

Asian Development Bank Conference

# Corporate Governance from an Investor's Perspective



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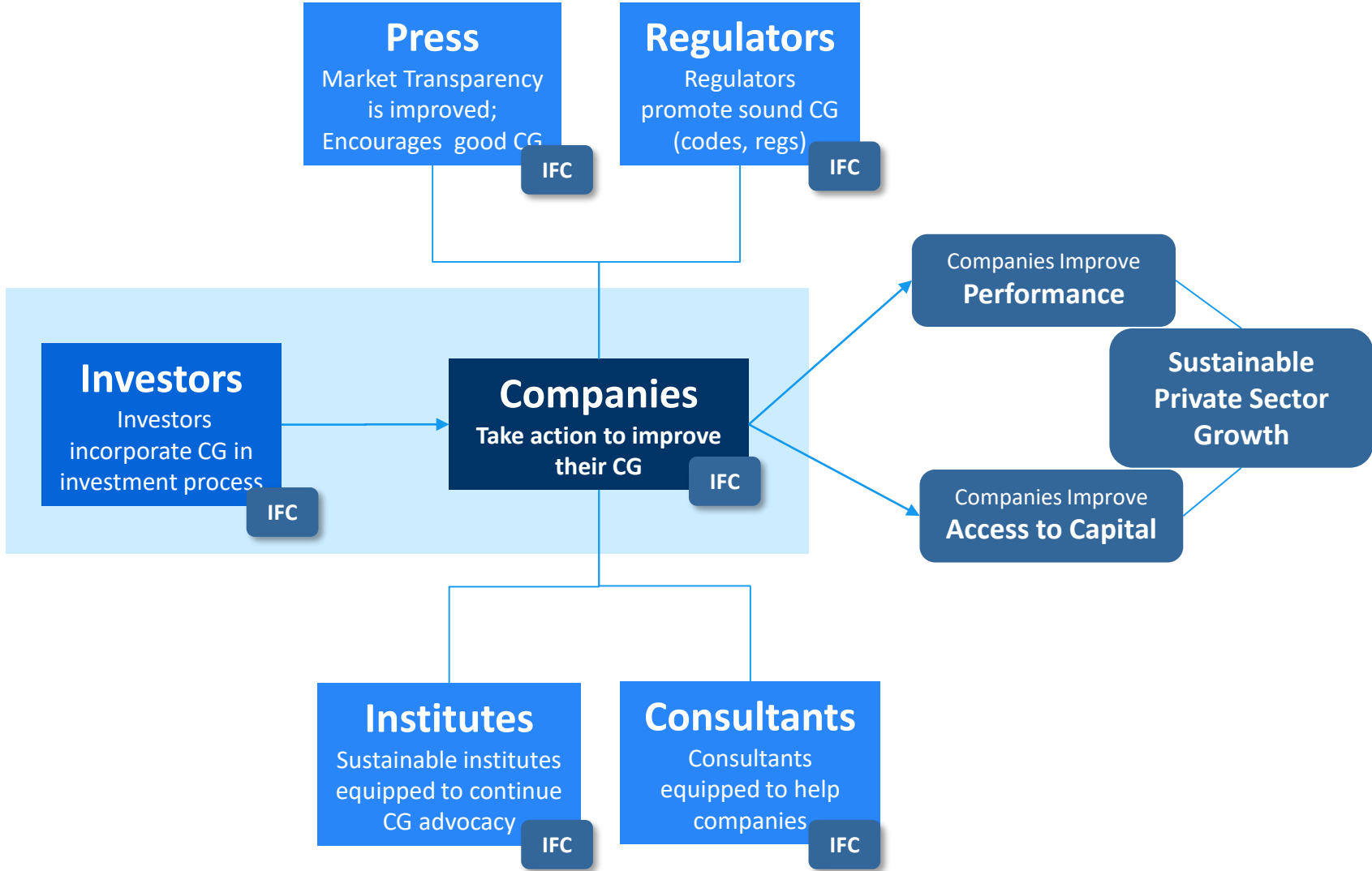
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# IFC Corporate Governance Program

