“The conference this year attracted experts from all parts of the world. The discussions showed that the challenges are the same; how to make sure that SOEs are well-directed and supervised and that they are competing on fair grounds with their private counterparts. Experts and practitioners agreed that the best way to face the challenges is to create strong, independent, well-structured and fairly compensated boards for SOEs.” - Dr. Ashraf Gamal El Din, CEO of Hawkamah
Executive Summary

Hawkamah’s 11th annual conference on “Professionalizing boards of directors of State Owned Enterprises (SOEs) and the 2nd Meeting of Global SOE Network was held in cooperation with the Organization for Economic Co-operation and Development (OECD) and took place on 23rd to 24th May 2017 in the Armani Ballroom/Burj Khalifa.

The conference focused on the latest developments in state-owned enterprises, especially the organization of ownership function and boards of directors. Professionalizing these boards is an integral part of the Corporate Governance reform agenda.

The conference kicked off with the roundtable on recent SOE reform experiences in which government delegates and SOEs provided updates on recent and planned SOE reforms. The panelist of this session recognized that state-owned enterprise corporate governance reforms are on top of the agenda for most governments across the world. However, there is a significant diversity in terms of the role and preponderance of SOEs in different markets and in terms of the political and economic background.

The SOE Guidelines stated that the state should let SOE boards exercise their responsibilities and should respect their independence for better performance of SOEs. Thus the first panel focused on how the state can best exercise its ownership function over SOEs through the boards. The panelists identified actionable ways in which governments can ensure the board maximum autonomy and independence. As the state is not a monolith, there was the recognition that this is an area beset by conflicts of interests. There is always the risk that the objectives of the government as the owner of the SOE diverge from the interest of the entity and even of the minority shareholders.
Nomination and appointment of boards are one of the manifestations of SOE ownership. Governance starts with purpose and only by knowing what the entity is here for the board will have a clear mandate. To enhance board efficiency setting a clear mandate for SOE Boards is vital.

Transparency is an important part of this nomination and appointment process. Populating the board with the right people is vital, which includes the appointment of independent directors. This panel showed that there are different views on how far the companies should be involved in the appointment of their directors.

Once boards are nominated and appointed, the effective functioning of boards requires a chair who can build an effective team by exercising leadership over the board, ensuring that board members have the necessary underlying knowledge and skills to steer the SOE by having training programmed that match the needs of each board, and organize committees that effectively exercise their oversight and foresight functions over the organization. This panel showed that capacity building programs and ensuring that boards are updated with corporate governance developments are an important element of this process. The training of board members is an ongoing process to ensure board efficiency.

A clear remuneration policy for SOE boards can attract and motivate qualified professionals. Thus, the last panel discussed board incentives such as remuneration, evaluation and board performances. Remuneration practices of SOE boards vary from various countries, however there was a call for the practices to be formalized, systematized, and properly disclosed. Setting a clear remuneration policy should be on the agenda of every SOE board. Interestingly, many of the panelists highlighted the importance of board evaluations and there was a call for board performance evaluations to be conducted regularly most likely by an external party.
The conference was opened by H.E. Hamad Buamim, the Chairman of Hawkamah Institute for Corporate Governance. “In the MENA region, SOEs play an important role in national economies and development strategies; they are hubs for innovation and an important source of GDP”. However, “a certain level of board independence is required if SOE boards are to fulfill their functions.” Therefore, professionalizing these SOE boards is an integral part of the Corporate Governance reform agenda.
Most governments across the world have the recognition that state-owned enterprise corporate governance reforms are on top of the agenda. But as such there is a significant diversity in approaches in the way governments tackle these SOE reforms. The diversity consists in the terms of the role and preponderance of SOEs in different markets and in terms of the political and economic background.

The kick-off roundtable session presented a number of different approaches across the globe. An effective legal and regulatory framework was emphasized to establish a common basis between SOEs and other companies and to ensure high standards of transparency and accountability.

Dr. U.D. Choubey, Director General of SCOPE, India, said SOEs in India have been awarded additional financial autonomy giving them greater ability to compete in the global market to “support companies in their drive to become global giants”. One of the main objectives of the Indian reform was to establish a socialistic pattern of society through economic growth with self-reliance, social justice and the alleviation of poverty. These objectives were to be achieved within a demographic political framework using the mechanism of a mixed economy in which the private and public sector work in conjunction with each other. The reform also includes the introduction of a performance management system for boards of SOEs.

