

MENA REGIONAL CORPORATE GOVERNANCE FORUM
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CORPORATE GOVERNANCE SURVEY :
MOROCCO 2005

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**General Confederation of
Moroccan enterprises (CGEM)**

Summary

- Why such a survey ?**
- Scope of survey**
- Key findings**
- Recommendations and next steps towards best practices**

Why such a survey ?

Corporate Governance is an important issue and a prerequisite for sustainable growth

➔ **Corporate Governance is not an end in itself, but a mean to an end**

- It relates to structures & processes that allow companies to achieve their ambitions and to create economic welfare and social wellbeing

Scope of survey

Objectives of the survey

- ➔ **Review of CG practices in accordance with the OECD principles**
- ➔ **Gauge current CG perceptions**
- ➔ **Identification of the true growth brakes and setting up a robust CG framework**

Who was surveyed ?

- ▶ Sample : 40 companies**
- ▶ Sectors : Banking, financial services,, industry, trade, cement, ...**
- ▶ Interviewed target : Chairman or Executive Directors**
- ▶ Rate of answer : 45 % (14 listed companies, 5 non listed companies)**

Methodology

- ➔ **Exhaustive analysis of the legal, regulatory and institutional framework**
- ➔ **Focus Group (January 5th, 2005)**

Key findings

I – Analysis of the legal, regulatory and institutional framework of CG in Morocco

- **Strengthening (2004) of the investigation and sanctions powers of the regulatory authority (CDVM) which has now the capacity to fulfil its duties in a professional and objective manner**

I – Analysis of the legal, regulatory and institutional framework of CG in Morocco

- **Creation on 1997 of a central securities depository (MAROCLEAR) which works more and more according to the international standards**
- **Privatization and modernization of Casablanca stock exchange (1993)**
- **Accounting law : 2 auditors for listed companies and compulsory consolidated accounts (2005)**

I – Analysis of the legal, regulatory and institutional framework of CG in Morocco

- **Company law (1995)**
 - ➔ **Unique board of Directors or bicameral structure with a supervisory board and a management committee**
 - ➔ **Transparency and disclosure**
 - ➔ **Increased protection of minority shareholders**

I – Analysis of the legal, regulatory and institutional framework of CG in Morocco

- Promotion of codes of conduct (stock exchange, brokers, financial analyst, auditors)
- Commercial courts and international arbitration
- Labor code
- Law on pricing and competition ...

II – Assessment of survey questionnaire

A. Qualitative assessment on CG

- **If main companies have a broad knowledge of the good governance concept, the majority is not correctly informed of the OECD CG principles**
- **The legal and regulatory CG framework (local and international) is not well disseminated**

II – Assessment of survey questionnaire

B. Trends in the CG practices

- **Shareholders rights and equitable treatment**
 - ➔ **Generally, basic shareholders rights to be informed to participate and to vote in general shareholders meetings are respected**

II – Assessment of survey questionnaire

- **Shareholders rights and equitable treatment**

Nevertheless :

- ▶ **Some key CG decisions are not facilitated (nomination of board members, remuneration policy for key executives, reserved funds raising, ...**
- ▶ **The effective equity ownership is not correctly disclosed**
- ▶ **Weak or non voting policies of mutual funds**

II – Assessment of survey questionnaire

- **Shareholders rights and equitable treatment**

Nevertheless :

- ▶ **No information for investors about the actual voting rights attached to shares**
- ▶ **Members of the Board and key executive don't disclose systematically to the Board whether they have a material interest in any transaction or matter affecting directly the corporation**

II – Assessment of survey questionnaire

- **Responsability of the Board**

- **55,6 % of the Boards act on a good information basis and in the best interest of the company**
- **One third of Boards set up mechanisms for appraising the treatment of different shareholder groups**
- **If key functions of the Board (strategy, control, accountability) are generally well understood, there are not always correctly implemented**

II – Assessment of survey questionnaire

- **Responsability of the Board**

- **Weak and non transparent Board nomination, election, compensation and monitoring process**
- **The integrity of the corporation's accounting and financial reported systems is mainly based upon the internal control system (77,8 %)**
- **More than 50 % of companies dedicated a person in charge of the process of disclosing and communication**