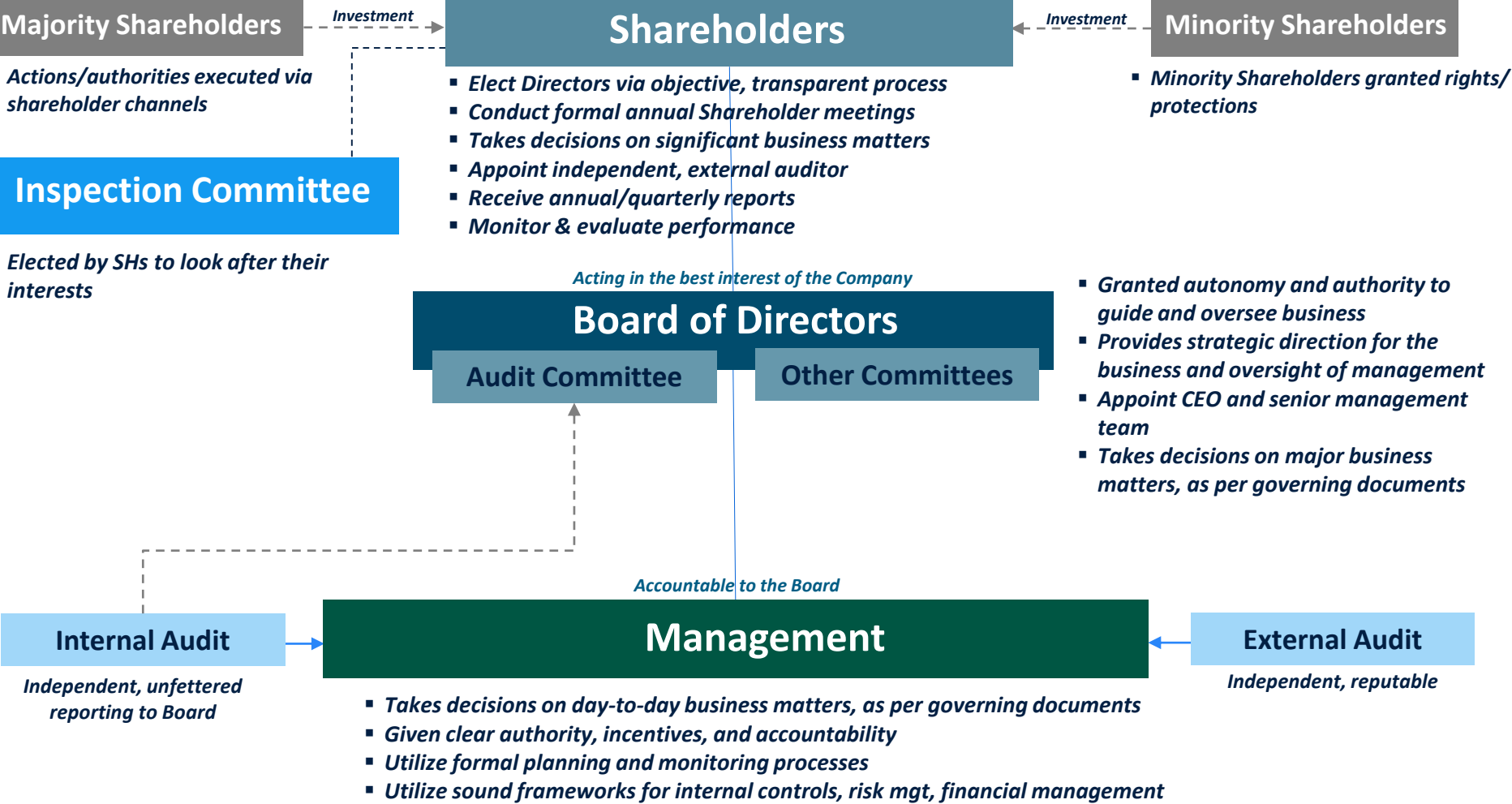
## Promoting Responsible Investment Across Markets



# Corporate Governance Defined

## Sample Corporate Governance Framework

*Governing documents (AoA, Charters, Codes) defined to clarify roles/rights/authorities of key governing bodies*



# IFC Methodology

## How do we look at Corporate Governance?

*We follow IFC Corporate Governance Methodology, which generally examines the following.*

