior to initiating a corporate governance assessment (or other single company-focused projects), both the chairman and the CEO should have formally voiced their awareness of and commitment to the project. It is a mistake to have company-specific work solely supported by the CEO and other senior managers—which was the case with the Dubai client—without the board also actively approving and supporting the project (and vice versa). In fact, during the corporate governance assessment, two of the board members did not make the time to meet with the project team; and the one director who did showed outright hostility toward corporate governance. And so without support from both the board and management, it is unlikely that recommendations made for improving



Picture 2: Breakout session during a corporate governance workshop in Egypt.

⁵ A corporate governance assessment consists of an in-depth assessment of a company's corporate governance framework, policies and procedures, and actual practices, which is then followed by a set of recommendations and an implementation plan. A corporate governance review is a shorter, less time-consuming version of a corporate governance assessment. Corporate governance consultations consist of targeted advice on a single corporate governance issue—for example, how to establish an audit committee.

corporate governance practices will be implemented. In those cases where neither the chairman nor the CEO constitutes or represents the majority shareholders, commitment from the majority shareholders should be sought as well. This understanding should be formally captured in an agreement to be signed by the chairman and the CEO, e.g., an advisory agreement, or through an exchange of letters.

Conducting targeted workshops for senior participants—the Board Development Series. The CGP has found that targeted workshops for groups of individuals (e.g., chairmen, directors, CEOs, company secretaries, internal auditors), in particular when conducted with the same group of participants over an extended period of time, are highly effective in effecting change. Indeed, following the mantra of “less is more,” the CGP’s experience is that inviting fewer but more senior people can have greater impact than inviting more junior mid-level managers. The fact that EgyTrans’ chairman attended every single part of the Board Development Series speaks volumes. The experience of the Pakistan Corporate Governance Project is another good example: the project initially organized a series of broad awareness-raising events, such as a conference on corporate governance for listed companies in Karachi in November 2006, which attracted over 150 participants. The event proved useful in raising awareness of corporate governance among mid-level managers; however, it is unlikely that major impacts at the company level were achieved. Then, in a follow-up to this event, the project organized a series of interactive workshops within the framework of a course called the Board Development Series.⁶ These workshops targeted an important, if select, group of 38 CEOs, CFOs, and board members. The course participants soon understood that corporate governance does indeed pay, and before the course had finished, they had already managed to formally change 48 policies and procedures within their companies.

Does the end justify the means? Company-specific advisory services should not be viewed as an end unto themselves. Of course, any intervention, even for a single company, will have a positive contribution. However, it is likely to be a drop of water on a hot stone. To ensure that the potential impact is not limited to a single client—and that donor funds are used in an efficient and effective manner—it is imperative to ensure that that one single success story serves as a example to others. Writing simple, two-to-three-page case studies and disseminating these during awareness raising events has proven effective. This is especially true for companies in the same sector who may see corporate governance improvements in one of their competitors as a potential threat to their market position and seek to implement corporate governance reforms of their own. It goes without saying that the Egypt Corporate Governance Project team is now writing up the EgyTrans case study.

Step 3: Build long-term relationships with clients.

Explain, but also hold hands. The delivery of a corporate governance assessment may well be insufficient to ensure the achievement of expected project outcomes and impact on its own. Indeed, the CGP has worked with a number of clients—for example, a regional gas company—that did not have the internal know-how or resources to implement the recommendations. All corporate governance assessments or reviews should thus be designed to include time spent on working with the client to implement the recommendations made in the report, e.g., by providing consultations and workshops. This has the added value of building long-term relationships with key clients and ensuring that these companies become future best practice case studies.

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⁶ The Board Development Series is an in-depth and interactive course on corporate governance targeted to current and future directors. The course in its current format consists of four parts, each part consisting of six modules of two to three hours. Given the level of detail and length, the Board Development Series is typically taught over a half-year period. The course was recently accredited by the Institutional Shareholders Services, and those participants who complete the course, including a final examination, carry the title of “certified director.”