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**CRONY INTERLOCKERS AND THE CENTRALITY
OF BANKS: THE NETWORK
OF MOROCCAN LISTED COMPANIES**

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Working Paper No. 1066

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Abstract

In this paper, we study crony capitalism through the lens of Moroccan listed companies and the role of the financial sector. We first highlight the role of banks in the history of Moroccan capitalism from the setting up of French protectorate over Morocco to the dominance of some major family groups. We then describe the concentration and the high profitability of the banking sector among listed companies. Using a network analysis of board members of the Moroccan listed companies we confirm the centrality of Finance compared to other sectors. We also measure the relational proximity to demonstrate that each cluster of the four main holding families has at least one financial company. Finally, we argue that crony interlockers, who are members of royal foundations and represent an institutional investor or a holding family that owns a bank and/or an insurance company, are the most central actors in the network of listed companies. Our contribution to crony capitalism in MENA countries analyses the politics of finance in a neoliberal and peripheral country such as Morocco. Boone and Henry (2004) had described the banking sector in Morocco as a private oligopoly. Here we evidence that the monarchy and its entourage are capturing corporate governance instruments such as board membership to control economic activities.

JEL Classification: Z13, G21, G38

Keywords: Interlocks, Crony Capitalism, Morocco, Holding Families, Finance.

ملخص

في هذه الورقة، نقوم بدراسة رأسمالية المحسوبية من خلال عدسة الشركات المدرجة المغربي ودور القطاع المالي. علينا أولاً تسليط الضوء على دور المصارف في تاريخ الرأسمالية المغربية من الإعداد حتى من الحماية الفرنسية على المغرب لهيمنة بعض المجموعات العائلية الكبرى. ثم نقوم بالتركيز على الربحية العالية للقطاع المصرفي بين الشركات المدرجة. وباستخدام تحليل الشبكة من أعضاء مجلس إدارة الشركات المدرجة المغربي نؤكد مركزية المالية مقارنة بالقطاعات الأخرى. نقوم أيضاً بقياس القرب لإثبات أن كل مجموعة من أربع عائلات الرئيسية وشركة مالية واحدة على الأقل. وأخيراً، فإننا نقول إن المحسوبية، للأعضاء في أسس الملكية، وتمثل المستثمر المؤسسي أو العائلة القابضة التي يمتلك البنك و / أو شركة التأمين، هي الجهات الفاعلة الأكثر مركزية في الشبكة من الشركات المدرجة. مساهمتنا للرأسمالية المحسوبية في بلدان المنطقة تحليلات السياسة المالية في بلد الليبرالية الجديدة والمحيطي مثل المغرب. وبون وهنري (2004) وصف القطاع المصرفي في المغرب بمثابة احتكار القلة الخاصة. نجد هنا أدلة على أن النظام الملكي والوفد المرافق لها والتقاط أدوات حوكمة الشركات مثل عضوية مجلس الإدارة للسيطرة على الأنشطة الاقتصادية.

1. Introduction

To understand the political economy of authoritarian regimes in Middle East and North Africa (MENA), a new generation of scholars is using the concept of crony capitalism (Rijkers *et al.*, 2014; Chekir and Diwan, 2015). This concept was shaped in the context of Asian developmental states (Hughes, 1999; Kang, 2002). It is thus difficult to transpose its initial analysis to the case of many MENA countries with no viable economic development. Other studies tried to understand the specificities of economic and political structure of some Middle East and North African countries. On the one hand, neo-Patrimonialist approach (Bratton and Van de Walle, 1994) explains the persistence of the same elites regarding client-patron relationships and the distribution of rents that preserve allegiance and obedience both in Egypt (Gobe, 1999), Morocco (Hibou and Tozy, 2000) and Tunisia (Hibou, 2006). Neo-Marxist scholars, on the other hand, evidence that clans and families controlling political power are using state policies and resources as well as privatizations and neoliberal reforms to accumulate personal and clans' economic resources (Achcar, 2013; Berrada and Saadi, 1992; Haddad, 2012; Hanieh, 2011). The analysis of political economy during the revolts in the region (Kienle and Louër, 2013) shows that contested regimes spent important resources in social programs in 2011. Nevertheless, these regimes brought the former neoliberal policy back onto the agenda (Heydemann, 2013). The neoliberal political economy in countries such as Egypt, Morocco and Tunisia means that state deregulations and regulations are favoring the same clans and families.

The domination of clans and families is not always done through state policies. Other mechanisms exist such as the control of banks and the whole financial sector which is important to fund investments (Henry, 1996). In this paper, we study the case of Moroccan listed companies to illustrate the importance of the financial sector for the domination of the royal monarchy and its allies. One of the main characteristics of Moroccan economy is the importance of family groups led by one charismatic individual (Saadi, 1984). Back in the eighties, Berrada (1984) introduced the notion of "power of banks" to explain the capacity of some Moroccan families to allocate banking resources to their own investments. Darouich (1989) detailed the importance of banking sector in the history of Morocco, from the French protectorate to the domination of some big holding families. He pointed out to the fact that more than 400 companies have at least one common board member with a bank and 300 among them have CEOs that are also bank's board members. The transformations of Moroccan economy especially the adoption of corporate governance practices enhanced the role of board members inside companies. In this article, we study interlocking directorates, which means board members sitting in different boards, to analyze the role of crony interlockers and financial actors in Moroccan capitalism.

The interlocks, which are networks of co-participation to board companies, are used as a proxy to analyze the structure and dynamics of business relationships. Unfortunately, the significant literature on interlocking studies is mainly focusing on OECD members (Mizruchi, 2004; Dudouet *et al.*, 2015) and some Latin American (Cardenas, 2016) or Asian countries (de Graaff, 2014; Naudet and Dubost, 2016). This article contributes to fill this gap and study interlocks in a North African economy.

Building on the literature on economic sociology we shed light on the embeddedness of economic actors in a network of interactions (Granovetter, 1985). Companies, including banks, are not just centers of profit they are places for power relations and social interdependencies. Our description of the financial sector shows its role in the domination of some actors during the history of Moroccan economy. It was important for the French during the protectorate and then for the main Moroccan family groups including the royal holding. Furthermore, the composition of boards is not random. It reveals both the hierarchy of economic actors and their interactions (Mizruchi, 1996).

Using a network analysis of board members of the Moroccan listed companies we confirm the centrality of Finance compared to other sectors. We also measure the relational proximity to demonstrate that each cluster of the four main holding families has at least one financial company. Finally, we argue that crony interlockers, who are members of royal foundations and represent an institutional investor or a holding family that owns a bank and/or an insurance company, are the most central actors in the network of listed companies.