### Commitment to Corporate Governance

*Assessment of overall level of commitment to and formalization and awareness of governance in the organization.*

### Board Effectiveness

*Assessment of board roles, composition, committee structure, procedures, director duties, overall functioning.*

### Control Environment & Processes

*Assessment of the overall effectiveness of internal controls, risk management, internal audit, external audit, compliance.*

Shareholders

Board of Directors

Management

### Shareholder & Stakeholder Relations

*Assessment of shareholder rights and protections, AGM procedures, information to shareholders, conflict /RPT policies.*

### Family Governance

*Assessment of family's role in the business and mechanisms used to govern the relationship.*

### Disclosure and Transparency

*Assessment of information disclosures to shareholders and market; transparency of information; accounting standards used.*

*The IFC CG Methodology is internationally recognized, having been adopted by more than 30 other DFIs and other investment firms.*

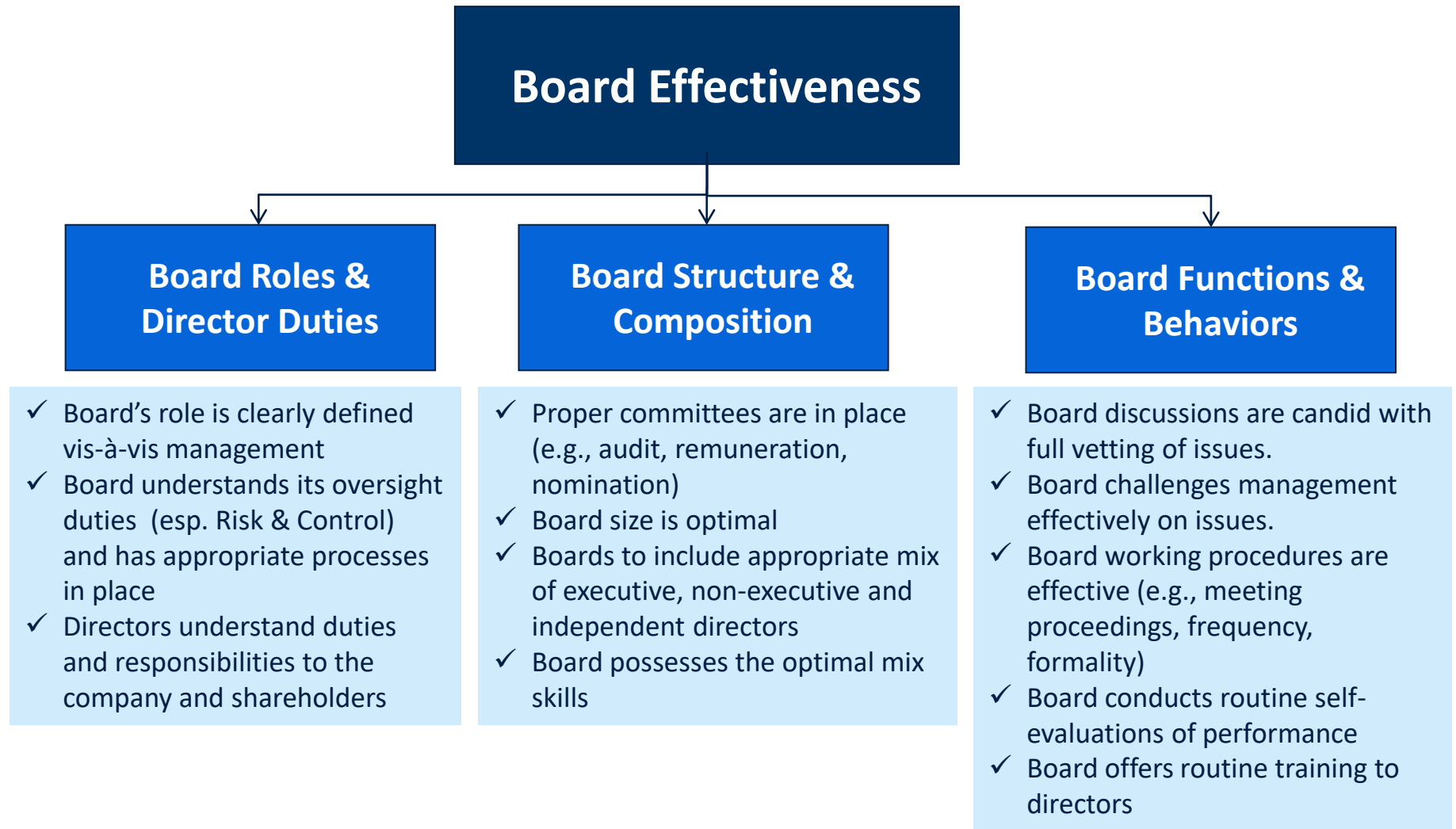
# IFC Methodology Adoption CG Development Framework Initiative



