The Role of Publicly Listed Companies in meeting Corporate Governance Principles
MENA Region

Presented to
Center for International Private Enterprise
By Arab Organization for Certified Public Accountants

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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.G.M.</td>
<td>Assistant General Manager</td>
</tr>
<tr>
<td>C.B.O.D.</td>
<td>Chairman of the Board of Directors</td>
</tr>
<tr>
<td>C.E.O.</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>C.F.O.</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>CG</td>
<td>Corporate Governance</td>
</tr>
<tr>
<td>C.G.C</td>
<td>Corporate Governance Committee</td>
</tr>
<tr>
<td>CIPE</td>
<td>Center for International Private Enterprise</td>
</tr>
<tr>
<td>C.L.C.</td>
<td>Corporate Legal Council</td>
</tr>
<tr>
<td>E.C.</td>
<td>Execution Committee</td>
</tr>
<tr>
<td>F.B.G.</td>
<td>Family-Based Business Group</td>
</tr>
<tr>
<td>G.M.</td>
<td>General Manager</td>
</tr>
<tr>
<td>I.A.S.</td>
<td>International Accounting Standards</td>
</tr>
<tr>
<td>J.S.C.</td>
<td>Joint Stock Company</td>
</tr>
<tr>
<td>M.C.</td>
<td>Management Committee</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>N.F.B.G.</td>
<td>Not Family Business Group</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>P.F.B.H.C.</td>
<td>Part of a Family-Based Holding Company</td>
</tr>
<tr>
<td>P.L.C.s</td>
<td>Publicly Listed Companies</td>
</tr>
<tr>
<td>P.N.C.F.H.C.</td>
<td>Part Not Controlled Family Holding Company</td>
</tr>
<tr>
<td>S.A.C.</td>
<td>Stand-Alone Company</td>
</tr>
</tbody>
</table>

* The abbreviations are classified in alphabetical order
Introduction

For the past few years, a corporate governance movement has been sweeping through the Middle East and North Africa (MENA) region. Practitioners from Capital markets, banks, the private-public sectors, and other civil society groups have accepted the need to address corporate governance reform as one of the crucial topics affecting the international competitiveness, the investment climate, and the development of the capital markets of the Arab World. This collaboration is crucial because corporate governance ultimately depends on the public-private sector cooperation to achieve the goals of creating a competitive market system and the development of law-based democratic society.

Initiatives have been undertaken by various private sector groups to address corporate governance in the Arab world. Advancing Corporate Governance in the Arab World will require expansion of the engagement in best practice sharing on the “nuts and bolts” of corporate governance implementation.

Sound Corporate governance practices will affect new, much needed investments to the Middle East and North Africa region for improving management of companies. National institutions, laws, regulations, and practices based on international norms and standards would enable the countries of the region to modernize corporate sectors, enabling them to attract technology and foreign investment and become internationally competitive.

Perhaps more importantly, the process of designing and implementing the basis of corporate governance – transparency and regular reporting, independent auditing, removability of conflicts of interest, ethics, protections of minority shareholders’ rights – provide a foundation for meaningful reform in the economic sector and elsewhere in society.

Achieving better practice requires application of the principles of corporate governance – integrity, openness, accountability, integration, leadership, and commitment. In addition, these principles and ensuing actions must be effectively communicated throughout all levels of the organization and to all stakeholders to ensure they are well understood and accepted by all concerned.
A series of events over the last two decades has made corporate governance issues a priority for both the business community and international financial institutions around the world. Spectacular business failures have driven the demand for change in many countries. More recently, high profile scandals, financial crises, or institutional failures have brought corporate governance issues to the forefront in developing countries, emerging markets, and transitional economies.

Many countries have developed codes of best practice or have initiated legal, regulatory, and institutional corporate governance reform projects and programs through the adoption of a set of principles of corporate governance by the Organization for Economic Cooperation and Development (OECD). Globalization and financial market liberalization have also opened up profitable new markets and have exposed companies to fierce competition and to considerable capital fluctuations.

Corporate governance is about the relationship between a company’s management and its shareholders. As a company grows, as the number of shareholders increases, and as the activities of the company become more complex (particularly during the transition to market economy), the problem of how the owners monitor and control the management’s activities becomes important.