The first section describes the methodology used to collect and analyze data while the second one describes the banking sector in Morocco. The third section highlights the structure of the network of listed companies and the last section focuses on the characteristics of the main interlockers.

2. Methodology: Combining Social Network Analysis (SNA) and Qualitative Approach

To study cronyism in Morocco, we used a methodology combining a Social Network Analysis (SNA) of board co-membership among listed companies and a qualitative investigation of Moroccan political economy. The latter provides us with the history and current characteristics of the banking sector as well as the description of business groups close to the monarchy while the SNA sheds light on the centrality of financial and crony interlockers.

Regarding the qualitative approach, we conduct a documentary research based on reports such as those of Bank of Morocco (Bank Al Maghrib) and a review of the secondary literature on Morocco's banking and financial sector. We have also conducted more than ten semi-structured interviews with owners, executives and board members of Moroccan listed companies. Those interviews enable us to understand the importance of the banking sector as well as its proximity to the monarchy.

We use Social Network Analysis (Wasserman and Faust, 1994) to study interlocking directorates of Moroccan listed companies (Mizruchi, 1996). The SNA approach is based on quantitative measures that we interpret using our qualitative analysis (Lazega, 1998; Eloire *et al.*, 2011). We have collected data on 341 board members of the 73 companies of Casablanca Stock Exchange on 01-04-2015. We grouped representatives of organizations such as: CDG, Mamda-Mcma as well as members of holding families such as: Bensaleh, Lamrani and the like.

Our initial data is organized as an affiliation table where each actor is affiliated to the companies where he is a board member¹. We transform this table into two square matrices. The first matrix has the listed companies in the columns and lines. The cells of this matrix are filled with the number of common board members (interlocks) each two companies are sharing². We then build a network that represents the interdependencies between companies. When grouping the companies according to their sector we can compute the table of densities that describes interlocks inside the same sector³ as well as interlocks between each two different sectors⁴. The network representing those interdependencies sheds light on the centrality, cohesiveness or isolation of each sector. Instead of considering only sectors we have also shown the sphere of influence of the main holding families when we measured the relational proximity between companies⁵. The second matrix has board members in the columns and lines. The cells are filled with the number of common companies each two board members are sharing. We then draw a

¹ The first column of the table is dedicated to board members while the second comprises company names.

² It can be 0 if two companies do not share common board members.

³ It is the sum of all common board members between each two companies from the same sector.

⁴ If we consider interlocks between sector A and sector B we sum up the common board members between all the companies from the sector A and all the companies from the sector B.

⁵ This is computed using the hierarchical clustering and the Ward method (See the section "*The clusters of four main holding families*" for more details) which enables us to consider that two companies have high proximity if they share the same board members or they share the characteristic of having no interlocks with others.

network of relationships between board members based on common companies. The structure of this network and the measure of the degree of centrality⁶ enable us to assess the position of the financial sector and associated crony interlockers⁷.

3. Banking Sector in Morocco

3.1 Bank's power: from French colonization to monarchy domination

The Bank of Paris and Pays-Bas (BPPB) played a major role in the political domination of France over Moroccan sovereignty (Nataf, 1929). In June 1904, before the establishment of French protectorate, Morocco contracted a loan from a consortium of French financial institutions led by the Bank of Paris and Pays-Bas (BPPB). One of the main conditions of the loan obliged Morocco to nominate French officials in its commercial ports to directly collect money to pay the debt (Ayache, 1956). The contract was negotiated in a way that pushed Morocco to look for other loans and led to the loss of its financial and political sovereignty. This indeed occurred in 1906 when the international conference of Algceiras called for the appointment of a French councilor charged to manage the Moroccan budget and create the Moroccan's State Bank. One year later, the latter will be controlled by BPPB (Marty, 1951). During the French protectorate that started in 1912 and ended in 1956, BPPB controlled currency issuance through Moroccan State Bank. It also created a group of holding companies in the main Moroccan economic activities. For instance, BPPB controlled banking, transportation, mining, tobacco, energy and was present in many other sectors (Aron, 1959; Belal, 1968).

Four years after the political independence, the government set up the Bank of Morocco which means that currency issuance became a prerogative of the State (Darouich, 1989). The same year saw the creation of many state-owned financial institutions with the objective of centralizing savings and investing in industry, agriculture, tourism and exportation. Those financial institutions such as The National Bank of Economic Development⁸ consolidate big private holding families through the funding of their investment projects (Darouich, 1989). Moreover, the government adopted a policy of "Morrocanizing" companies (El Aoufi, 1990) which is different from exclusive state nationalizations. This policy favored Moroccan private elite in the acquisition of shares in the capital of banks and other sectors of the economy (Darouich, 1989). For instance, the monarchy became the main shareholder of Omnium North Africa (ONA) that used to be controlled by French BPPB and the bank BCM entered the sphere of influence of the monarchy⁹. Other important holding families perform the same strategy, such as Lamrani family (SAFARI-SOFIPAR group), who became shareholder in different commercial and industrial companies and the principal shareholder of the bank Credit du Maroc.

In the eighties, the transformation of Moroccan economy with privatization and consolidation of neoliberal reforms had two implications for the financial sector. First, it enabled some Moroccan private groups such as Benjelloun's holding family to acquire financial companies (BMCE Bank) and become one of the key actors in the economy (Catusse, 2008). Second, it facilitated the return of French financial actors such as the international insurance company Axa that started playing a key role in Moroccan insurance sector. According to one interviewee, in the beginning of the 2000s there was a "risk that a huge part of the financial sector would come

⁶ In this case, degree centrality corresponds to the sum of different board members that each actor meets in the boards of listed companies.

⁷ The proxy used to define crony interlockers is the fact of sitting in the board of royal foundations.

⁸ Known in Morocco as Banque Nationale de Developpement Economique (BNDE). Because of mismanagement and misuse of public money, the government dismantled the bank in 2005.

