

CORPORATE GOVERNANCE ASSESSMENTS

Hawkamah's corporate governance methodology involves six steps. This process first introduces the client to Hawkamah's approach to corporate governance. Hawkamah then reviews the client's governance practices and, where necessary, Hawkamah develops a corporate governance improvement program with the client.

Matrices, checklists, and other tools used in this process are tailored for each of the five paradigms. The five paradigms include:

- Listed companies
- Family companies
- Financial institutions
- Recently privatized companies
- State-owned enterprises

Step 1: Initial Contact

- Form an initial view on whether corporate governance poses a special risk or a good opportunity for Hawkamah value-added.
- Select the governance paradigm (or combination of paradigms) to be applied to the company.
- Identify, if possible, specific issues that are likely to be priorities and whether there will be need for further resources from Hawkamah.
- Sign non-disclosure agreement between the two parties.

At the earliest practical stage in the project cycle, Hawkamah should be able to articulate their first impressions concerning the client's corporate governance. This will allow the selection of the appropriate paradigm to use with the client.

Step 2: Client Self-Assessment

- Hawkamah will begin the dialogue with the client and introduce Hawkamah's corporate governance methodology, and where appropriate make a presentation to the Board to ensure Board engagement.
- Hawkamah will enable clients to assess their own governance against the progression matrix.
- Client will engage Hawkamah through a contractual relationship.

Before Hawkamah conducts a thorough corporate governance review of the company, the client should carry out its own assessment. This self-assessment not only encourages the client to "buy-in" to the corporate governance dialogue, but can also act as the first step in Hawkamah's own review.



Step 3: Corporate Governance Review

- Send the information request list to the client, at least three weeks in advance of the on-site appraisal, so that all the necessary background information can be acquired by the appraisal team prior to the review of the company's governance. The information request list (and the delivery of responses from the client) should be coordinated with other parts of the investment team's legal and financial information gathering.
- Implement an on-site review of the governance of the company, assessing which approximate "level" is achieved in the five key areas of governance outlined on the progression matrices and clarifying any outstanding issues from the Information Request List.
- Decide whether the client needs to undertake a corporate governance improvement program. The basic purpose of the corporate governance review is to acquire understanding about the company, with a view to identifying risk and opportunity and, if necessary, developing an improvement program.

The Assessment Criteria

The Assessment covers five aspects of corporate governance:

- Commitment to good corporate governance
- Structure and function of the Board of Directors
- Control Environment Processes (internal controls, internal audit, external audit)
- Transparency and Disclosure
- Treatment of Minority Shareholders

In most cases Hawkamah carries out the corporate governance review. If corporate governance has already been identified as a particular priority (or where specialized knowledge of certain governance topics is required), specialists from Hawkamah's partner institutions can carry out the review. Even in these cases, however, Hawkamah will take an active role in the review.

Step 4: Corporate Governance Improvement Program

- Prepare an analysis of the company's governance, highlighting areas for improvement and making proposals to address governance weaknesses.
- Develop a corporate governance improvement program with the client that is specifically tailored to the needs of the company.
- Agree with the client on a timetable and methods for the implementation of this program.
- Identify areas where Hawkamah or others can assist the company in its corporate governance improvement efforts even after the assessment program has taken place.

If the corporate governance review identifies a need for an improvement program for the company, this program will be developed by Hawkamah in cooperation with the owners and senior managers of the company. In developing a program, Hawkamah will draw upon various corporate governance resources from its list of partners. In some cases, the program will be comprehensive, covering all five key areas of corporate governance. In other cases, the program will be more narrowly focused. For example, it will concentrate only on areas where risks or opportunities are identified, such as the board of directors or equitable treatment of shareholders.

Step 5: Documentation and Implementation

- Draft the operational documentation outlining the agreed improvement program.
- Decide upon the appropriate degree of enforceability of the program and discussions on the ramifications of failure to implement the program.

To ensure a common understanding of the corporate governance improvement program and to assign clear accountability for its effective implementation, both the program and the timetable for its implementation should be appropriately documented. There is wide flexibility in the operational documentation that can contribute to this goal and can be discussed with the client.

The degree of enforceability of the improvement program may also vary. A variety of client-specific factors will affect both the operational documentation that is used and the enforceability of the program, including: the nature of the governance reforms; the client's reputational risk; the alignment of incentives of the client; and the client's demonstrated commitment to improved governance.

There should be an appropriate timetable for implementing of the improvement program. In some cases, the client may continue to need assistance beyond the assessment, for example, drafting a corporate governance code or recruiting independent directors. This continuing assistance could come from either Hawkamah or its partners.

Step 6: Re-Assessment

- Ensure the continuing adherence to the agreed corporate governance improvement program six months or one year after the assessment.
- Identify the need for further corporate governance assistance.

Hawkamah will work with the company to re-assess its corporate governance improvement program and identify key benchmarks met and lessons learned. Where appropriate, Hawkamah and the client will identify new benchmarks.