

## Corporate Governance for Family Business

**Event:** Regional Workshop

**Date/Place:** November 21<sup>st</sup>, 2011, Talal Abu-Ghazaleh School of Business, Amman, Jordan

**Concept:** Dr. Martin Beck, Mr. Mustafa Nasreddin

**Organization:** Konrad-Adenauer-Stiftung Amman, Talal Abu-Ghazaleh Organization

### 1. Program Overview

#### Monday, November 21<sup>st</sup>, 2011

##### Welcome Speeches:

Senior Executive Director  
Talal Abu-Ghazaleh Organization  
Amman – Jordan

Mr. Mustafa Nasreddin

Resident Representative  
Konrad Adenauer Stiftung Amman  
Amman – Jordan

Dr. Martin Beck

Minister of Industry and Trade  
Amman – Jordan

HE Mr. Sami Gammoh

##### Keynote Speech: Continuity of Family Business

Chairman and Founder  
Talal Abu-Ghazaleh Organization

HE Dr. Talal Abu-Ghazaleh

##### First Session: The Importance of Family Business in Jordan

Financial Analyst  
Jordan Securities Commission  
Amman – Jordan

Mr. Saleh Al Ragad

##### Second Session: Corporate Governance for Family Business, Jordanian Experience, Legislation and Solutions

Lawyer and Professor  
Commercial Law  
Middle East University  
Former General Controller of  
Companies at the Ministry of Industry  
and Trade

Dr. Mahmoud Ababneh

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**Third Session: Obstacles Facing the Implementation of Corporate Governance for Family Business**

Senior Financial Analyst  
Jordan Securities Commission  
Amman - Jordan

Mr. Ali Al Shraideh

**Fourth Session: Legal Requirements for the Application of Corporate Governance for Family Business**

Head of Governance  
Companies Control Department  
Ministry of Industry and Trade  
Amman - Jordan

Mr. Sami Kharabsheh

**Fifth Session: The Impact of Corporate Governance on the Industrial and Banking Sector**

Professor  
Finance and Banking  
Irbid National University  
Irbid - Jordan

Dr. Khaled Rajha

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DR. MARTIN BECK[www.kas.de/amman](http://www.kas.de/amman)**2. Objectives**

In recent decades the focus of international bodies such as the IMF and World Bank has increased towards policies of corporate governance. Corporate governance is a system of laws, customs, and ethical policies which impact the administration of a business. It serves to increase the role of all stakeholders in a company and promote shared responsibility, as well as accountability. In the Arab world, the economy is dominated not by large corporate enterprises, but family-run businesses of varying size. The benefits of such a system include company loyalty and in some cases, an increased quality of products or services rendered; often because success and failure are tied to the family name. Yet, this system is also marred by inherent corruption, administrative infighting after succession of ownership, and high levels of risk to stakeholders. The social implications of corporate governance are also controversial. The notion of government imposition in personal business affairs is a sensitive issue. Yet it is the goal of those who seek to promote a culture of economic integrity through corporate governance not to compromise the independence of business owners.

On November 21, 2011, Konrad Adenauer Stiftung Amman, in cooperation with Talal Abu-Ghazaleh Organization, organized a discussion forum entitled "**Corporate Governance for Family Business.**" The participation of the Minister of Finance and Trade, judges, businessmen, financial executives, and other prominent members of the political and business communities made for a successful dialogue in which ideas were openly exchanged. Working also in the framework of social market economy, the aim of the conference was to raise public awareness on the subject of corporate governance, but more directly, propose ideas which could be implemented in the laws that affect businesses in Jordan.

**3. Details**

**Mr. Mustafa Nasreddin**, Senior Executive Director of the Talal Abu-Ghazaleh Organization, opened the conference by first congratulating the accomplishments of the host business school. He acknowledged that what constitutes a family business is no longer limited to ownership, characterized by unilateral decision making. He stated administration is just as important, no matter the size of the company, which requires cooperation from varying stakeholders. Mr. Nasreddin concluded by encouraging research in Jordan and the Arab world on the subject of corporate governance.