⁹ Darouich (1989, p. 229) evidences that the bank SMDC who was controlled by the French group Paribas (BPPB) gives important loans to ONA due to interlocks that was inherited from the period where ONA was subsidiary of BPPB.

under the control of French shareholders. Axa already owned Al Amane insurance, the French group Credit Agricole was negotiating to buy Wafa and Benjelloun was considering selling BMCE to the French group Caisses d'Epargne. The acquisition of Wafa by BCM, the bank of the royal holding, was strategic. It effectively keeps the financial sector in the hands of Moroccan shareholders.” Another observer opined that the monarchy controlled the main banking company because it is a very profitable sector. During the period of 2000-2013¹⁰, the value-added of financial activities was higher than industrial sectors. Between 2000 and 2007, financial and insurance activities participated for 5.7% of global value-added while chemical and paracheimical industry in addition to power, metallurgy and engineering activities did not exceed 5.4%. For the period 2008-2013, industrial activities increased to 5.8% of global value-added but were lower than financial activities which rise to 6% (HCP, 2014).

Moreover, an interviewee who owns an industrial company asserts that “during the former era of King Hassan 2, the dominant logic was to preserve political power. Capital was used as a power device, in aid of regime maintenance. By contrast, during the reign of Mohammed 6, the logic is to use the banking sector to generate new rents”.

3.2 Concentrated and profitable banking sector

Today 65% of the banking sector is concentrated in the hands of private Moroccan owners. Whatever indicator we consider (assets, deposits or loans), foreign investors have, respectively, 17.8%, 18.5% and 20.5%. So, the state owns less than the private Moroccan and international investors.

Concentration is also important if we consider bank companies. The three main bank companies that are listed on Casablanca Stock Exchange (Attijariwafa bank, BCP and BMCE Bank) concentrate around 65% of assets, deposits and loans (See table 2 below). Even the Moroccan advisory council for competitiveness (2013) considers the banking sector as an oligopoly but with possible place for competition. This converges with Boone and Henry (2004) that classify Moroccan banking sector under the category of private oligopolies.

The situation of the banking sector evolved positively in the last fifteen years. Total assets, Loans, deposits and equity tripled between 2002 and 2014 (See table 3 below). The net banking income (which corresponds to turnover for banks) increased from 16.8 billion Dhs in 2002 to 44 billion Dhs in 2014 while the sector moved from almost zero profits to 10 billion Dhs net profits during the same period. Moreover, the profitability of the banking sector measured by the Return on Equity (ROE) increased from 1% in 2002 to 10.2% in 2014.

If we consider the distribution of net banking income, we observe that the interest margin represents around 75% while in similar countries such as Tunisia it reached around 57.2%. Fees and commissions constitute 13% of the net banking income while the trading activities are the less important (around 11%). This differs from Tunisia where Fees and commissions and trading activities represent, respectively, 22% and 14.9%.

4. The Case of Listed Companies

In Morocco, Casablanca Stock Exchange provides us with reliable data. Both the websites of the Stock Exchange and the financial regulator include raw data about shareholders of listed companies, members of their board of directors and their profits. Furthermore, the 73 listed companies of the Casablanca Stock Exchange represent the diversity of the sectors of the Moroccan economy. These 73 entities are also described in the press as the most dynamic and modern Moroccan companies. It is thus important for us to analyze the data provided in order

¹⁰ We didn't find sufficient data for other periods.

to study the place of the financial sector as well as the relationship with the monarchy which is the main political actor in Morocco.

Our qualitative study shows that interviewees identified Banks and Institutional investors as central actors in Casablanca Stock Exchange. Some executives describe Banks, especially the ones owned by the royal holding, as the most profitable listed companies. Others state that institutional investors, which are shareholders in many listed companies, are key actors in the funding of businesses owned by the royal holding or by families close to the monarchy. We assess these two aspects by analyzing the data gathered on the profitability of listed companies as well as membership of their board of directors.

4.1 The high profitability of Banks

We collect the data on the net profits of listed companies and group them according to their sector. Building on the median net profits¹¹ we give a score to each sector. The median net profits of Finance (577 350 000 Dhs) is the highest and is almost equal to the sum of the medians of the following sectors: Energy (359 942 000 Dhs) and Construction (224 844 484.7 Dhs). Compared to other sectors, IT and Industry have the lowest score respectively 17 921 500 Dhs and 16 175 000 Dhs. This idea converges with the statement of a CEO of an industrial company who declares that it is “irrational to invest in the industrial sector in Morocco while Real Estate provides higher profits with much less effort”.

When we rank listed companies according to their net profits we notice that among the ten first profitable organizations five are included in the financial sector (see table 5 below). Even if Maroc Telecom, owned by the Emirati group Etisalat, is the most profitable entity in Casablanca Stock Exchange, it is the only one in the top ten among the eight IT companies while half of the financial sector includes high profitable companies. Maroc Telecom with 5.54 billions Dirham of net profit is followed by royal holding’s bank Attijariwafa with 4.14 billions Dhs. Two among the 12 construction companies as well as one state-owned bank (BCP) and Benjelloun’s Family Bank (BMCE) have more than 1 billion Dhs net profit. Wafa Assurance, an insurance company which is part of the royal holding, follows Ciments du Maroc which is owned by the German group HeidelbergCement. Then comes BMCI, a subsidiary of French group BNP Paribas. The last entity, Cosumar, is the only Agro-business company in this top ten.

4.2 Interlocks as a relational attribute to study banks’ position

For the moment, we have considered profitability, which is an organizational attribute related to the capacity of an organization, here a listed company, to provide material resources in the form of profits. We will now consider a relational attribute which sheds light on the capacity of an actor, here a board member or a company or a sector, to position itself in a favorable way compared to other actors. While the first attribute is related to getting resources the second one deals with central position such as being gatekeeper.

In economic sociology and organizational studies, the notion of interlocking directorates (Mizruchi, 1996) can be used as a proxy to assess the relational attribute of actors. We say that there is an interlock between two firms when they share the same board member. The interdependencies between companies that are created through the sharing of common board members can lead to connections, influence or control. A group of companies that is cohesive and connected to other groups have a strategic location compared to isolated and non-cohesive

¹¹ We choose the median instead of the mean net profit because the high profitability of the IT company “Maroc Telecom” changes the mean score of the IT sector while companies from Energy and Construction have globally more net profits than IT. But the finance sector, which is interesting for us in this study, has the highest net profits whether we use the median or the mean as score.

groups. Furthermore, an executive that is present in a lot of board companies has access to important information and can meet executives that do not know each other.

Building on the Pujo Committee (U.S. House of Representatives, 1913) which identified the bank owned by J. P. Morgan as controlling the US industry¹², scholars are using interlocks to study the structure and dynamics of US capitalism. Some have emphasized bank centrality and its influence on other sectors of the economy (Dudouet *et al.*, 2015). Zeitlin (1974) provides evidence on the role of some US holding families that control important banks while Useem (1980) shows that the structure of US capitalism is made of cliques of companies centered around one or many banks. In his literature review on corporate control, Mizruchi (2004) states that, in addition to banks, other financial companies such as insurance providers are central not only in the US but also in European economies.

