

Benefits of Corporatization
Speech by Dr. Tariq Hassan, Chairman, Securities and
Exchange Commission of Pakistan at the Expert Advisory
Cell

ISLAMABAD – 20 November 2003

Ladies and gentlemen, it is indeed a pleasure to be here today. I would like to express my gratitude to the Economic Advisory Cell for inviting me and giving me an opportunity to share my views and thoughts with such a learned gathering.

I would like to highlight today the benefits of corporatization – a process which is quintessential for economic progress.

Corporatization entails separation of management from the owners while transforming an entity into a body with limited liability having perpetual succession.

Corporatization allows a number of significant benefits to the entity as well as to the economy as a whole.

Primarily, it extends the rights, duties and privileges of a natural person to a legal entity. These rights include among others the right to borrow money and invest funds, own property, sue and be sued and enter into contracts.

Corporatization also allows the owners to limit their liability up to the extent of their investment in share capital of the entity. This helps to protect owners' personal assets from being used for discharging the debts and liabilities of the business. In addition, transferability of ownership interests is possible. Therefore, the life of a corporate entity is not limited to the life of its owners; rather it has perpetual succession.

The separation of ownership and management allows professionals to administer and manage the affairs of an entity. While discharging their duties, they are bound to act honestly and with skill, care and diligence. Presence of professional management promotes credibility and effectiveness in the operations of the entity.

Being entitled to the above rights and privileges, a corporate entity is better placed to raise equity and debt funds. It has easy access to capital market for raising long-term funds. Moreover, financial institutions generally prefer to extend financial assistance to documented and organized form of incorporated business that enjoys credibility. Corporatization, therefore, is the means by which companies seek to improve competitiveness and access to capital and borrowing in a local and global market.

The benefits of corporatization to economy primarily result from improved transparency and accountability. The corporate entities are required under the law

to maintain proper records of operations and business affairs. Disclosure requirements are generally set out in the law along with the responsibilities for preparation and circulation of specified statements. The comprehensive legal and organizational framework within which corporate entities operate gives rise to a well-regulated and well-documented economic sector.

In consideration of the multiple benefits arising from corporatization, the Government has encouraged a policy of corporatization and privatization of public sector entities, which is expected to have a profound impact on accountability in the public administration.

The SEC has also been proactive in encouraging coporatization of SME sector. In this regard, the SEC has taken several initiatives to develop and promote SMEs. This includes legislative changes in the Companies Ordinance, 1984 to introduce the concept of single member companies (the "SMCs") so that any one individual could incorporate a company with limited liability. The framing of rules for SMCs is also under process. In addition, the SEC has taken several steps to facilitate the corporatization of SMEs, which includes availability of names through the internet, placing requirements for incorporation of companies on the SEC's website and rapid incorporation of companies, i.e. within three days. The Commission is also focusing on creating an efficient automated environment at the Company Registration Offices so as to further expedite the company incorporation process, maintain easy-to-access records and facilitate online registration of companies.

Our initiatives do not end here. In order to strengthen the existing legal and policy framework for SMEs and promote corporatization, a study is contemplated for reviewing the impact of the prevailing laws and regulations and to suggest appropriate measures.

Before I conclude, I would also like to appreciate the role of EAC through providing support to the Ministry of Industries and Production in processing schemes for balancing, modernization and expansion of units and companies as well as formulation of proposals for restructuring of companies and units. The EAC has also been active in raising awareness on investment-related issues by means of its regular publications and providing analysis on industrial units and their level of efficiency. These endeavours are likely to promote transparency in industrial units and companies as a result of clear corporate objectives, preempting risk of potential misconduct and corruption, and raising governance in the state owned enterprises.

It is hoped that concerted efforts of all concerned would lead towards corporatization of SMEs and state owned enterprises in Pakistan.

I thank you all for your time!