**Signing Ceremony - 2011 World Bank-IMF Meetings**

**30+ Signatories (And Counting) Using IFC Methodology**

# Assessing Board Effectiveness



# Feedback from our Private Equity Partners

### *What has been the Impact of good CG?*

- **Improved valuation.** One investor cited a recent strategic sale exit which attracted a 40% premium over the market price, due largely to good corporate governance.
- **Improved performance.** A Technology investee company improved their profitability by 20% over a two-year period due to improvements at the board level and several changes in their management control.
- **Improved access to finance.** Governance improvements were a significant factor (attributed at about 80%) in helping an energy company secure capital of \$4.5 million. That same company is now seeking an additional \$16 million, where again good governance is reportedly playing a key factor.
- **Improved risk management and cost control.** One investor cited an energy services investee where there was an approximate 30% risk factor in new projects due to poor governance. This was eliminated due to improvements in their project risk management activities and increased board oversight and control. The improvements also led to better decision-making and a 20% improvement in process efficiency.
- **Improved stewardship.** Changes to the board structure, including improved strategy setting and oversight led the company to drop unprofitable products and re-focus on its core, high-value products, taking them to new markets. The change helped turnaround the company from a net loss of 5% to a net profit of 10% in three years.

## Common CG Challenges in Asian Emerging Markets

- Most are controlled companies – poses different CG challenges
- Heavy presence of state ownership
- Family companies – transformational challenges
- Challenge of appointing independent directors
- Prevalence of Related Party Transactions/Lending
- Weak market forces
- Lack of transparency; poor disclosures
- View of compliance vs. value addition