Few studies have applied the notion of interlocking directorates to study cronyism in the financial sectors of MENA region. In this paper, we propose to deploy this in the case of Moroccan listed companies. There are a number of reasons why Morocco provides an excellent case to explore. Moroccan economy is both dominated by family groups and has seen several institutional transformations. In 1995, the law of public limited companies introduced the principle of collective responsibility in corporate governance. This challenges the supremacy of the owner and emphasizes the role of board members. The guidelines of the World Bank and the IMF (2003) as well as the survey conducted by the Moroccan Business Association (CGEM, 2005) and its suggestions led to the publication of the “Moroccan Code of Best Practices in Corporate Governance” in 2008 as well as the creation of the Moroccan Institute of Board members (*l’Institut Marocain des Administrateurs*) in 2009. The role of this institute is to participate in the professionalization of board members and diffuse the model of “independent board members”.

The model of independent board members came from the agency theory (Jensen and Meckling 1976) that was promoted to face the managerial control of companies in the US. Due to the dispersion of capital, large US companies were controlled by executives instead of shareholders (Berle and Means 1932). Jensen and Meckling (1976) and other agency theorists suggested to set up incentives for the convergence of both executives’ interests and shareholders’ objectives. Some practices became popular such as the recruitment of independent board members as well as the ranking of board of directors.

Moroccan capitalism is dominated by family owners and has never seen an era of managerial control (Saadi, 1984). Even today, it is very difficult to find a Moroccan company with no majority owner at least in the form of an alliance between two or three shareholders. Furthermore, the law states that the general assembly chooses the members of the board of directors in an election by majority vote (1 share = 1 vote). This leads to board of directors that are composed, in many cases, of the owner and his relatives, allies or a coalition of main shareholders. But for the case of listed companies, the situation is quite different. The CEO of the pension fund CIMR, who is one of the main interlockers in Casablanca Stock Exchange, told us that “it is important for the market reputation of the majority shareholder to allow representatives of minority shareholders. We can have one seat in the board due to a gentleman’s agreement with the majority shareholder but in some cases, we can negotiate, upstream, a shareholders’ agreement with the possibility of having one or two seats in the board of directors”.

¹²The Pujo Committee considered that interlocks can engender collusion. The political implication of this was the establishment of The Clayton Act which prohibited interlocks between competing companies.

It is thus important to study interlocks to capture actors that have a strategic position in the network of listed Moroccan companies. This will enable us to determine the position of the financial sector including banks and insurance companies in the Morocco's evolving political economy.

4.3 The central position of financial companies

To assess the role of the financial sector in term of multiple and intermediary position we build a network of common board members between listed companies and group them according to their economic activities. Initial data provides us with information on names of the board members of each listed company. We structured this data in a matrix to highlight the connections between each two organizations. We then group the companies according to eight economic activities: Industry, Energy, Finance, Construction, Transportation, Credit, agribusiness and IT¹³. After eliminating low connections, less than 20, we obtain the data that is displayed in Table 6 and Figure 1 showing interdependencies between eight sectors of the listed companies.

This network evidences the high centrality of the financial sector which is composed of 6 banks and 4 insurances. Thus, Figure 1 shows that Finance is located at the center of board connections of economic activities. If we consider the diagonal of the table, we notice that the group of financial companies has the highest score of cohesiveness (60). This means that banks and insurance companies are very well connected with each other compared to companies representing other economic sectors. The main interlockers that increase the cohesiveness of the financial sector are: the royal holding (SNI) which links the bank Attijariwafa with the insurance Wafa and the broker Agma ; the pension fund (CDG), whose CEO is appointed by the King, connects the banks BMCE and CIH in addition to Atlanta insurance company; the family holding Bensaleh, whose CEO is present in the board of a royal foundation (see annex), sits in the board of the banks BMCI and CIH as well as Atlanta insurance company; the institutional investor (MAMDA-MCMA) links the two banks Attijariwafa and BCP.

Among the eight sectors, Finance stands out for its degree of interdependence with other economic activities. It is the first sector to be connected with Agribusiness especially through Cosumar which is a former subsidiary of the royal holding. The interlockers between Finance and Cosumar are the royal holding (SNI), the pension funds (CDG and CIMR), the institutional investor (MAMDA-MCMA), the family holding Lamrani whose CEO is board member of the bank CDM and one royal foundation. Moulay Hafid Elalamy, minister of Industry, Economy and Trade (2013-2016) and board member of a royal foundation, links the insurance company Saham with the agro-business activities of Label Vie and Unimer. Also, Adil Douiri, a former tourism minister who launched in 2015 a new bank called CFG, sits in the board of BMCE Bank and the agro-business company of Brasseries du Maroc.

The financial sector has also important connections with Energy. For instance, the main interlocker here is the royal holding SNI which is present in the bank and insurance as well as in the mining companies of Managem and SMI. In the Energy sector, Lydec has board members belonging to Benjelloun's holding family, whose CEO is member of the board of one royal foundation and BMCE bank, as well as from CDG, whose executives it in the board of many financial companies. The construction sector is related to Finance through interlockers such as SNI, CDG, CIMR, MAMDA and Lamrani's holding family who sits in the board of Lafarge,

¹³ Each group contains between 6 companies for Credit sector and 12 organizations for Construction sector. The Industry includes 11 companies while Finance sector comprises 10 banks and insurances. Both the Energy and Agribusiness sectors contain 9 companies while the IT and transportation gather 8 entities.

Ciments du Maroc or Alliance. Another interlocker is Adil Douiri who sits in the board of BMCE bank as well as companies from the construction sector such as Dar Saada and Holcim.

In the Industrial sector two companies share common board members with Finance. In the company Sonasid we find interlockers such as Lamrani's holding family, MAMDA, CIMR, Benjelloun's holding family and SNI. The latter, in addition to CDG, sits in the board of the industrial company Zellidja. If we now consider interdependencies inside the industrial sector we notice that it represents a very high density (52), which implies that companies of this group share many board members. We also show that Energy, Transportation and IT are isolated¹⁴ compared to other sectors if we consider common board membership.

4.4 The clusters of four main holding families

The clustering of companies according to their economic activities enables us to determine the importance of the financial sector. An alternative form of clustering based on relational proximity¹⁵ between companies can demonstrate the sphere of influence of major holding families¹⁶.