There is no universally accepted definition of corporate governance. What is more representative to the concept is the statement that “corporate governance refers to a set of rules and incentives by which the management of a company is directed and controlled. Good corporate governance maximizes the profitability and long-term value of the company for shareholders”. As a basic framework, particularly in the view of emerging economies, corporate governance means many things to many people.

Many developing countries’ economies are in transition, placing corporate governance issues in the heat of the debates on economic changes. Good corporate governance in these economies is part of their reform efforts and widely recognized, as essential for the creation of a better and more attractive investment climate, and the provision of incentives to the private sector become the engine of economic growth.
**Conditions in the Middle East and North Africa**

The history of the Middle East and North Africa has produced societies associated with a distinct set of economic, political, social, and cultural institutions and practices, which shape the region’s development but which, importantly, do not inherently conflict with the goals of modernization. The Arab countries in the Middle East and North Africa Region (MENA) are an economically diverse group that includes countries with a common heritage and culture.

While the entire MENA region faces similar challenges to adopt corporate governance reform, this survey focuses on the experiences and recommendations of Morocco, Egypt, Jordan, and Lebanon. Therefore, for the purpose of this survey, the MENA region refers to these countries.

International guidelines must reflect the realities of doing business in the Middle East, North Africa, and other emerging economies if they are to gain acceptance and be implemented effectively.

The on-going process to update the Organization for Economic Co-operation and Development’s twelve principles of corporate governance is one promising step, both for facilitating global adherence to best practices and for helping to build a culture which respects and rewards accountability and transparency, but all reform efforts must originate from local constituencies within the region if they are to truly take root and prosper.

To facilitate the adoption of, compliance with, and effective enforcement of high standards of corporate governance, national-level task forces are needed to develop corporate governance codes specific to each country. These should of course, be based on internationally acceptable standards for transparency but embrace local realities.
Reasons of surveying these countries:

1. Good examples of emerging economies that carried out recently successful economic reform programs with noticeable progress
2. Good examples of emerging capital markets that liberalized its market & attracted domestic and foreign investments
3. Most have signed partnership agreements with EU so, normal extension of European business into African and Asian markets.
4. Similar legal, economic and cultural contexts but with varying capacities to practice and enforce compliance with corporate governance principles.
5. Their recognition of corporate governance as a concept and the implementation of its principles would enable them becomes part of the global economy.

Criteria of Eligibility

The idea of the regional securities market is to help improve the quality of the traded financial tools and performance of issuers by insuring readiness to fully adhere to and implement corporate governance principles and to set the example of best market practices. A criteria of eligibility that listed companies must be ready to comply, in addition, market intermediaries are also required, if they so wish to be licensed as regional entities, to meet such a criteria of similar eligibility. It is expected that this market will act as a center of excellence in this area and help encourage other companies to follow suit in terms of implementing corporate governance principles.

Forward outlook

To pursue cooperation in the field of corporate governance, the purpose is to convince corporate managers to the application of governance standards in order to meet the eligibility criteria of the regional securities market. In addition, the interest parties should develop plans to create awareness among business groups and stakeholders, public utilities, and agencies.
Objective of the Survey

This survey is prepared directly to the publicly listed companies where it meets corporate governance principles in emerging markets within the MENA Region, and how these companies contribute in promoting corporate governance practices.

The survey is oriented to provide access to information and to foster understanding of a culture of disclosure, transparency, and accountability among listed companies in the region. The survey also seeks to measure the involvement of publicly listed companies in the Arab world in applying corporate governance principles and addressing foreign investor’s concerns regarding corporate governance practices.
Summary and Key Findings

Survey Background

Arab Organization for Certified Public Accountants conducted a survey on “The Role of Publicly Listed Companies in meeting Corporate Governance Principles MENA Region”. The survey centers the topic of corporate governance. One of the main objectives of this survey is to increase public awareness of corporate governance in the Arab world. The survey focuses on the role of publicly listed companies in meeting corporate governance principles in emerging markets within the MENA region and how these companies contribute in promoting corporate governance practices.