II – Assessment of survey questionnaire

● Responsibility of the Board

- One third of companies assigned independant Directors and 50 % set up committees. Nevertheless, their mandate, composition and working procedures are not well defined and disclosed by the Board to the shareholders
- Boards meet two or three times a year for half day meetings
- 55,6 % of Boards have less than 10 members while 44,4 % have between 10 and 20 members

II – Assessment of survey questionnaire

● The role of stakeholders

- Main companies are setting up the regulations of the new labor code**
- A few companies implemented mechanisms for environment protection and consumer rights**
- One company involves employees in the Board of Directors**
- 22,2 % of companies enhanced performance mechanisms for employee participation**

II – Assessment of survey questionnaire

- **Disclosure and transparency**
 - **61,1 % of groups disclose consolidated accounts**
 - **72,2 % of companies hold press conferences for disclosing their strategies, objectives and performances**

II – Assessment of survey questionnaire

- **Disclosure and transparency**

- **No information about the qualifications, the selection process, the compensation and the independancy of the Board members**
- **A few of companies disclose foreseeable risk factors and related party transactions**
- **The great majority of companies disclose fair financial statements audited by independant, qualified and competent auditors**

**Recommendations and
next steps towards best practices**

**Recommendations and next steps
towards best practices**

- **Upgrading continually our corporate regulatory environment in line with global best practices**
- **Improvement of the enforcement of existing rules**

Recommendations and next steps towards best practices

- **Strengthening the regulatory environment and CG practices**
 - ➔ **Shareholders rights and equitable treatment**
 - ▶ **Protection of minority shareholders from abusive actions by controlling shareholders**
 - ▶ **Elimination of anti-take-over devices and promotion of “one share, one vote, one dividend” principle**
 - ▶ **Institutional investors should disclose their voting policies**
 - ▶ **Development of CG ratings by a credible body**

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Recommendations and next steps towards best practices

➔ **Responsibilities of the Board**

- ▶ **Greater Separation between company ownership and management**
- ▶ **Greater focus on risk management framework and policies**
- ▶ **Clear definition of the roles and the responsibilities of Directors and management**
- ▶ **Selection and compensation of Board members approved by all shareholders**
- ▶ **Clear definition and missions of Committees (Audit, Nomination, Compensation, Corporate Governance, ...)**
- ▶ **Continued focus on internal controls and compliance**

**Recommendations and next steps
towards best practices**

➔ The role of stakeholders

- ▶ Enhancement of environment protection and consumer rights**
- ▶ Acceleration of the implementation of the new labor code**
- ▶ Improvement of the level of professionalism within commercial courts**

Recommendations and next steps towards best practices

➔ **Transparency and disclosure**

- ▶ **Improvement of the disclosure of forecast data (strategy, objectives, ...), risk factors, ownership structure and voting rights**
- ▶ **Disclosing information concerning key executives and Board of Directors (compensation, management experience, industry knowledge and experience, business contacts, ...)**
- ▶ **More disclosure on related parties transactions**
- ▶ **More disclosure of non financial informations on companies**

Recommendations and next steps towards best practices

- **Strengthening the spirit and foundations of good governance**
 - ➔ **Private and public sectors must join their efforts for inculcating a spirit of transparency and a culture of accountability and integrity to ensure that Morocco holds and attractive business and investment environment**
 - ➔ **The enhancement of awareness and education must not be limited to rules and regulations, but concerns also CG best practices to all stakeholders**

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Recommendations and next steps towards best practices

- **Strengthening the spirit and foundations of good governance**
 - ➔ **CGEM action plan**
 - ▶ **Code of CG in partnership with the regulation authority (CDVM)**
 - ▶ **Institute of Directors with a particular focus on :**
 - **Board structure**
 - **Board independance**
 - **Board committees**
 - **Board practices**
 - **Board dynamics**

In conclusion

- ➔ **Most governance recommendations (unfortunately) focus on the open listed companies**
 - ▶ **Morocco is rich of numerous SMEs which form the back bone for our future economic progress**
 - ▶ **These firms need other governance recipes to help them surpass the growth hurdles**
 - ▶ **Eliminating the true growth brakes needs sufficient flexibility with optional governance models adapted to each growth interval**

In conclusion

- ➔ **Considering the limited number of listed companies (54), banks have a key role in promoting good CG within corporations**
- ➔ **Private sectors can not change the CG landscape without the public sector adhering to good governance standards and that is why private and public governance must go hand in hand**