**Dr. Martin Beck**, Resident Representative of the Konrad Adenauer Stiftung, began by noting the greater level of attention corporate governance has received in the region; especially after the accession of many emerging economies into the World Trade Organization and subsequent free trade agreements with Europe and the United States. Globalization has had a weighted impact on the development of the Jordanian economy, especially family businesses. International competition in marketing, services provision, and banking are all factors which drastically influence family business here in Jordan. He contended corporate governance will increase the capacity of these enterprises while promoting the ideals of social market economy, the cornerstone economic model of the Konrad Adenauer Stiftung.

**HE Mr. Sami Gammoh**, Minister of Finance and Trade, praised human capital as the catalyst of successful companies. Employees who feel responsibility and loyalty in their role are much more proficient in their duties. Implementation of corporate governance has been successful in stemming corruption and increasing competitiveness, improving development in

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Jordan. HE Mr. Gammoh credited family businesses as the largest part of the economy and because of that, he urged an increase in transparency to protect the interests of all stakeholders. Competent administration in these businesses is crucial for their continuity and success. By adopting governance policies, he stated this will be upheld. HE Mr. Gammoh incentivized action by offering family businesses which employ governance policies funding at a competitive cost.

**HE Dr. Talal Abu-Ghazaleh** gave the keynote speech at the conference. He began by condemning corruption in the private sector as equally damaging as that in the public sector. HE Dr. Abu Ghazaleh indicated that corruption in the private sector is directly linked to public corruption, and there must be an effectual effort made to end it. Corporate governance policies are the way to do so and must be cooperatively developed by the public and private sectors. He suggested producing a governance code in collaboration with KAS Amman: a code of ethics developed as per the responsibility of the private sector to lead by example and innovation. He then delved into the state of family businesses in Jordan and the complications which are characteristic.

HE Dr. Abu-Ghazaleh provided statistics that 70% of family businesses do not survive past the second generation, and only 15% pass to the third. Frequently because when the owner dies, the security of the business is gone. All too often the owner will reject input from other stakeholders on crucial financial and internal administrative decisions. From a strategic perspective, the problem is that no separation exists between family and the business. The company needs to be independent of discord within the family.

Part of the problem is also Jordan's importation of Gulf workers as employees in

administrative positions. This alleviates Jordanians from taking responsibility for the successes and failures of their business, and learning the value of competent administration. He concluded by invoking the spirit of the father of liberal economics, Adam Smith, stating personal interest provides incentive for economic growth. Consequently the 'invisible hand' of the market will stimulate more economic activity and the greater society will benefit.

### **First Session: Universal Charts and Investment Maps of Development Projects**

Mr. Saleh Al Ragad, Financial Analyst at the Jordan Securities Commission, characterized the economic base of the Arab world as family-run businesses. With respect to that, there are also significant gaps in the administration of these entities as they are passed through the generations. In the Arab world, generally, the owner runs the entire operation with a top-down approach. The only incentive the later generations have to be successful is preservation of the family name. However, the transfer of knowledge from the owners to his or her successors gives them a competitive edge. What happens too regularly in practice is that there is no administrative safeguards put in place. Thus, when the owner dies, the successors are inadequately prepared to take over. In this event, the new owners are forced to restructure or merge into strategic coalitions with national and international companies, because they have professional administrations already implemented. In the globalized economy, the traditional practices are detrimental to the future of family-run businesses in Jordan.

### **Second Session: Effective Approach in Capacity Building for Local Development Organizations**

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Dr. Mahmoud Ababneh, professor at the Middle East University, began his presentation by stressing the importance of good governance of companies. He noted the raised attention by international organizations in marketing corporate governance after several financial collapses throughout the 20th century. He outlined 5 important aspects to market corporate governance to the business world:

1. The rights of shareholders
2. Role and responsibility of the board of directors
3. Transparency and disclosure
4. Equitable treatment of shareholders
5. Consideration of the interests of other shareholders.

Dr. Ababneh underscored the moral duty companies have in development of the country's infrastructure and social atmosphere. Corporate governance also stimulates foreign investment, confidence of investors, strategic planning within companies, and gives them the ability to compete more readily.