We use hierarchical clustering¹⁷ to compute the relational proximity between each two companies of our initial network of common board members. Using Pajek software¹⁸, which applies the Ward clustering method¹⁹, we could classify companies according to their similarity and/or difference of board members and visualize their relational proximity and/or distance on a dendrogram of similarities (see figure below). The dendrogram is read from left to right considering that companies with the closest relational profile are those for which the two lines join first (De Nooy *et al.*, 2005). The length of the horizontal lines, between their point of departure and the place where they cross over, describes the difference in relational profile between actors. A vertical line has been traced to distinguish between five groups according to relational proximity.

The first group includes six companies in the sphere of influence of Benjeloun's family holding. Executives from Benjelloun holding are sitting in the board of these 6 entities including BMCE bank, one of the top ten profitable listed companies. In addition, Othman Benjelloun, the CEO of the holding family, sits in the board of one of the main royal foundations (see annex).

Nine companies can be ranged among the second cluster, which is under the influence of the royal holding SNI, and whose CEO sits in the board of two royal foundations. This group includes four among the top ten profitable companies especially two from the financial sector: Attijariwafa Bank and Wafa assurance.

¹⁴ This means that we don't find a lot of board members of companies from each of this three sectors sitting in the boards of other sectors. For instance, there are very few board members from IT companies sitting in Finance, Transportation or any other sector.

¹⁵ Actors in a network can have similar or dissimilar relational profile. Some companies may have a high relational proximity if they have similar relational profile (the same links or absence of links). For instance, this is the case for companies sharing many board members. Companies can also be considered with high relational proximity if they share the characteristic of interlockers' absence.

¹⁶ A company under the sphere of influence of a family group means that it is controlled by the shareholder family.

¹⁷ The clustering of data is structured (not arbitrary) using a tree or a dendrogram. Here we apply a bottom-up Hierarchical clustering. This means that we group small clusters into larger ones in an agglomerative procedure.

¹⁸ Pajek software is a free program created by Vladimir Batagelj and Andrej Mrvar. This software enables users to visualize networks, compute centrality measures and group vertices in clusters. Pajek implements some important algorithms for network analysis such as ward method.

¹⁹ In Ward's method the distance between two clusters is measured using the sum of squares. Then the algorithm finds the closest pair of clusters and merges them.

Oulmes and the Atlanta insurance company constitute the third cluster, which is under the sphere of influence of Bensaleh holding family, whose CEO is a board member of a royal foundation²⁰.

The fourth group is composed of five companies but is different from the first clusters. It is an alliance of three holding families: Bennani's group, Alj's one and Moulay Hafid Elalamy's (MHE) holding family. Nevertheless, MHE appears to be the leading actor because he owns the only financial company of the cluster (Saham insurance company). In addition, he has a prominent political role as minister of Industry, Economy and Trade as well as being a board member of one royal foundation.

The last cluster is made up of 51 companies with relational dissimilarity in terms of common interlocks. This cluster has no leading holding family.

5. Centrality of Financial and Crony Interlockers

The network of listed companies and the interdependencies between sectors shed light on the importance of some board members. In this section, we focus on the position of the main interlockers. Our objective is to determine their characteristics including the proximity with the monarchy and whether they represent state or private groups, with or without financial activities.

Building on our initial data work we create another network that represents relationships between the main interlockers (See figure below). The strength of the link between two interlockers depends on the number of common companies where they are both board members. This network shows the centrality of two pension funds: CDG²¹, a state owned institutional investor, and CIMR²², a private owned one. CDG was designed to collect and centralize savings in order to fund huge investment projects. The aim of this financial institution is to contribute to the development of Moroccan economy after political independence. Nevertheless, many individuals from the entourage of the monarchy used it in the seventies and eighties to fund their own projects (Zeroual, 2014).

One of our interviewees explains that top management of the CDG still receives calls from the royal palace to discuss strategic investments. CIMR, the second pension fund which is a private one, has been used by groups such as Lamrani's family holding in the eighties to fund some of their investments (Berrada, 1988). Today, the royal holding family SNI is overrepresented in the board of directors of CIMR (Oubenal and Zeroual, 2017). Seven among the fifteen board members are executives of SNI's subsidiaries, two others are CEOs of state owned companies who are appointed by the King and another one sits in the board of one royal foundation.

To analyze the characteristics of the main interlockers, we rank them according to degree centrality, which refers to the number of connections each interlocker has with different board members²³ (see table 7 below). This means that interlockers on the top of the list, such as CIMR and CDG, meet more board members than the others. Only two among the 14 interlockers in our list represent state owned companies (CDG and BCP). Among the twelve interlockers coming from the private sector eight represent Moroccan holding families and only two come from an international group (Banque Islamique de Développement and BMCI which is owned by BNP Paribas). It's also important to notice that institutional investors occupy the three first positions.

²⁰The sister of the CEO who is another prominent member of the Bensaleh holding family is president of the Moroccan Business Association.

²¹ Surrounded by a square in the network.

²² Surrounded by a circle in the network.

²³ It is the sum of different board members that each actor meets in the boards of listed companies

The centrality of Finance is visible in this list. Almost all interlockers are executives of financial entities or groups that own bank and/or insurance. Even interlockers coming from non-financial sector are associated with interlockers owning and managing financial companies (for instance, Alj holding family is often related to MHE that owns Saham insurance company). Moreover, the proximity with the monarchy appears as an important characteristic of the main interlockers. In this paper, we consider the participation to the board of one or two of the royal foundations as a proxy to assess proximity of interlockers with Moroccan monarchy (See Annex). First, we notice that among the 341 board members of listed companies only ten are board members of royal foundations. Second, seven among these ten actors appear, in table 7 below, on the list of the fourteen main interlockers²⁴.

In conclusion, we can consider that a central interlocker is a member of a royal foundation and represents an institutional investor or a holding family that owns a bank and/or an insurance company.

6. Conclusion

In this paper, we study crony capitalism through the lens of Moroccan listed companies and the role of the financial sector. We first highlight the role of banks in the history of Moroccan capitalism from the setting up of French protectorate over Morocco to the dominance of some major family groups in a private oligopoly (Boone and Henry 2004). We then describe the concentration and the high profitability of the banking sector among listed companies.

Over the last two decades, Morocco's economy has undergone considerable financialization. The financial sector has out-grown most other sectors of the economy. In our study of the network of listed companies and the interdependencies between sectors we show that Finance is the most cohesive sector and enjoys the highest degree of interdependence with other economic activities, such as agribusiness, construction, energy and industry.