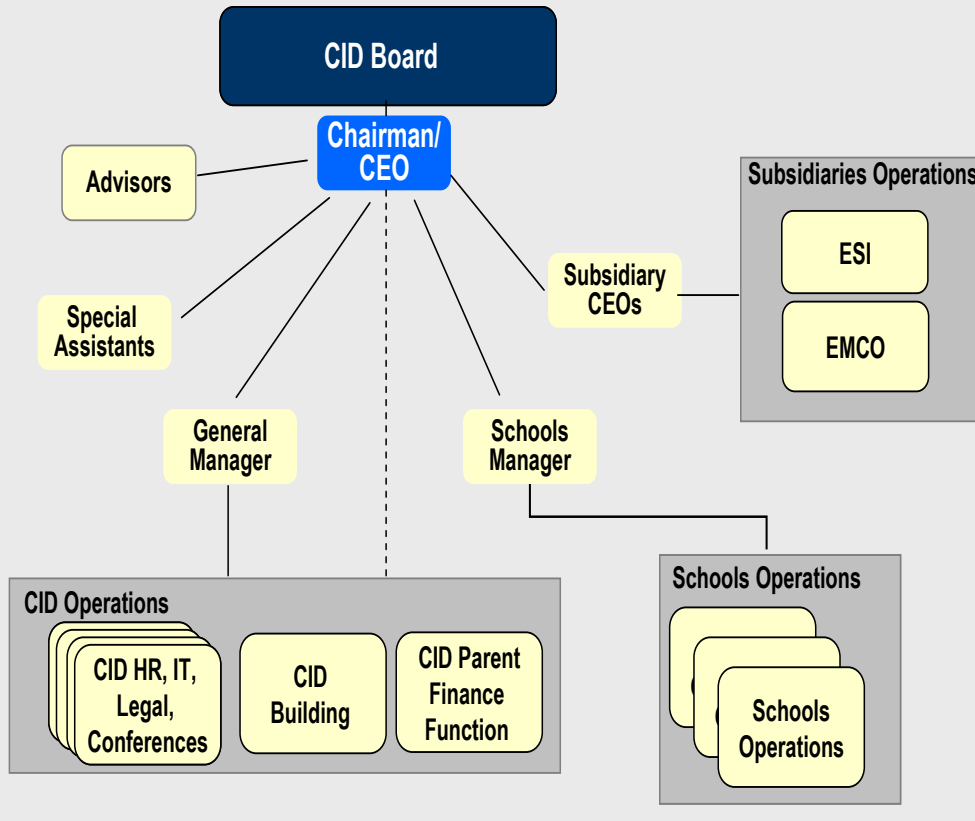


## Real Client Examples from our Investments

1. **Board Composition**: A family owning 30% of a group comprised of several listed subsidiaries, appointed family members as President Commissioner and President Director of each subsidiary.
2. **Board Role**: Board of this Bank met monthly....but only for 1 hour/meeting and focused ratifying pre-approved loans.
3. **Director Duties**: A bank director indicated that his primary reason for serving on the bank's board was to get better terms on loans for his other businesses.
4. **Dominant Shareholder**: The Chairman/Controlling SH set up a special Board Committee which gave him power to approve major decisions btwn meetings.

# Case Study: Transforming CG in a Family Company

## Current Challenges



### Context

- ✓ Largest network of private schools in the country
- ✓ Started with social purpose to improve learning standards
- ✓ Fast-expanding
- ✓ Modernizing and exploring new schools and businesses (university curriculum, education technology)

### Current Composition

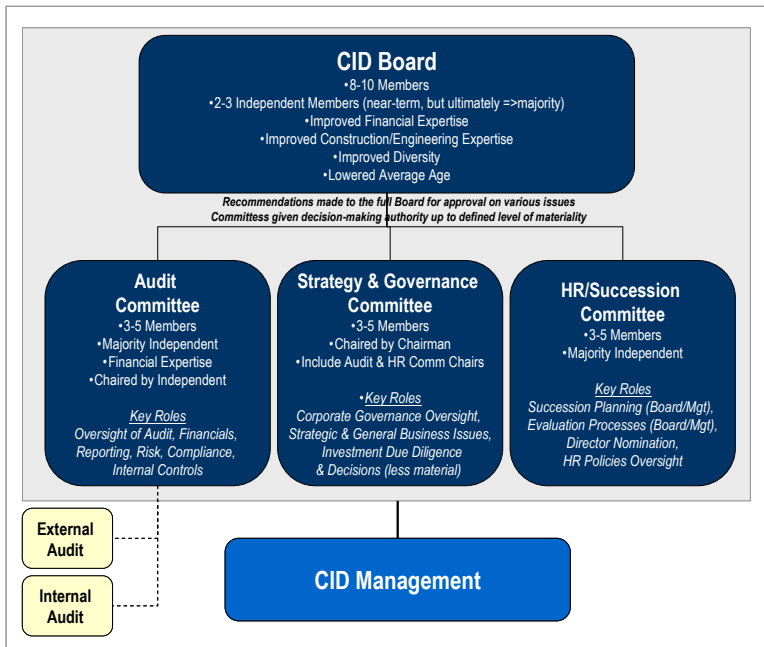
- ✓ Nine members – all male
- ✓ Most long-serving and most near or post retirement
- ✓ No independent representation
- ✓ Good general business skills – but needed more depth in particular areas (FM, Education)

### Other Challenges

- Chairman/CEO being 'Key Person' for everything
- All key decisions flow through him
- Board 'blinded' from other managers – only see Chairman/CEO

