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Mudara IOD

Mudara IOD welcomes its new members, and looks forward to working with them in advancing corporate governance and directorship in the region.

Board Members and Senior Directors are invited to apply for membership of Mudara IOD.

Mudara IOD serves the entire Middle East and North Africa region (MENA).

Welcome to the eighth issue of your Newsletter.

Recent events

Mudara IOD Power Breakfast

On Thursday 4th February, Mudara IOD held its first "Power Breakfast" for the year for its members in association with Genesis at the DIFC, Level 14. Mr. Richard Westlake, an International Fellow Members of Mudara spoke on:

"Banks leading corporate governance: principles, practice and standards'- a real-life case study"



Richard, an experienced company and independent director in New Zealand and chairman of his own Corporate Governance firm, was uniquely qualified to present on this topic, and to facilitate the active discussion that followed among the 20+ people who attended.

Drawing on lessons from the global financial crisis, Richard discussed the central role that banks play in economic activity, and how banks' success is critical to the growth of an economy. Since many of the corporate failures over the last two years have resulted partly from failures of Governance, banks have a special responsibility to adopt and adhere to high standards of Corporate Governance.

Richard noted that many of the accepted international Corporate Governance 'standards' were too heavily focused on the compliance and risk aspects of a Board's role, which could inhibit their development. He outlined the five

main functions of a Board, as described "FICKS"TM Governance model:

	Function	Proportion of Board's overall attention
F	Future Focus	30%
I	Issues and Risk	30%
C	Compliance	15%
K	KPI (Key Performance Indicator) Monitoring	15%
S	Skills and Succession	10%

Richard drew on his experience as a director of New Zealand's Kiwibank, whose Corporate Governance (since its establishment in 2002) had benchmarked well against the recommendations of a recent British review of Corporate Governance practices in banks. While Corporate Governance was only one factor in the bank's success, with the benefit of recent global experience, it had perhaps been a crucial component – especially in the last two years.

March 8, 2010

Mudara IOD Power Breakfast

Mudara Institute of Director (IOD) in association with Genesis-Analytics invited its members and non members to attend a Power Breakfast on industry 'best practice' standards of governance. The event was held at the DIFC Centre of Excellence, Dubai, UAE.

'Effective Corporate Governance Strategies for a changing world'

Noora Al Abbar welcomed the delegates and key note speakers Dr. Nasser Saidi, Executive Director of Hawkamah Institute for Corporate Governance and Co-Chair of the MENA-OECD Working Group on Corporate Governance, Mr. Richard Ketley, Director of Genesis Analytics and Mr. Saleh Hussain, President of Saleh Hussain Consultancy.



The Mudara IOD breakfast included inputs from experts on bank corporate governance in the region and it leveraged the experience of bank board members to guide the response of the region's banking sector on the most challenging period.

Dr. Nasser Saidi, presented some insights on where bank boards need to improve their processes, based on the findings of the recent Hawkamah survey, and the initiatives from Central Banks in the region.

Where to Corporate Governance?

A call on bank directors to play a more active role in corporate governance

Corporate governance, it seems, has failed miserably during the financial crisis. If its role, as Sir Alan Cadbury defined it in the Corporate Governance Review, is "to align as nearly as possible the interests of individuals, corporations and society", it has fallen far short of the mark. In fact, since the collapse of Merrill Lynch and Lehman Brothers in September 2008, which precipitated the worst financial crisis in almost a century, governments around the world have had to provide almost \$15 trillion to prop up failing banks and lending institutions.

More than a year down the line, there can be no doubt that better corporate governance and more effective board processes could have prevented some, if not all, of the fallout.

Richard Ketley, speaking at the workshop on corporate governance in banks, emphasised this strongly, and called on bank boards in Africa and the Middle East to play a more active role in the governance of the institutions they serve in order to prevent a repeat of the crisis.

"Banks and regulators around the world have had a wake-up call," he said, "and corporate governance in the banking sector is now well and truly under the spotlight."

Citing a recent Hawkamah survey of banks in the region, he pointed out that 76% of the institutions surveyed stated there was a need to improve corporate governance but, tellingly, not one had implemented the reforms necessary to comply with the 32 best practice guidelines recognised by the Organisation for Cooperation and Development (OECD).

In the United Arab Emirates, the Central Bank has taken the lead and published revised corporate governance guidelines for banks operating in the Emirates.

Although not as seriously affected as some of their OECD counterparts, banks in the Middle East experienced very similar maladies, including over exposure to stock market lending, complex financial products, the effects of liquidity shocks, concentration risk and over-priced real estate.

"The cause of most of these problems can often be traced back to complex transformations at an operational level," says Ketley, "transformations that have been implemented so quickly that boards have been unable to monitor, govern, or, in some cases, even understand them."