Tran Tho Hai, Head of General Policy Division, Corporate Finance Department, Ministry of Finance, Vietnam, said Privatization is the key reform strategy for SOEs in Vietnam. The privatization process is crucial to economic growth as it strengthens the accountability and generates incentives for efficiency. Privatizing SOEs and restructuring their ownership structure can be a very powerful catalyst for economic growth in the country.

Zhu Kai, Director, Policy, Laws and Regulations Bureau, State-Owned Assets Supervision and Administration Council, China, said that China chose the privatization process to level the playing field for SOEs. A pilot reform program was implemented among some strategic and mostly SOE-denominated industry sectors. The main objectives of this pilot reform program consist of better governance, stronger incentive systems, increased focus on main businesses, and improved efficiency.
Professionalising the SOE Board Function
The Role of the State

The state should let SOE boards exercise their responsibilities and should respect their independence for better performance of SOEs (SOE Guidelines). The participants of the first session identified actionable ways in which governments—as shareholders in SOEs—can ensure the boards maximum autonomy and independence. Challenges as well as best practices in organizing the SOE board function, selecting and appointing members and board composition.

The first panel, “Governance, Competitiveness & Innovation: The role of the state vs. the role of the SOE board”, focused on how the state can best exercise its ownership function over SOEs through the boards. It led to the recognition that this is an area beset by conflicts of interests due to changing objectives of the government itself or diverging objectives within the entities. Therefore, efforts need to be made on a state level to ensure greater clarity in mandate and mission of the SOE. Governance starts with purpose, only by knowing what the entity is here for, will lead to a board which has a clear mandate.

The panelists called for the independence of the boards—as the SOE’s highest decision making body—which should exercise their authority free of any political interference. Additionally there was a call to increase the requirements for disclosure of financial and other information to the public.

Jeerawat Hongsakul, Director, State Enterprises Policy Officer, Thailand, highlighted the approval process for nominations of directors for SOE boards as challenging as it is done by the ministry itself.

Frank Dangeard, Independent Director, France, said that the French government is setting up SOEs in varied sectors rather than in a particular industry to promote regional growth, support innovation and help finance environmental technologies and industries of the future. All SOEs are required to publish annual reports and the French Court of Audit conducts financial audits on all entities in which the state holds a majority interest.
Nomination and appointment of SOE boards

The second panel, “Best Practices on Professionalising Board Function: Nomination & appointment”, comprised the best practices on professionalising the board function, while focusing on the nomination and appointment process.

As manifestations of SOE ownership the nomination and appointment processes should be made transparent while ensuring accountability. Populating the board with the right people is vital, which also includes the appointment of independent directors.

Rajiv Rai, Secretary, Public Enterprises Selection Board, India, said, Board members for SOE boards are only nominated if relevant experience and a proven track record are existent. India set up a full nomination and appointment process which uses a specific mark system for each candidate. However, to follow this specific nomination and appointment process 1 year is needed.

Whereas in Korea external sources or organizations to appoint board members are used, said Dr. Hanjun Park, Head, SOE Policy Research Team, Korea Institute of Public Finance.

Jane Valls, Executive Director, GCC Board Directors Institute, UAE, said that corporate governance in the region is taken to a new level due to increasing regulations which are in line with international standards. As the number of listed SOEs is increasing, growing expectations can be seen for SOEs. Some challenging aspects SOEs are facing are the lack of truly independent directors, lack of transparency and lack of independent directors. So a framework should be developed for SOEs specifically. Besides, an induction program and a professional development program for boards are advisable.
The role of the SOEs – Enhancing board efficiency and performance

Panel 1: Board composition, organization of committees, training and induction Programs.

Once boards are nominated and appointed, the effective functioning of boards require a chair who can build an effective team by exercising leadership over the board, ensuring that board members have the necessary underlying knowledge and skills to steer the SOE, and organize committees that effectively exercise their oversight and foresight functions over the organization. Another key element for enhancing board efficiency can be seen in training programs that match the needs of each board. Additionally a clear remuneration policy for SOE boards can attract and motivate qualified professionals.

The panelist called for the boards to understand the impact of new technologies in driving success for the business. The boards need to understand challenges, trends and opportunities to drive success for the business. Other key elements recognized are transparency, which is critical for a smooth functioning of the board, and setting the right culture as well as using external sources for nominations. Board members should be nominated based on qualifications, experience and skills. Additionally within nomination processes the diversity aspect should be considered which adds value to the board.