# Case Study: Transforming CG in a Family Company

## New Structure – Board Level



### Key Changes

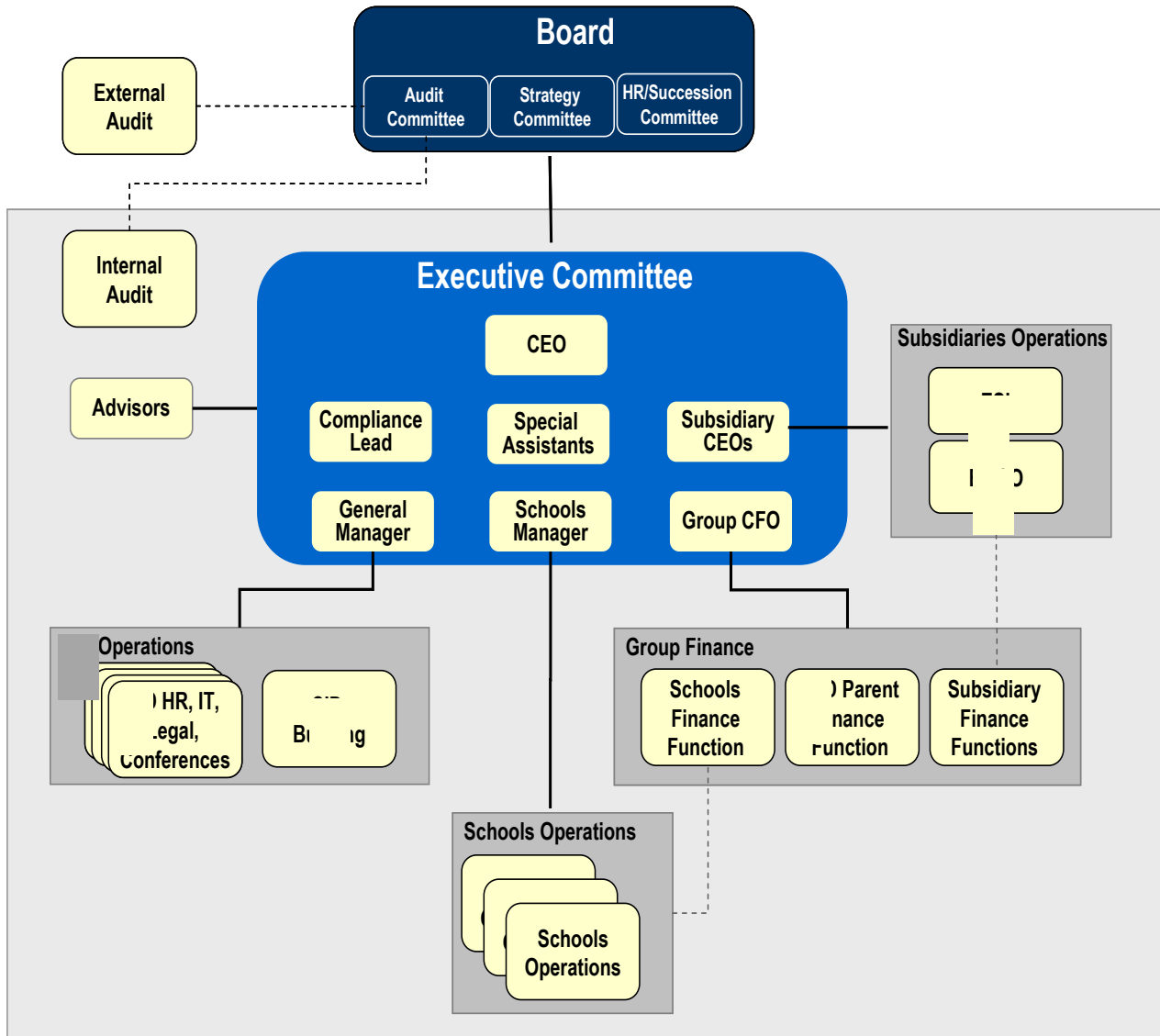
- ✓ **Board Structure:** Formed active Audit & Other Committees
- ✓ **Board Roles:** COO now acting CEO & leads EC; Chairman less involved in mgt issues; Report improved board effectiveness & decision-making
- ✓ **Management Control:** Improved various Mgt-level changes: CFO, IA, Exec Comm, Changed EA; Report significant improvement in management control
- ✓ **Disclosure:** Improving disclosures to 'tell their story' – great CSR items to report

### Revised Board Composition

- ✓ Added two Independents (help represent minority interests – publicly traded)
- ✓ Strengthened Industry expertise (given expansion/modernization)
- ✓ Strengthened Financial Mgt & Control Expertise (given rapid growth)
- ✓ Improved age mix (help add fresh perspectives new trends and technology)
- ✓ Improve gender diversity.