According to Ketley, prior to September 2008, banks were putting increasingly complex risk management systems in place, but had lost sight of the fact that these had been designed taking only short term data into account.

"While bank boards are routinely presented with macroeconomic forecasts and risk reports, few debates the extent to which these are based on short term data rather than on more long term cyclical data. Understanding the real source of liquidity in the market has seldom been a concern at board level, and many boards were caught short when the worldwide freeze in liquidity precipitated the crisis in the financial markets."

To make sense of the complex interplay between macroeconomic processes, monetary processes and risk models requires expertise and, above all, judgement, says Ketley. Despite this, only 54% of the respondents in the Hawkamah survey have independent directors on their boards. Worse still, many directors believe it is their responsibility to act in the interests of the shareholder/s they represent rather than in the broader interests of the institution, as is best practice.

Bank boards therefore clearly need to be restructured, retrained and strengthened with independent experts who have the power to question and juxtapose the views of management.

Of equal importance, boards need to aim for a better understanding of the compensation and incentive structures in the organisation. With many banks in the region being staffed by expatriates on short term contracts, boards need to be particularly vigilant that the trading and risk strategies adopted by the bank serve its long term interests.

"In the near future, bank boards will face a new challenge," says Ketley. "They will need to review and renew their strategies in light of the far reaching regulatory changes that are being proposed."

means that banks will have to maintain a much higher stable deposit ratio and limited absolute leverage. And, although the approach to regulatory reform differs from country to country, there will almost certainly be convergence on these and other key issues.

The problem that will face some smaller banks, of course, is that both capital buffers and higher liquidity ratios have a direct impact on bank profitability, and this will mean they'll have to make some very difficult decisions about the future.

Richard concluded "Bank boards face an unprecedented time of change". They need to fix their oversight models, improve their composition and processes, and sign off on potentially far reaching changes to the business models of the institutions they are tasked with overseeing. This will make them much less profitable in the short term, and that will pose a significant challenge. They will nevertheless have to bite the bullet or face significant consequences further down the line.

Saleh Hussain, spoke on how boards need to restructure to focus on the quality and not the quantity of corporate governance. Following a crisis it is tempting for boards to quickly shoulder more responsibilities, and demand more reports without improving their own or managements' capabilities to manager more data.

The workshop was a part of the ongoing work of Mudara IOD to improve the quality of corporate governance amongst the most strategically important banking sector and a positive response and active participation and Q&A may the event a success.

Covering your assets: Directors' and Senior Management liabilities

Participated in the complimentary business breakfast seminar held by Clyde & Co on March 15, 2010, in conjunction with Hawkamah Institute of Corporate. The Seminar was held at the Jumeirah Emirates Tower, Dubai, UAE.

The seminar was held to discuss Directors' and Senior Management Liabilities and how individuals could protect themselves against the risks of corporate litigation and regulatory investigations across the Middle East in the last twelve months. As a result many directors and managers have found that they are being called to account not just for the company's decisions, but also for their personal actions. This seminar explores how personal liabilities for directors and managers can arise and what they should be doing to protect themselves.

There was an active participation and the presentation was followed by a panel Q&A session with the speakers.

Poll Questions

Answer the Poll Questions and let us have your feedback? Visit our website on <http://www.mudara.org/>

Achievement

Memorandum of Associate signed between Arab International Women's Forum (AIWF) and Mudara IOD.

Mrs. Haifa Al Kaylani, Chairman of AIWF had great pleasure to formally confirm the relationship between the organizations and to cooperate in various activities that will train and encourage Arab women to be professionally involved in directorship and be engaged in good corporate governance practices and as means to divest and expand their business in the UAE, GCC and the MENA region.

Are you Ready for Our Challenge

Take our challenge and test your knowledge on corporate governance and Board Directorship.

An increasing number of organizations and business leaders across the MENA region are recognizing the vital importance of good corporate governance and directorship to long-term business growth – Are you one of them?

Take our quiz to test your knowledge of corporate governance and board directorship and get the chance to win a **free 1 year Mudara IOD Membership**, or a **free delegate pass** in one of our **Director Development Program (DDP) workshops**.

To log on please click here:

<http://www.surveygizmo.com/s/78119/ddp-public-interest-test>

You can visit our website www.mudara.org or click on

<http://www.mudara.org/highlights/index.html>

Recommended Reading for Directors

Billion Dollar Lessons

Book review by *Azhar Zia-ur-Rehman*

The delivery of spectacular failures is the subject of this book. Whereas most management texts deal with success stories and how to be successful, this book relates stories of failures and advises how not to fail while making management decisions. The authors investigated 2500 failures for more than two years to form the basis for this book. They relate these stories in a very readable and absorbing manner, analyze them from various aspects and bring out learnable lessons.