The survey is oriented to MENA region and to these five countries:
  1. Lebanon
  2. Egypt
  3. Morocco
  4. Jordan
  5. The State of Qatar

This survey carried out a representative sample of companies and banks. The data is based on analysis of the responses to the survey questionnaire, which was collected by personal interviews. The questionnaires were directed to participants’ top management.
The objectives of this survey are to provide greater access to information and to foster understanding of a culture of disclosure, transparency and accountability among listed companies in the region. The survey also seeks to measure the involvement of publicly listed companies of the MENA region in the Arab world in applying corporate governance principles and addressing foreign investor’s concerns regarding corporate governance practices.

The Arab Organization for Certified Public Accountants’ survey objective relate to the objectives of CIPE in promoting business participation in democratic political and policy processes, increasing public awareness, understanding the role of entrepreneur in economic growth, promoting transparency in the MENA region and improving the operation system as a whole.

The survey presents information concerning:

- Interview information
- General company information
- Corporate governance information
- The awareness of publicly listed companies on corporate governance practices
- The attributes of transparency that relate to sound corporate governance practice applied in publicly listed companies
- The variance among different countries in the Arab world in applying corporate governance principles
- The compliance of publicly listed companies with the corporate governance principles with respect to their affiliation within the same country and in terms of reporting and international standards application
- Enforcement of objectivity and independence among publicly listed companies in the Arab world by checking on the existing laws and regulations that govern such criteria and means of monitoring them within the existing supervisory bodies
The Arab Organization for Certified Public Accountants planned to organize this activity where it would assess corporate governance trends in the countries listed below:

<table>
<thead>
<tr>
<th>Country</th>
<th>Local Publicly Listed Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East</td>
<td>12</td>
</tr>
<tr>
<td>Lebanon</td>
<td>6</td>
</tr>
<tr>
<td>Jordan</td>
<td>6</td>
</tr>
<tr>
<td>Gulf</td>
<td>10</td>
</tr>
<tr>
<td>The State of Qatar</td>
<td>10</td>
</tr>
<tr>
<td>North Africa</td>
<td>20</td>
</tr>
<tr>
<td>Egypt</td>
<td>15</td>
</tr>
<tr>
<td>Morocco</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>42</strong></td>
</tr>
</tbody>
</table>

The Arab Organization for Certified Public Accountants surveyed four countries where the State of Qatar could not be surveyed because it could not meet the deadline of the survey. Thirty-one companies and banks were surveyed among the countries listed below:

<table>
<thead>
<tr>
<th>Country</th>
<th>Local Publicly Listed Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East</td>
<td>12</td>
</tr>
<tr>
<td>Lebanon</td>
<td>6</td>
</tr>
<tr>
<td>Jordan</td>
<td>6</td>
</tr>
<tr>
<td>North Africa</td>
<td>19</td>
</tr>
<tr>
<td>Egypt</td>
<td>15</td>
</tr>
<tr>
<td>Morocco</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31</strong></td>
</tr>
</tbody>
</table>
The survey was divided into four phases:

1. Phase one: Survey Planning and Setting the design of the questionnaires
2. Phase two: Survey Implementation
3. Phase three: Data Analysis
4. Phase four: Reporting

The Arab Organization for Certified Public Accountants analyzed all the data in the survey in order to assess the current situation of meeting the criteria of corporate governance in the MENA region. The Arab Organization of Certified Public Accountants proceeded with the evaluation of the gathered data by using software where key criteria in the questionnaires feedback and corporate governance principles are matched. The feedback is electronically and graphically analyzed.

In the process of evaluation Arab Organization for Certified Public Accountants completed the following:

1. Comparing compliance of publicly listed companies with corporate governance principles with respect to their affiliation within the same country in terms of reporting and to international standards application
2. Comparing results to evaluate variance among different countries in the Arab world in applying corporate governance principles
3. Evaluation the attributes of transparency and disclosure that relate sound corporate governance practice applied in the publicly listed companies by reviewing ownership structures and investors relations, financial transparency and information, disclosure, board and management structure as well as process performance
4. Measuring the enforcement of objectivity and independence among publicly listed companies in the Arab world by analyzing the existing laws and regulations that govern such criteria and the means of monitoring them within the existing supervisory bodies.
The content of this report contains sufficient graphs to make the information easy to use and understand.