Instead of opposing neoliberal reforms, Moroccan rulers were pioneers to participate in privatizations and financialization and benefited from it. « What they [rulers] lost in administrative control, they were able to protect via close relations with banking elites who exercised oligopolistic control over private sector markets. Rulers were able to find new ways to maintain patronage networks that were no longer sustainable via old systems of administrative controls » (Boone and Henry 2004, p. 379). In Morocco where monarchy is the most powerful political and economic institution, financial sector serves for the royal holding as a mean to control the process of accumulation and for other actors as a lever to access resources and gain proximity with the monarchy. We thus evidence, using a specific measure for clustering, the existence of four clusters. Each of them can be ranged inside the sphere of influence of a major holding family which owns a bank or an insurance company and has a CEO sitting on a board of a royal foundation. In addition, the second network of the main interlockers sheds light on the characteristics of those interlockers. They are members of royal foundations and represent an institutional investor or a holding family that owns a bank and/or an insurance company.

Apart from highlighting the wider role of finance, we study some mechanisms of control, specifically those exerted on pension funds. For instance, the board of directors of the CIMR, which is a private pension fund, includes many CEOs related to the monarchy. In addition, the King appoints the CEO of the CDG which is a state-owned pension fund and the royal entourage influences the strategic decisions of this main institutional investor.

²⁴The three that do not appear as main interlockers are: OCP which is the biggest state owned company in Morocco, Maroc Telecom owned by the Emirati group Etisalat and AKWA, a Moroccan Holding Family.

Our results give a new insight on the banking sector in Middle East and North African countries. In Europe (Dudouet *et al.*, 2015) and the US (Useem, 1980), banks and the financial sector take a central place within a constellation of private independent groups. In Morocco, its centrality is related to crony interlockers seeking to develop their family private groups and widen their sphere of influence. Our contribution to crony capitalism in MENA countries analyses the politics of finance in a neoliberal and peripheral country such as Morocco. Boone and Henry (2004) had described the banking sector in Morocco as a private oligopoly. Here we evidence that the monarchy and its entourage are capturing corporate governance instruments such as board membership to control economic activities. We also show the importance of using micro data on linkages. In this regard, we deploy latest methods in social network analysis to identify interlocking board of directors. Although our study is limited to the group of 73 listed companies, it does point toward the centrality of Finance in sustaining crony capitalism in Morocco. Further research is needed on a larger sample of companies to provide a more comprehensive picture of crony capitalism.

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Table 1: Concentration the Banking Sector Depending on The Type of Shareholders in 2014 (in %)

	Assets	Deposits	Loans
Private Moroccan	65.5	65.4	65.4
Foreign owners	17.8	18.5	20.5
State Owned	16.7	16.1	14.1

Source: Report on banking supervision, 2013, BAM

Table 2: Concentration Depending on the Type of Shareholders in 2014 (in %)

	Assets	Deposits	Loans
Three first banks (Attijari, BCP, BMCE)	65.1	65.2	65.2

Source: Report on banking supervision, 2013, BAM

Table 3: Indicators on Banking Activities and Profitability

	2002	2003	2013	2014
Total assets	367	384	1095	1103
Loans (net of provisions)	N/A	207	726	734
Deposits	275	300	722	770
Equity	31	27	94	98
Net banking income	16.8	17.3	40.3	44
Net profit	0.3	-0.55	9.9	10
Return on Equity (ROE)	1%	2%	10.60%	10.20%

Source: adaptation of Report on banking supervision, 2013, BAM

Table 4: Distribution of Bank's Sources of Net Banking Income in 2011 (in %)

Year	Morocco	Tunisia
Interest margin	75.8	57.2
Fees and commissions	13.4	22
Trading activities	10.8	14.9

Source: Report on banking supervision, 2013, BAM; Report of Bank of Tunisia 2013

Table 5: Top Ten Listed Companies' Net Profit

Company	Sector	Net Profit (billions Dhs)
1 MAROC TELECOM	IT	5.54
2 ATTIJARIWafa BANK	FINANCE	4.14
3 BCP	FINANCE	1.95
4 DOUJA PROMOTION GROUPE ADDOHA	CONSTRUCTION	1.68
5 LAFARGE CIMENTS	CONSTRUCTION	1.39
6 BMCE BANK	FINANCE	1.23
7 CIMENTS DU MAROC	CONSTRUCTION	0.8
8 Wafa ASSURANCE	FINANCE	0.78
9 BMCI	FINANCE	0.64
10 COSUMAR	AGRO-BUSINESS	0.62

Table 6: Common Board Members Between Sectors of Listed Companies

	Industry	Energy	Finance	Construction	Transportation	Credit	Agrobusiness	IT
Industry	52	0	43	25	0	0	0	0
Energy	0	23	50	0	0	0	0	0
Finance	43	50	60	46	25	37	60	0
Construction	25	0	46	29	0	0	23	0
Transportation	0	0	25	0	31	0	26	0
Credit	0	0	37	0	0	0	21	0
Agrobusiness	0	0	60	23	26	21	30	0
IT	0	0	0	0	0	0	0	0

Table7: Ranking Interlockers According to Degree Centrality

Name	Degree	State or Private representative	Financial or non Financial	Proximity with monarchy
CIMR	77	Private Institutional investor	Financial (Pension fund)	N/A ²⁵
CDG	58	State Institutional investor	Financial (Pension fund)	1 seat in royal foundations
MAMDA-MCMA	50	Private Institutional investor	Financial (Insurance)	N/A
Benjelloun		Private Holding family	Financial (with Bank and	
Finance.Com	48		Insurance)	1 seat in royal foundations
		Private Holding family	Financial (with Bank and	
SNI	42		insurance)	2 seats in royal foundations
Adil Douiri	32	Private Holding family	Financial (with Bank)	N/A
Lamrani Family	29	Private Holding family	Financial (with Bank)	1 seat in royal foundations
Bensalah Holmarcom	27	Private Holding family	Financial (with Insurance)	1 seats in royal foundations
BMCI	26	Private International group	Financial (Bank)	N/A
Alj Family	22	Private Holding family	Non financial (Industry)	N/A
Moulay Hafid Elalamy	22	Private Holding family	Financial (with Insurance)	1 seat in royal foundations
Banque Islamique		Private International group		
Développement	21		Financial (Bank)	N/A
BCP	19	State owned bank	Financial (Bank)	2 seats in royal foundations
Berrada Family 1	18	Private Holding family	Non financial (Industry)	N/A

²⁵ We have considered the fact of having a seat in a royal foundation as the proxy for proximity with monarchy. The only data that we were capable of collecting concerns the board composition of two main royal foundations. Thus the Non Available (N/A) information means that the interlocker is not present in the board of those two royal foundations but we cannot say that he is absent in other royal foundations.

