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INTERVIEW WITH
SIR MICHAEL RAKE

As Chairman of both BT in the UK and Majid al Futtaim Holdings in Dubai, Sir Michael Rake is uniquely placed to assess the different governance challenges facing a large public-listed corporation with a very broad shareholder base and those of a company with one single shareholder. He brings to these roles a wealth of experience from his time as a leading representative of the accountancy profession, his role on other boards, including previously as Chairman of EasyJet, and his current position as president of the UK Confederation of British Industry. In conversation with Peter Montagnon he explains what an independent board can bring to a family-controlled company both in terms of strategic advice and sound financial reporting.
What is the difference between chairing a large listed company with dispersed ownership in the UK and chairing a family-controlled company in the UAE?

Quite obviously a large public company like BT with one million shareholders is totally different from a family owned company. In BT, the whole question of investor communications is a big challenge. It means spending time with your major shareholders, and communicating with other shareholders in an equivalent way whilst running a board who are effectively reporting to all of the shareholders. You as a chairman have to take the responsibility for balancing the experience, diversity, length of service and relative skill base of the directors. This something you as the chairman have to do on account of the shareholders and you have to take responsibility for that. You also have to deal in a large company like BT with a huge amount of press, which is very open, direct and sometimes exotic and sensational.

All of these things are facets of a British public company whereas in a Middle-East company like Majid al Futtaim you’re talking to case just one shareholder. You are running a board in loco parentis for that shareholder with a fundamental objective of looking after his interests through the operations of that company, applying good, globally rated corporate governance techniques in order to ensure the company is properly and efficiently run. Also where you’re in the public debt markets you have to ensure that translates into a financial reporting dynamic that is appropriate. The primary responsibility of directors is to look after the shareholder but they also have a responsibility to the public markets when the company has raised debt. This is different from the obligations that arise when the company has raised equity in public markets, as opposed to a shareholder situation.

Similarly the press is less involved. It’s a private company that has public debt, that presents financial statements, that has an open website that espouses proper corporate governance techniques which are applied in principle, but at the end of the day obviously the responsibility is to be in the shoes of the owner and to protect his interests or that of the

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family if it is family-owned. You have to engage with them to make sure they understand and support the strategy of the operating companies, that they feel adequately informed of progress, that they're adequately aware of the risk, so the principle is the same, but the style is different. Sometimes London seems quite a hostile environment by contrast.

How do you apply the UK governance code in these circumstances?

This is where corporate governance works in a different way, because Majid al Futtaim has always been committed to having well run companies with good systems, good people and good corporate governance and standing. We work very hard to make sure the reputation of the brand is protected through proper governance, influence over behaviour and compliance with rules and laws around the world, to keep the brand out of the press in a negative way, to ensure that the financial reporting is correct both for the owner and, where you’ve got debt, for the debt markets.

So actually I think it’s a very substantive thing. Sometimes people say that this is just box-ticking, but the Middle East proves the point that, when done properly and if you look at the progress of the Majid al Futtaim group it’s been stunning. During the five or six difficult years of financial crisis and the Arab spring, the balance sheet has been strengthened. That’s been a tribute to the principles of good governance in a substantive economic way as opposed to just a public accountability sense. You could take different positions as a family owned company.

What elements of governance matter when you have a controlling shareholder. You have emphasized the reporting parts, but what about other aspects like succession planning and remuneration?

We review the content of all the boards every year from the holding company and make recommendations. We look at all the things as you would in a public company. We listen to and make recommendations to the shareholder. We look to have succession planning in place in the operating companies to make sure that the executives we have are the right ones. And of course, while the owner doesn’t take part in management, he has a big influence on strategy. As owner he has views, which you have to take account of.

On remuneration, we have independent remuneration committees. On the bonus element - the element which is variable as opposed to fixed under contract - the board looks at that very closely as to the application of the principles, the reasonableness test on the totality of the bonus pool which is also obviously a very sensitive issue in the UK. Then we also stand back from that and look at whether the package is reasonable and appropriate for the individual. The owner signs off on the result. He wants to be assured that it’s been looked at, that we think it’s fair and appropriate, that it’s done in an objective way, the same way a public company would. He doesn’t want to know about everything, as no shareholder does, but the big things matter: the basic direction, the overall results, the distribution of the remaining profits after salaries and fixed costs have been paid.

What does it feel like to be an outside independent director in these circumstances?

If you take the holdings company, we have on it myself, we have Dr Khalifa Sulaiman, ex head of the private office of the ruler and ex-ambassador to the UK, we have Ian Davis,
ex head of McKinsey and Chairman of Rolls Royce, we have Viswanathan Shankar, main board director and head of Americas and the Middle East for Standard Chartered. We have Tariq al Futtaim, the son of the founder on the board. Then we have Iyad Malas who’s the chief executive, and that’s the current board. So it’s got a very strong independent component.

**What would be your advice to someone who was invited to become an independent director in a family-owned company?**

My advice would be exactly the same as somebody coming to any board here in the UK. Stand back and do your due diligence about the board, the company, its position and where you think you can add value and how you think you are going to be able and allowed to add value. Those are the key questions. You wouldn’t want to be on every board here in the UK. Most people would tell you you’ve got to be quite fussy around that. On the positive side, I’ve worked and lived in the Middle East for a while. It’s a fascinating part of the world. Dubai is a kind of epicentre of a lot of activity, financial and otherwise in the Middle East and it’s an extraordinary place to be where there is a huge amount happening. It is the Middle East, it’s not Europe, it’s not the US, it’s different.