The report presents the findings of the survey conducted by Arab Organization for Certified Public Accountants to CIPE on thirty-one types of companies and banks. The purpose of the survey is to provide CIPE with information to help design and implement corporate governance in the Arab world.

The strategy applied to accomplish this survey was done by personal interviews with top management of participants. The contact was done on several stages from the time to get the participants approval to engage in this survey until we had all information needed to proceed.

This survey includes analysis among companies and banks. It is considered an important tool for CIPE to obtain a direct and objective knowledge about meeting CG principles help design and implement corporate governance principles in MENA region through analysis covering actual situation and detailed comparisons.

This report combines data obtained with analysis to help CIPE make an informative decision and to assist with monitoring and analyzing the trends through statistics and comparison.
**General**

The participating companies and banks were selected according to criteria set by CIPE, having similar criteria to be surveyed. The number of surveyed companies varied from country to another.

**Organization of the Survey**

The report is divided into several sections. The summary and key findings outlines the major findings yielded from the survey on the thirty-one participant types categorized in two groups which are companies and banks. Following the summary and key findings is part one which covers survey overall findings. Part two covers the interview information results. Part three covers general company information results. Part four covers corporate governance information results. Part five of the report covers the awareness of PLCs on CG practices results. Part six covers the attributes of transparency and disclosure that relate to sound CG practice applied in PLCs results. Part seven covers the variance among different countries in the Arab world in applying CG practices results. Part eight covers the compliance of publicly listed companies with the CG principles with respect to their affiliation within the same country and in terms of reporting and international standards application results. Part nine covers the enforcement of objectivity and independence among PLCs in the Arab world by checking on the existing laws and regulations that govern such criteria and means of monitoring them within the existing supervisory bodies results. The participants covered in this report are listed below as follows:

**Participants’ Backgrounds**

The survey included thirty-one participants classified in two groups: Companies and banks operating in Lebanon, Egypt, Morocco and Jordan. These participants are included under the proposition of CIPE since they meet the criteria in almost all aspects.

All Companies and banks are well established and considered amongst the top ranking companies and banks in the countries.
Survey Key Findings

Summary of questionnaire key findings:

- C.E.O, G.M. and C.F.O. are the most functioning bodies who answered the questionnaire.
- Most functioning bodies answered the questionnaire have been working for the company above 9 years.
- Stand-Alone Companies are the most companies who answered the questionnaire.
- Only Local Companies answered the questionnaire.
- Most companies surveyed were listed above 9 years.
- More than 1000 shareholder represents 37% in all surveyed companies.
- B.O.D. and C.E.O/G.M. are the most functioning surveyed bodies.
- Most answers agreed that good corporate governance is considered as:
  - Transparency, disclosure and Basel II.
  - Promoting transparency and I.A.S.
  - A major Pillar, disclosure, sound internal and external environment.
  - An anti corruption tool.
  - A source of health for the development of cooperation.
- Good corporate governance is considered a lot by management.
- The most important matters to enhance corporate governance are strengthening of auditor’s functions.
- 42% considered that the most effective for better corporate governance in the country is by enhancing the standards of accounting, auditing and disclosures.
- 42% considered that differences that exist between the MENA Region are accounting standards where different between countries.
- 64% did not agree that there are different listing segments on the stock exchange focusing on corporate governance.
- 77% agreed that there is a specific department within the stock exchange with responsibilities for monitoring and enforcing listing requirements.
➢ The recent significant legal developments affecting corporate governance are 49% listing rules, 40% company law and 11% securities law
➢ Companies issue shares with varying voting rights are 62% preferred shares
➢ 67% agreed that legal and regulatory framework require a discussion on company objectives in the annual report in the management discussion and analysis
➢ 39% of listed companies required to make the following disclosure (through accounting requirements or other regulations) that nature relationship where control exists even if there were no transactions between the related parties
Part One

Survey Overall Findings
Survey Overall Findings

This report presents the findings of the survey which covered thirty-one companies and banks. These participants are the ones that agreed to participate and fit the entire criteria for selection to be included in the survey. However, many of the participants refused to give us information, or were not interested to participate in the survey or could not meet the deadline of the assignment.