Figure 1: The Network

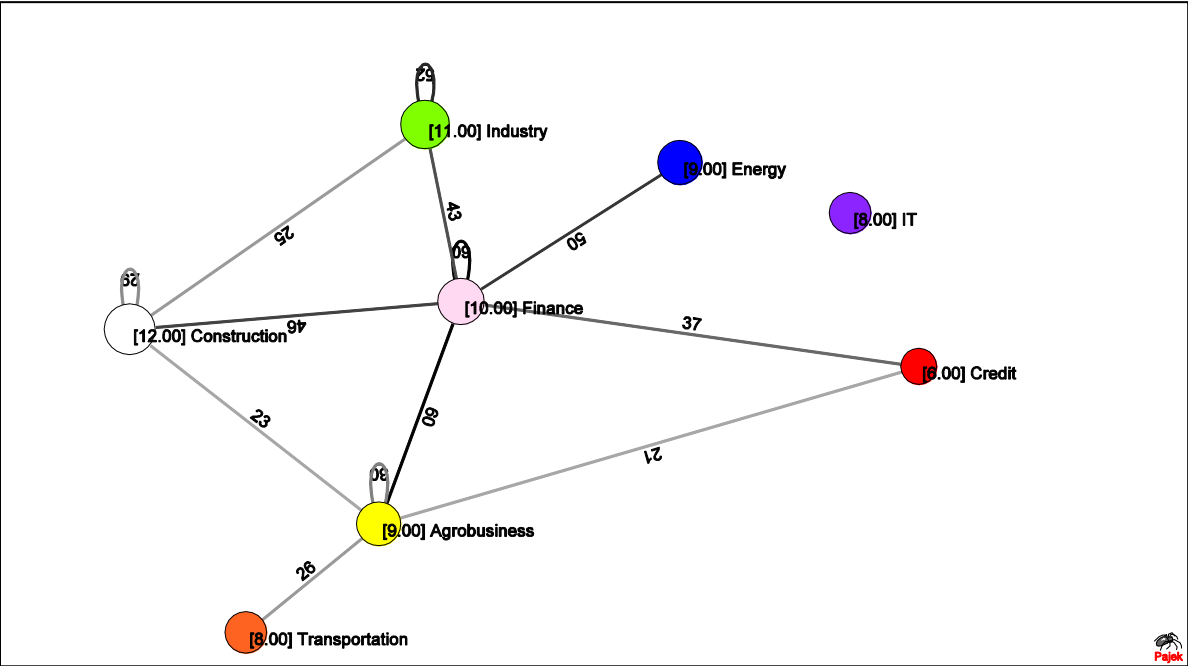


Illustration: The network describes the data provided by the density table. For instance, if we consider the cell in the third line and first column, as well as the cell in the first line and third column, we see that Finance and Industry listed companies have 43 common board members. Those connections between Finance and Industry are drawn in the figure.

Pajek - Ward [0.00,146.22]