He concluded his presentation by noting the hurdles Jordan faces with implementing corporate governance regulations. There are strong emotional commitments to companies in the Arab world. Often times, family businesses do not separate administration from ownership because they fear losing control, disclosing financial statements, and generally are distrustful of the recommendations of others. Dr. Ababneh suggested implementation of an auditing system which rotates auditors from a company after a set number of years. This measure would prevent auditors from allying themselves with the companies which they are responsible for the oversight of.

### **Third Session: Obstacles Facing the Implementation of Corporate Governance for Family Business**

Mr. Ali Al Shraideh, from the Jordan Securities Commission (JSC), discussed the advancements of the Amman Stock Exchange. He drew comparisons with other

advanced countries which utilize their stock markets to its full capacity. He went on to identify the benefits: Shareholding companies must abide by the general rules relating to the best practices and international standards. It requires compliance through these guidelines and is binding of disclosure. Mr. Shraideh lauded the successes of the JSC after it invited the World Bank to review the practices of the Amman Stock Exchange. The results of the survey indicated Jordan's compliance was higher than the international average due to laws of disclosure and rules enforced by the Central Bank. It was also successful in identifying problems in the current code which must be addressed. In partnership with the private sector, the JSC will produce recommendations to promote corporate governance and improve Jordan's economic capacity.

### **Fourth Session: Legal Requirements for the Application of Corporate Governance for Family Business**

Mr. Sami Kharabsheh, Head of Governance and Companies Control at the Ministry of Trade, adamantly defended the need for financial reform. Yet, reform needs to be complemented by promoting a principled business culture. One of the main pillars for this reform would be holding companies legally liable for their actions. Another is the institutionalization of new laws and business codes. All partners should have an equitable role even in a family business, in order to protect the minority of shareholders. Governance is preventative of companies becoming insolvent. He suggested the board of directors be comprised of senior shareholders and third party members, separating ownership from administration.

When it comes to small family businesses there needs to be a constitution outlining its operation, beginning with the owner. In the event of an unexpected transition of ownership, the successor should have a blueprint vision, so the company is not

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subject to the whims of the new administration. They should also be subject to monitoring board visits. Regulatory bodies must be put in place to prevent corruption and maintain accurate financial practices.

#### **Fifth Session: The Impact of Corporate Governance on the Industrial and Banking Sector**

**Dr. Khaled Rajha**, Professor at Irbid National University, presented a study he conducted on family businesses in the industrial and banking sectors to answer the question: Do principles of governance have an impact on performance or not? The results of the study showed the structure of ownership directly correlated to performance. 40% of Islamic banks are family owned, even if they are public shareholding companies. Ownership is tied to the agency, which causes conflict between shareholders and management. A survey of 16 banks and 45 industrial companies concluded a negative impact on the performance of family-run industrial companies. However, due to stringent regulations set by the Central Bank, there was no discernable impact on family-run banks. Dr. Rajha recommended an oversight board of senior shareholders to be instrumental in the ownership decision making.

#### **4. Conclusion**

For Jordan to be competitive in international markets, corporate governance policies are the instrument to achieve it. The research, surveys, and anecdotal evidence presented at the conference all conclusively showed the positive impact governance has. Integrity and accountability are characteristic of sustainable economic development. Their fundamental role is the

basis of constructive social, political, and economic development. Because these facets of life are inseparable, it requires all actors in society to engage in the ethical behavior necessary to be successful. By the closing session of the conference, several proposals and recommendations were agreed upon by the contributors:

1. Establishing Governance Institute, with its activities co-opted by the participants and their associates
2. Forming the Jordanian Association of Family Businesses
3. Developing an integrated system on corporate governance focusing on family businesses; to be accomplished by TAG Organization and KAS Amman
4. Adapting international standards and guidelines to the needs of the Jordanian economy.

The positive reception by the participants and hosts of the event reflected highly on its organization. KAS Amman is committed to its auspicious partnership with HE Dr. Talal Abu-Ghazaleh and his Organization. The request of HE Dr. Talal Abu-Ghazaleh for KAS Amman to assist in developing a code of ethics is a welcomed addition to the strengthening of our relationship. KAS Amman is dedicated to working with the Jordanian public and private sectors, and will continue to endorse projects which advance ethical economic standards.