The first lesson learnt is that "it is not enough to just try to be more aware of potential pitfalls. Some outside mechanism needs to be applied as a safeguard to head of f bad deals and bad strategies". What can this "outside mechanism" be? Proper Corporate Governance probably.

Another lesson learnt is that “it is awfully hard to kill dangerous ideas when the need for earnings (and bonuses) is very real and short term while the potential problems are ephemeral or long-term”. This is often because “once a strategy starts to build momentum it will steamroll any possible objections”.

A very valid fact brought out by the authors is that “boards can spot problems, but directors are sometimes reluctant to speak up because they don’t have as much information as the CEO and seldom have as much background in the industry”. They have also quoted case where directors were “outmaneuvered”. Is having more knowledgeable and assertive directors the answer?

The authors suggest that “failures tended to be associated with one of seven types of strategy. Failures could certainly happen for other reasons, but if a company followed one of these seven strategies it was far more likely to flop”. These seven strategies are synergy, financial engineering, rollups, staying the course, adjacencies, riding technology and consolidation.

“Part One” of the book is divided into chapters to deal with these seven strategies respectively.

The authors quote a study that found that in 124 mergers only 30 percent generated synergies and even these were “even close to what the acquirer had predicted”. The reason that they write for the failures in synergy is “that as companies are becoming more dependent on technology, achieving synergy targets is heavily dependent on the combined entity’s ability to integrate their business platform and operate as one”, but “the awareness of business platform integration issues is typically missing at all stages of planning”.

About “financial engineering” the authors write that “companies get sucked into the idea that they’ll indulge in some creative accounting, but only briefly ... but the one or two quarters of aggressive accounting can become ... a way of life – until disaster strikes”.

Rollup, as defined by the authors, is the concept that “you can operate more efficiently by taking dozens, or even thousands of small businesses

and combining them into one large one”. The quote studies that suggest that “more than two-thirds of rollups fail to create any value for investors”, but the “problem is not the concept but the execution”.

The authors say that executives, like pilots of a crashing aircraft, have warning signs that they are about to crash, but they do it anyway. They relate the interesting story of Kodak in this regard in detail.

Expanding into adjacent markets has been a popular strategy for growth, but the authors find that a majority of such moves fail and that the problem lies mainly in the defining an “adjacent” market.

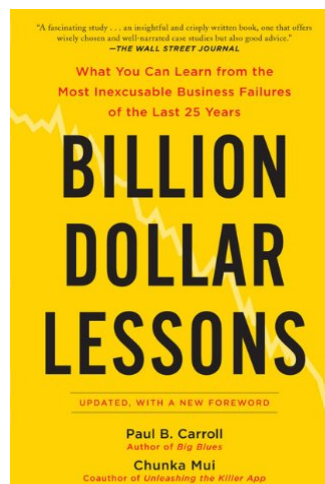
A very interesting quote from this book is that “marketing is when you lie to your customers, marketing research is when you lie to yourself”. This assertion is supported by the interesting story of Iridium.

The lesson that the authors teach regarding consolidation is that “simply because an industry will consolidate, it does not mean that you should be the buyer” to win. Examples quoted in the book do prove this advice.

The chapter titled “The Devil’s Advocate” is very interesting. The authors advise the dissent should be institutionalized to ensure rational decision-making.

This is a very interesting and absorbing book and is recommended to middle and senior levels of management and to directors of companies.

Billion Dollar Lessons
Paul B. Carroll, Penguin Group
ISBN 978 1 59184 289 7
312pp.



Planned Events in year 2010

Director Development Programmes (DDP)

Introduction to Corporate Governance

April 19-20, Dubai, UAE

The Board

May 17 –18 (Tentative)

Strategic Leadership

April 21-22, Dubai, UAE

Financial Stewardship, Accountability & Leading, Planning Improvement

May 19 –20 (Tentative)

Other Events in 2010

March 15, 2010

Directors' and Senior Management liabilities.

April 12, 2010

Counting the Cost

Seminar

Mudara IOD Power Breakfast

Feb 4, 2010- DIFC

March 8, 2010- DIFC

April 13, 2010 – DIFC

June 2010 – Abu Dhabi

For more information on Mudara IOD please visit

<http://www.mudara.org>

For membership details, please email

membership@mudara.org

For registration details on the programmes & workshops, please email profdev@mudara.org

Contact Details

Mudara Institute of Directors

Level 1, Building 02,

The Gate Village,

Dubai International Financial Centre,

P.O.Box 74777,

Dubai, UAE

Tel. +971.4.362.2662

Fax. +971.4.362.2475

Toll-free 800 IOD (463)

Email info@mudara.org