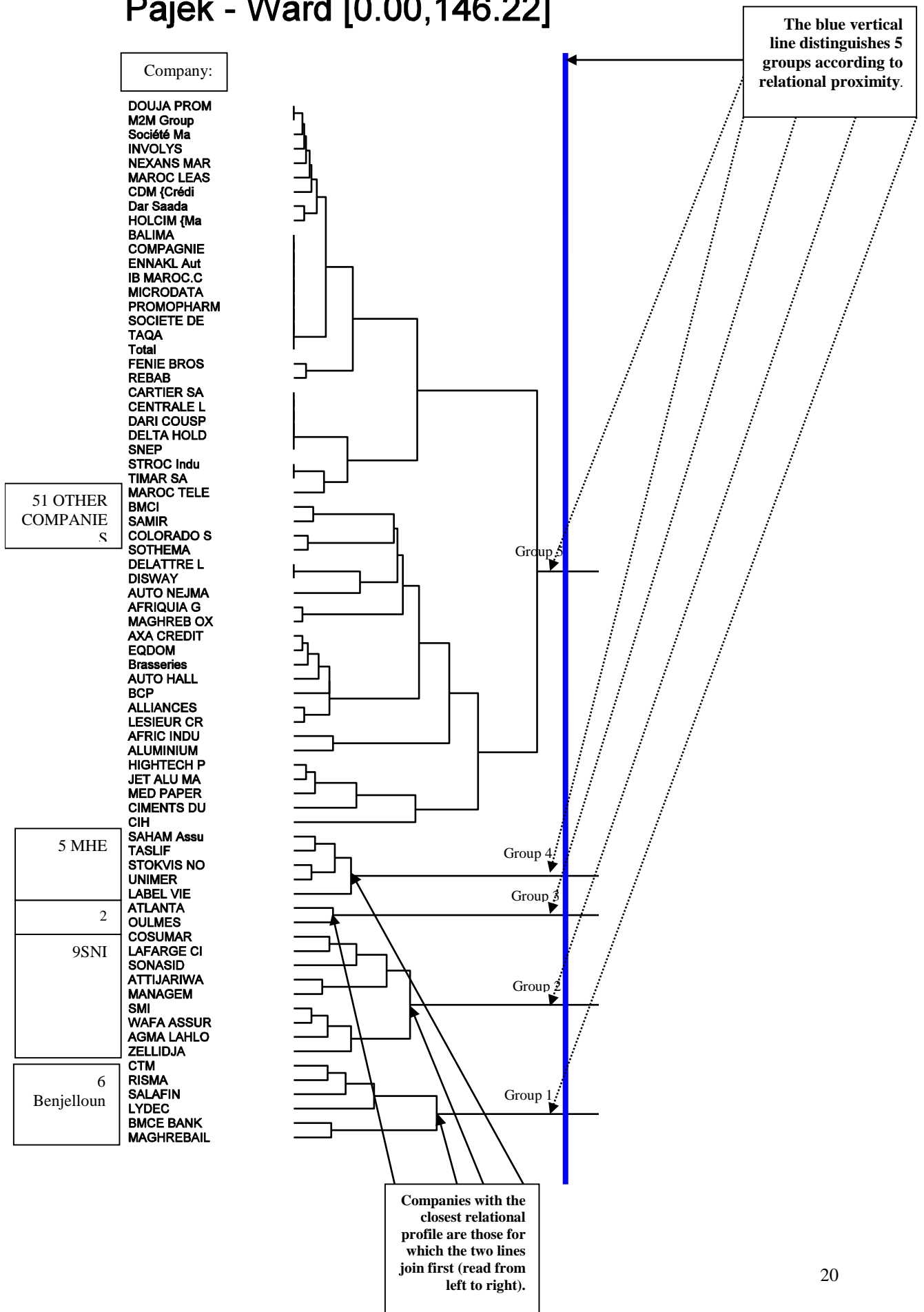
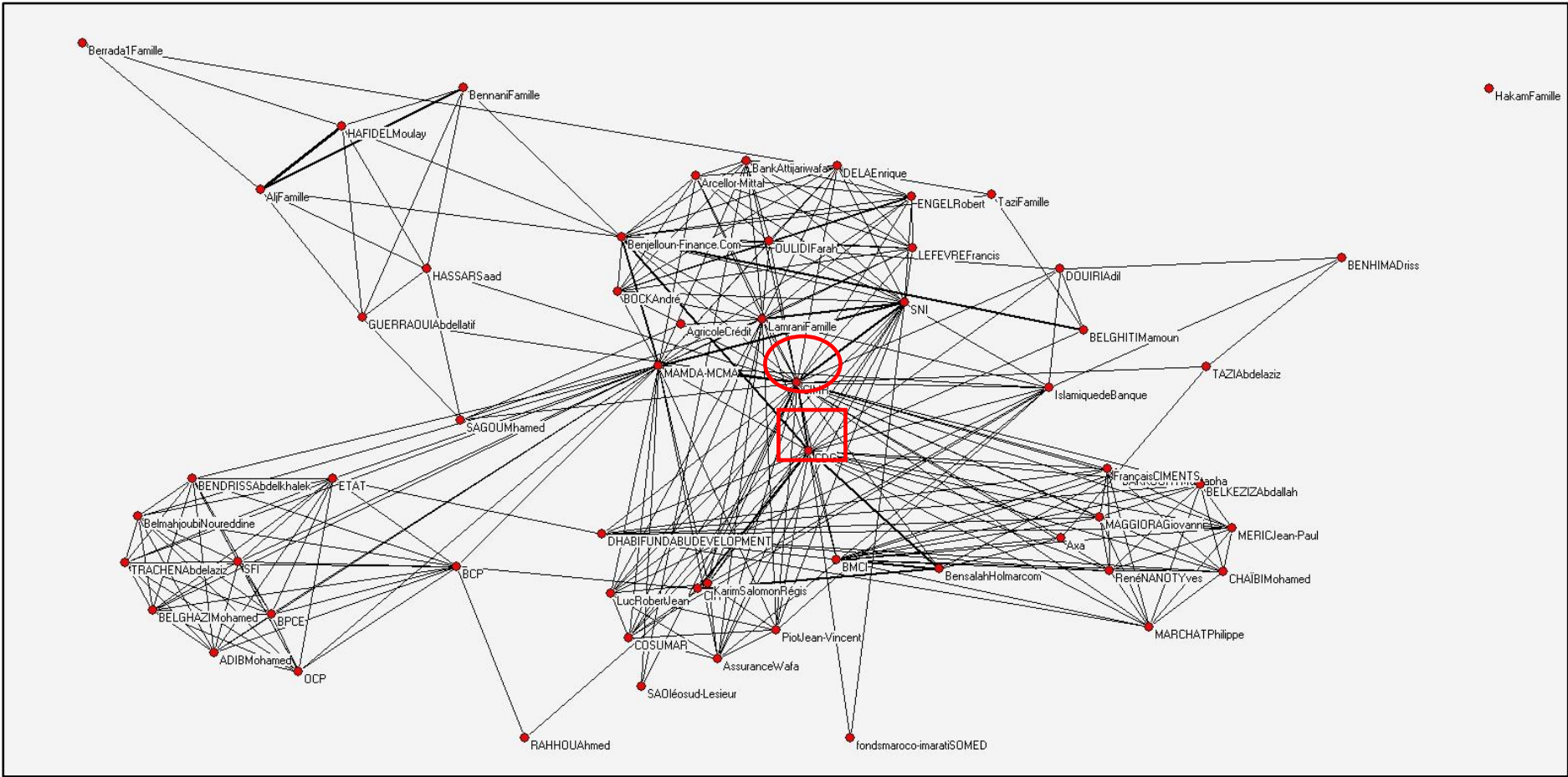


Figure 2: Network of the Main Interlockers of Listed Companies



Annex

We have considered two royal foundations where CEOs of big companies play a major role. The first one is Mohammed V's foundation for Solidarity. Its creation is related to king Mohammed 6's accession to the throne of Morocco in the end of the eighties. It is associated with the image of the king helping poor people. The second one is Lalla Salma's foundation to fight Cancer.

	Name of board member	Groups represented by Interlockers
Foundation Mohammed V for Solidarity	Zoulikha NASRI	-
	Fatima HASSAR	-
	Hakima HIMMICH	-
	Saida LAMRANI KARIM	Lamrani Holding Family
	Fouzia MSEFFER ALAOUI	-
	Abdellatif ZAGHNOUN	CDG
	Mohammed ROCHDI CHRAIBI	-
	Othman BENJELLOUN	Benjelloun Holding Family
	Azeddine BENMOUSSA	-
	Mohamed Hassan BENSALAH	Bensalah Holding Family
	Mohamed EL AZAMI	-
	Abderrafii ZOUITEN	-
	Hassan OURIAGLI	SNI
	Said IBRAHIMI	-
	Mohamed BENCHAAOUN	BCP
	Tarik SIJILMASSI	-
	Mostafa TERRAB	OCF
	Abdeslam AHIZOUNE	MAROC TELECOM
	Saad KETTANI	-
	Mohammed KETTANI	Attijariwafa Bank (SNI group)
Foundation Lalla Salma to fight Cancer	MoulayTahar ALAOUI	-
	Latifa EL ABIDA	-
	MoulayHafid ELALAMY (MHE)	MHE Holding Family
	Wafaâ HAKMI	-
	Noureddine AYOUC	-
	Mohamed BENCHAAOUN	BCP
	Abdeslam AHIZOUNE	MAROC TELECOM
	Hassan OURIAGLI	SNI
	Aziz AKHANNOUCH	AKWA Holding Family