Dato Abdul Aziz Abu Baker, Executive Director, Malaysian Directors Academy, Malaysia, said, Boards should be performing not conforming. So setting KPIs, incorporating performance contracts and implementing reforms were some of the practices highlighted to bring a positive transformation of the board. Besides, specialized committees are set up to monitor the board. Additionally minda training agency was set up to conduct training and induction sessions for SOEs.
Panel 2: Incentivising the board: remuneration, evaluation, incentives and performance

Remuneration practices of SOE boards vary from various countries, however there is a general call for the practices to be formalized, systematized, and properly disclosed. This panel acknowledged that regular updated research is needed which also involves the grouping of companies to find an appropriate benchmarking for board compensation of SOEs. This also needs to be aligned and market consistent.

Remuneration of Directors has an impact on the fiduciary duty, said Said Kambi, Chairman of African Corporate Network and CEO of the Institute of Directors in Tanzania.

One aspect highlighted within the remuneration of SOE board member was the transparency of the remuneration. Renaud Van Goethem, External Advisor, GUBERNA, concluded that remunerations in SOEs are normally much lower than in other public companies. In Belgium for example public listed companies need to disclose the exact amount of the remuneration of each board member, whereas the SOEs do not have a similar regulation.

There are a striking number of speakers referred to the need for board evaluations.

Said Kambi, Chairman of African Corporate Network and CEO of the Institute of Directors in Tanzania, said that Board Evaluations are still no common practice in Tanzania. But they are gaining importance and becoming more common today. Corporate Governance is more than Compliance. The Board is a collective of people, so boards needs to be empowered. Thus, the Board needs training to know what they are empowered to do.

Stepherd Chimutanda, Managing Partner, STC International, Zimbabwe, said that Board Evaluations are not common in SOEs as internal board evaluations are not effective. But board evaluations by independent consultants are performed according to the guidelines of the reserve bank.

Hans Christiansen, Senior Economist, Corporate Affairs Division, OECD, said, the ministers are not the ultimate owners of SOEs. Therefore, SOEs should be equally responsible to the public as every other public listed company. The board practices are not
very different than they are on other public boards. However, the area of conflicts is different in Boards of SOEs and other public boards.

Stephen Davis, Associate director and Senior Fellow, Harvard Law School Programs on Corporate Governance and Institutional Investors, US, said that the bold model that the Board is an “old men’s club” is ending. The boards today need to have a high context of accountability and transparency.

If boards are monocultures, there is an elevated governance risk as the company/SOE itself is highly complex operationally. Therefore, monoculture at the top is crucial.

Today the directors are identified in the public eye or at least the shareholder’s eye. Thus, directors have to communicate with external parties, e.g. Media. Hence, a changing practice is needed to include communication within the job skills of directors.

Additionally the social media impact is increasing on boards. Therefore directors need to be skilled on social media.
“Excellent choice of topics and speakers. Excellent Event management and facilities.”
Maha Hasebou, SCZone
“This meeting was truly a memorable event. We hope and look forward to continuing the cooperation with you and your Institute.”
Hans Christiansen, OECD
The conference lead to the recognition that state-owned enterprise corporate governance reforms are on top of the agenda for most governments across the world, but there is still a significant diversity in terms of the role and preponderance of SOEs in different markets and in terms of the political and economic background. Governments should be clear about the SOEs purpose, whether it is the delivery of a public service or the generation of returns from the taxpayer or something else. Governance starts with the purpose. We have to know what the entity is here for and only then will the board have a clear mandate. Besides transparency, it is very important to populate the board with the right people. This includes the appointment of independent directors. Thus the call for board evaluations is drastically increasing, which ideally will be conducted by an outside party.
The Board of State owned Enterprises should have a very clear mandate which does not only include the hiring and firing of the CEO’s but also having the ultimate responsibility for the company’s performance. The role of the chairman is to enhance the board efficiency of boards. Thus, boards comprising of knowledgeable board members, ideally having mandates on other company boards is crucial for board effectiveness. The boards today do need to have an understanding of challenges, risk and also corporate sustainability. Therefore, constant training of the board members is needed. To ensure a high level of Corporate Governance, the board needs a knowledgeable Company Secretary. But still, the Challenge of updating the OECD Guidelines remains for the MENA region.