Survey Methodology

The primary goal of the survey is to serve as a reliable and credible source of information to assist CIPE in designing and implementing CG practices and to ensure the maintenance of a competitive position in the companies and banks. Therefore, the methodology used was based on interviews conducted by Arab Organization of Certified Public Accountants representatives filling out a detailed and comprehensive questionnaire covering all aspects required for the survey. Subsequent to analyzing the information of the questionnaire, we requested a second interview to gain comprehensive understanding in addition to telephone contacts which where necessary to clarify any ambiguous issue and to be sure of the information given to us by participants.

Companies and banks were able to participate because they fit the criteria, in addition to willing to cooperate and participate in the survey. All questionnaires were filled out through personal interviews for more than once with each participant interviewed by Arab Organization of Certified Public Accountants representatives to explain and discuss items; and to be sure about the information.
Countries by Types and Size:

<table>
<thead>
<tr>
<th>Type</th>
<th>No. of Participants</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lebanon</td>
<td>6</td>
<td>19.35</td>
</tr>
<tr>
<td>Egypt</td>
<td>15</td>
<td>48.38</td>
</tr>
<tr>
<td>Morocco</td>
<td>4</td>
<td>12.90</td>
</tr>
<tr>
<td>Jordan</td>
<td>6</td>
<td>19.35</td>
</tr>
</tbody>
</table>

Questionnaire

The questionnaire was designed based on CIPE requirements. It was divided into eight parts: the first part was for interview information, the second part was for general company information; the third part was for corporate governance information; the fourth was for the awareness of PLCs on CG practices; the fifth part was for the attributes of transparency and disclosure that relate to sound CG practices applied in PLCs; the sixth part was for the variance among different countries in the Arab world in applying CG principles; the seventh part was for the compliance of PLCs with CG principles with respect with affiliation within the same country and in terms of reporting and international standards application and the last part was for the enforcement of objectivity and independence among PLCs in the Arab world by checking on the existing laws and regulations that govern such criteria and means of monitoring them within the existing supervisory bodies.
Overall Findings

Participants’ Selection

The participants were selected according to criteria set by CIPE, which represented a combination of companies and banks, mostly having similar criteria to be surveyed, performance of participants varied from an acceptable to a professional manner.

The following describe the findings:

- 68% of surveyed companies face competition on their products or services.
- The most important factor that enable the surveyed companies to compete in the market is the overall quality where it represents 37% from surveyed companies.
- 36% answered that the view of corporate governance in the surveyed companies compared with other listed companies is slightly better.
- 44% of the surveyed companies compare slightly better their company’s current corporate governance with those of three years ago.
- 39% of surveyed companies agreed that audit committee of a public company should generally pre-approve all audit and permissible non-audit services by the company’s external auditor.
- Moderate level of financial and human resources has been committed by the government to promote awareness.
- 47% strongly agreed the awareness regarding the concept of independent directors should increase.
- Moderate awareness is the rate of general awareness of recent development relating to internal control assessment of reporting.
- 68% of surveyed companies did not agree that companies are required to rotate auditors every certain number of years and 64% agreed that this apply to the specific partner or the company if companies are required to rotate auditors every certain number of years.
53% of surveyed companies have audit committee appointed by shareholders and 89% provide shareholders with the formal assurance that the auditors are fully independent.

67% provide audit committee full disclosure of the audit and non-audit fees paid to the auditors.

79% of audit committee provide full disclosure for the names that anybody serve as a proxy.

52% agreed that institutional investor (investment trust companies, banks, etc.) is most important in preventing among various stakeholders.

69% agreed that directors candidates are disclosed before the shareholders meeting.

44% did not agree the minority shareholders can nominate candidates at the shareholders meeting or prior to the meeting.

37% agreed that cumulative voting is introduced and has been exercised at least once and 37% answered that the company opted (by the article of incorporation, etc.)

52% answered that it would rarely be possible for the director candidates proposed by management of the company fail to be elected at the shareholders meeting.

89% of the surveyed companies who have audit committee have independent directors.

24% of the surveyed companies have compensation committee and 76% does not have compensation committee.