# Case Study: Transforming CG in a Family Company

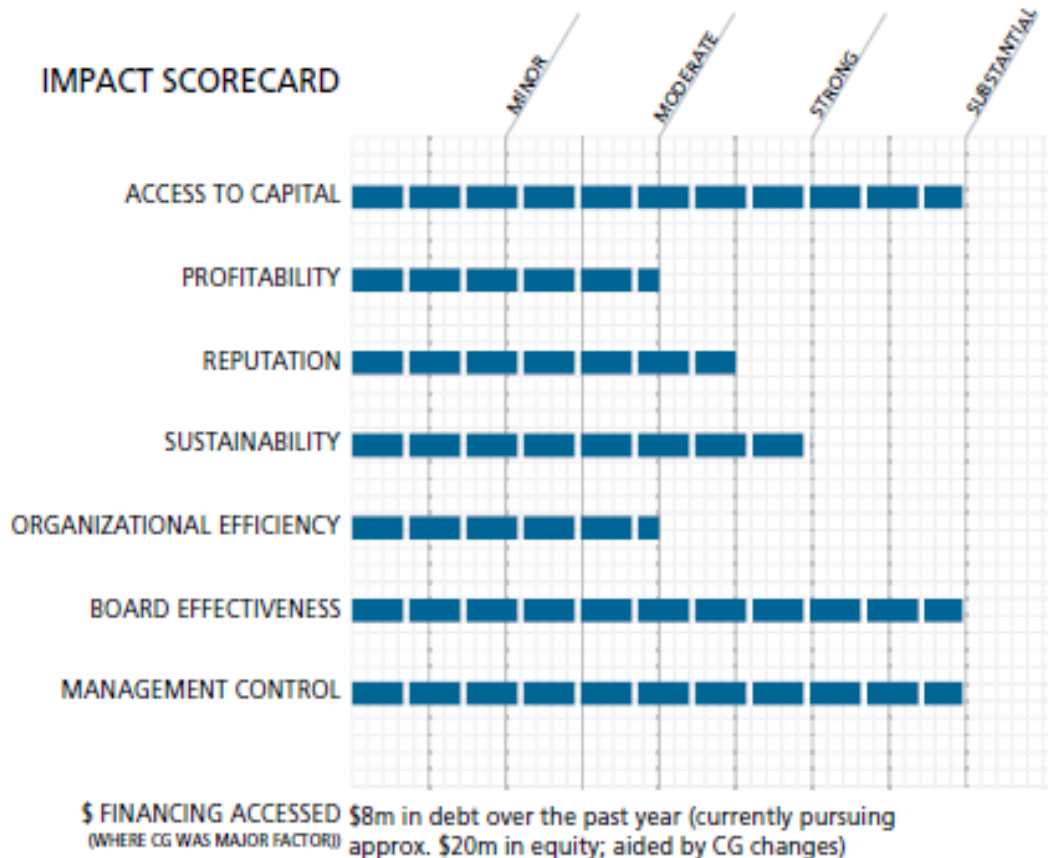
## New Structure – Management Level



- Eliminate key-person risk via EC.
- Decisions not concentrated w/one person.
- Avenue for Son's succession.
- Strengthen Mgt capacity collectively.
- Allow Chairman to relinquish his 'Uber' status.

# Case Study: Transforming CG in a Family Company

## Reported Impact of Changes



- ✓ **Access to Capital** improved dramatically helping access \$8 million in debt the past year (and currently helping access approximately \$20 million in equity). CID reported that several investors have approached them following the changes.
- ✓ One **valuation** performed showed a **two-fold increase** in the past year. One private investor pointed to governance improvements – especially Board changes – as a major factor for the substantial valuation increase.
- ✓ **Board discussions and decision-making** is significantly improved.
- ✓ **Management control is much stronger, including in the schools.**
- ✓ **Sustainability** has improved with one investor specifically noting the efforts to prepare for its second generation, eliminating the key-person risk associated with the Chairman, and preparing the Chairman’s son for succession.
- ✓ **They experienced efficiency** gains due to changes in financial processes that have significantly reduced mistakes and rework.

# THANK YOU!

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For more:

***[IFC.org/CorporateGovernance](https://www.ifc.org/corporate-governance)***