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Good governance in the Middle East is no more than a seed that needs nurturing

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Does good corporate governance lead to better value?

It is a simple question, but it has complex ramifications in private equity in this region.

At face value, anyone would support the principle of corporate governance as a good practice to be adopted by businesses to monitor management, ensure a proper decision-making tree and to protect shareholders' interests. However, beyond this general and almost intuitive proclamation, there are complexities at varying levels.

Corporate governance takes a special form in the context of private equity (PE) and especially in the GCC markets for a host of reasons, including:

Absence of need: the majority of regional private businesses are family owned and as a result the need for applying corporate governance rules has never been felt compellingly, in the absence of investors from outside the inner family circle.

Absence of intent: corporate governance is usually a by-product of a PE investment and thus an import into a family business culture.

It is merely injected in small doses to appeal to new PE investors, not an original thought to enhance business practices and managerial standards.

Absence of regulations: no existing rules or regulations compel private businesses in the GCC to adopt best practices as is the case in developed jurisdictions or in public companies.

Absence of separation of powers: boards of directors are usually populated by founding shareholders, who in turn make up the majority of senior management. Who is to monitor whom in such environments? Even basic conflicts of interests are unavoidable under these circumstances making corporate governance a moot subject altogether.

Absence of culture: the argument goes as follows corporate governance is akin to corporate democracy including management accountability and protection of minority rights.

But this very culture, the argument proponents' reiterate, is lacking at the level of local governmental agencies. Furthermore, it is viewed as the projection of western policies imposed on a consensual form of democracy that is better suited for the regional political and business landscape.

Against this backdrop of pre-conceived ideas that diminish the merits and limit the uses of corporate governance, can the argument of better value still prevail?

While the arguments stated above are well grounded in the harsh regional corporate reality show, they are used to justify rather than defend the lack of applicability of corporate governance.

The experiences of the PE industry in the GCC support a very different approach.

Leaders of businesses and visionary entrepreneurs in the GCC seek the guidance of best standards instead of shying away from their importation into their corporate world.

The brightest of them view corporate governance not as a set of conduct rules, but as a corporate code of ethics. In this context, no special legislation is needed for them to follow proper dealings in commerce, or to avoid conflicts of interests.

Equally, no foreign will is brought to bear on their decision to preserve shareholders' value, except one's common sense. Last we checked, common sense was a universal culture, not a western or eastern tradition.

Private equity firms in the GCC are but mere agents of a movement that calls for the application of good practices and for the adoption of best standards.

These principles are ingrained in people's psyche and validated by the laws of nature.

Well-picked seeds that are nursed by experienced gardeners, who in turn are supervised by responsible landowners, bring no guarantee of a stellar crop, but offer better chances for a fruitful harvest.

Take no chances on corporate governance and make it a household culture, not an imposed or acquired taste.

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