23% of the surveyed companies have nomination committee and 77% does not have nomination committee.

60% of the surveyed companies disclose the self-dealing (related-party) transactions in the annual report.

39% of the surveyed companies disclose the directors selling or buying shares in their company in the annual report.

34% of the surveyed companies disclose the resume/background of directors in the company’s web page.

47% of the surveyed companies disclose the fees paid to external auditors, advisors and other related parties in the General Assembly.

48% of the surveyed companies disclose the major contingent liabilities such as cross-guarantees of debt repayment in the annual report.
- 50% of the surveyed companies disclose significant changes in the annual report
- 48% of the surveyed companies do not disclose governance structures and policies (explicit corporate governance rules and vision)
- 49% of the surveyed companies do not disclose the extent to which the company’s corporate governance practices conform to the established standards
- 56% agreed that sanctions administrative law are the consequences of non-disclosure
- 68% agreed that the policy fully express the company’s commitment to the transparency
- 61% agreed that the disclosure policy easily available to market participants and other interested parties
- 90% of the surveyed companies agreed that the company fully comply with its legal disclosure obligations
- 71% of the surveyed companies agreed that a negative disclosure assessment would be fairly significant on a joint-venture between a listed and a non-listed joint-venture company
- 29% agreed that an independent, educated and professional auditor build an effective financial disclosure
- Surveyed companies have 193 directors, 88 independent directors and 58 outside directors
- 61% of the surveyed companies do not have any foreign nationalities on their board
- 55% of the CEO of surveyed companies do not serve as board chairman
- 79% of the BOD do not have asset and liability committee and they do not have at all board members and independent directors
- 61% of the BOD do not have strategic planning committee and they have four board members and have one independent director
- 81% of the BOD do not have compensation committee. They have nine board members and do not have independent directors
- 92% of the BOD do not have nomination committee and they have three board members and have one independent director
- 95% of the surveyed companies have someone in the audit committee with accounting/finance expertise
- 65% of the audit committee are not chaired by genuine independent director
90% agreed the minutes are written for each audit committee meeting
65% of each member’s remuneration approved separately at the shareholders meetings
70% agreed that there are rules written governing audit function
66% of the surveyed companies too much agreed that the audit committee autonomously select/recommend external auditors and conduct a proper review of his work
59% of the surveyed companies too much agreed that audit committee does approve the appointment of internal auditor and supervise him to routinely review risk exposure and accounting procedures
The reasons for independent not being fully independent from the CEO or the controlling owner are:
- 44% strongly disagree because the CEO effectively selected the board members.
- 60% strongly disagree because of concern over relationship with other directors.
- 53% strongly disagree because openly objecting to the management-proposed agenda is viewed as an act contrary to behavioral norm.
- 45% strongly disagree because the CEO will decide the extension or termination of the directorship.
- 45% strongly disagree because of the concern of possible responsibility/blame when their views turn out to be wrong in the future.
- 34% strongly disagree because the CEO and management team are supposed to be better informed or most issues and have better judgment.
82% answered that there isn’t a board or board committee within companies designated to oversee compliance with company governance standards
50% strongly agree that publicly listed companies create a task force to monitor the country’s compliance with international standards in corporate reporting
42% agree that the high-profile securities cases dealing mostly with stock manipulation is easy to overlook the effects of similar tactics on board investors
62% considered that accounting and reporting practices applied in the country are moderate
64% agreed that ownership disclosure rules enable shareholders obtain a clear picture of a company’s ultimate ownership and the identity of intermediaries
Sanctions for non compliance differ between warning, fines, suspension of trading, public reprimand, restatements, civil penalties and criminal penalties
48% defined the independence disclosure in the annual proxy statement that the proxy must include a discussion of any relationships considered by the board in determining the relationship need only be disclosed if it falls outside of the categorical standards

59% agreed that the present board of the security market regulator award licensing to the financial intermediaries based on entry standards

Means of the enforcement of objectivity and independence conducted differ between all companies surveyed

Objectives of the legal and regulatory bodies differ between lobbying for the legal amendments of the CG principles and drafting and lobbying for the adoption of other laws