**What do you in the event of a disagreement with the shareholder?**

It’s very simple. Even in a situation like EasyJet (which Sir Michael formerly chaired) where you have 38 per cent in a block, you had to act in the interest of all the shareholders. The position of the EasyJet board was always to do what was in the interest of all the shareholders, and where we disagreed with what one shareholder’s viewpoint was, who was a minority shareholder, we would stand out for what we thought was right and seek to get the majority vote. If we failed to get the majority vote, there would have of course been repercussions on us as directors. However, we did get those majority votes, we did execute the strategy and all the shareholders did benefit.

When you’ve got a very large shareholder, what you do is engagement by constructive agreement. Ultimately a shareholder in that situation makes the final big strategic decisions. And obviously an outside director in that situation makes up their minds to what extent that puts them in a position where they can no longer provide advice and support. It’s the art of persuasion and engagement and trust. And it’s knowing where the red lines are. You have to know where the red lines are for the shareholder and the things he absolutely doesn’t want and what he does want and the red line for the directors in terms of whether things are moving in a direction that they feel so uncomfortable with that it’s better for others to take on the task. But I think it’s basically a question of trust, and engagement, openness and frankness that’s the most important thing. But like any other civilised society, you do have disagreements.

**You have to hope that doesn’t happen because if there is a disagreement that could be reconciled, you just have to give up?**

Any non-executive director of any company has to have in the back of his mind – not to give up too early because you’re doing the right thing for the shareholders. For example it would have been very easy for me to walk away from EasyJet with the amount of hassle – you must first of all try to do the right thing and then leave at the right moment, but I think any non-executive director or chairman has to be willing in certain circumstances to resign where they’re not content with the way things are going, with the leadership of the board, not content with their ability to add value, with the strategy or the way that they’re not adding value any more. These are all questions you
have to ask in any public company and then make up your mind if it’s time to go.

*In your case related party transactions don’t worry you do they?*

For the directors they all do. We watch it but in essence the issue of related parties doesn’t apply in so far as the owner is concerned. The issue of full disclosure of directors’ interests in each of the other companies is the same as in the UK. They get monitored and declared in exactly the same way.

You began by talking about the audit committee

It creates this throughput and discipline from a management information and an external reporting and around it you’ve got the internal audit. We have full independent valuation of assets. It’s better than some public companies.

*Would you have been doing this if you weren’t on the public debt markets?*

We were obviously borrowing from banks. When you have debt and things go wrong, banks always pretend that they’ve looked at the audited accounts, but often they have not. We decided to go to the public debt markets because of the deals we could do on bonds and sukuks, which also promoted Dubai. We were one of the first companies in the Middle East that went out and got a credit rating so we could do it because we wanted to take advantage of the opportunities while keeping a strong balance sheet. So we’ve kept very liquid but we’ve had this debt capability available to us because during

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the Arab Spring we realized that banks can be here today and gone tomorrow in terms of lines and commitments. If it hadn’t been because of the very strong reporting and auditing and governance that’s part of the credit rating assessment we wouldn’t have got a credit rating that allowed us to go to the debt markets. It was there and the owner’s view is that you’ve got to keep the opportunity for future flexibility of structure. So here it’s worked quite well for us to be able to access the debt markets at very reasonable prices.

So governance helps with your creditworthiness even if you don’t see any other purpose?

You can sleep better at night about the security of your assets and your earnings. Secondly you’ve got flexibility to do things and flexibility in financing. There are dark times when all the banks as we know in 2008 were withdrawing all their lines as fast as they could all the way round the world. If you put on top of that an Arab Spring, and you put on top of that a worry about what’s happening in the Middle East and Iran and so on and so forth. Then you can imagine if you said I am a Dubai property company and I’d like to borrow money, the answer was “get lost!”

What are the weakness in the Western system that you don’t want to draw on?

There are some areas where it’s easier to deal with substance over form. Take for example, some of the arbitrary rules the UK has about what constitutes independence. Some people are independent for five minutes, some people are independent for 20 years. There is a big differences with the UK, where generally you’re talking six to nine years for a non-executive and the US where it’s probably double that. In the Middle East where the mandate can sometimes change more rapidly depending on the individual and sometimes mean longer, depending on the contribution.

That’s quite a big difference. That’s one of the things where we have substance over form.

It’s easier to spend more of your time in the board on the relativity between the pure governance aspects and helping the business. You get to spend a bit more time on the strategic aspects rather than the pure governance. This is particularly the case – I’m probably not comparing like with like – but I look at my experience in highly regulated companies like financial institutions. The amount of time you actually spend on compliance is massive.

So it must be more interesting?

Yes, it is. That’s why we have people like Ian Davis in. We can really challenge and talk. We have three operating companies. We’re protecting the owner and that takes a certain amount of time. We’re trying to make sure the business is run well in accordance with the strategy. We want to test and challenge the strategy to make sure we’re getting the best out of the assets. And over the top we’re managing the financing of quite a big group now. In the meantime we’re taking input from very much on high from the owner whose got a position he never dreamed to have. This group has been going for only 18 years from scratch and it’s worth billions.