59% agreed that rules and regulations amended to have IFRS applied and made across all companies and sectors

77% agreed that enforcement takes the form of guidelines and incentives of principles and rules leading to sanctions as a mean of enforcement

37% found that it is likely within 1 or 2 years the company takes actions to voluntary strength internal control over financial reporting regardless of the regulatory environment

39% agreed that stock exchanges and securities regulators reinforced their monitoring of companies conduct taken to lead in CG reforms

43% agreed that the focus should be on implementing and enforcement of the existing laws and regulations

Bodies differ in the public sector that have been active in promoting CG reforms

86% agreed that creditors rights effectively enforced in the country during the normal course of business
Part Two

Interview Information
1. What is your position in the Company?

- Shareholder
- C.B.O.D.
- Member of the Board
- Independent Director
- C.E.O., G.M.
- A.G.M.
- C.F.O.
- C.L.C.
- Division Head
- E.C.
- M.C.
- C.G.C.
- Related to the C.B.O.D.
- Auditor
- Accounting Manager

2. How long have you been working for the Company?

- Less than 3 years
- From 3 and 6 years
- From 6 and 9 years
- Above 9 years
Part Three

General Company Information
1. What is the type of the Company?

![Pie chart showing different types of companies]

- S.A.C.: 62%
- A subs. F.B.G.: 3%
- A subs. N.F.B.G.: 3%
- P.F.B.H.C: 10%
- P.N.C.F.H.C: 0%
- J.S.C.: 13%
- Other: 6%

2. What is the company's nationality you are working for?

![Pie chart showing company nationalities]

- Local Company: 100%
- International Company: 0%
- Other, please specify: 0%
3. How long have the company been publicly listed?

![Pie chart showing the distribution of publicly listed companies by duration.](chart1)

- 13% of companies have been publicly listed for less than 3 years.
- 16% have been listed for from 3 to 6 years.
- 29% have been listed for from 6 to 9 years.
- 42% have been listed for above 9 years.

4. How many shareholders does the company have?

![Pie chart showing the distribution of companies by number of shareholders.](chart2)

- 30% of companies have 0-20 shareholders.
- 37% have 21-50 shareholders.
- 30% have 51-100 shareholders.
- 17% have 101-500 shareholders.
- 10% have 501-1000 shareholders.
- 3% have more than 1000 shareholders.
6. Which of the functioning bodies exist at the company?

Functioning bodies that exist in the company

- B.O.D. 1%  
- M.C. 2%  
- C.E.O./G.M. 10%  
- Compensation Committee 1%  
- Credit Committee 1%  
- Internal review management 1%  
- Inv.&Treas. Com. 1%  
- A.C. at the company group level only 1%  
- iso Committee 1%  
- IT strategie Committee 1%  
- Career Development Committee 1%  
- ORM Committee 1%  
- Strategic Planning Committee 1%  
- E.C. 23%  
- C.G.C. 13%  
- Audit Committee 1%  
- Nomination Committee 1%  
- Investment Committee 2%  
- Finance and management director 2%  
- Retail committee 6%  
- New development committee 2%  
- A.M.L. & C.C. 1%  
- O.R.A.C. 1%  
- Procedures Approval Committee 2%  
- Marketing Committee 20%  
- Procedures Approval Committee 1%  
- Marketing Committee 1%  

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January 2006
Part Four

Corporate Governance Information
1. How do you consider good Corporate Governance?

- **Good Corporate Governance**
  - 43%
  - 21%
  - 11%
  - 6%
  - 2%
  - 15%

- Source of health for the development of cooperation
- Anti-Corruption tool
- Sound internal and external environ.
- Has as a major pillar, disclosure
- Helps promote transparency and I.A.S.
- Transparency, disclosure & BASEL II
- All of the above

2. How much Corporate Governance is considered by management?

- **Corporate Governance considered by Management**
  - 29%
  - 36%
  - 3% 3%

- Considered a lot
- Considered
- Not considered very much
- Not considered at all
- No answer
3. What are the most important matters to enhance corporate governance?

Enhance Corporate Governance

- Strengthening of function of B.O.D.: 22%
- Strengthening of auditor's function: 2%
- Strengthening of compliance function: 2%
- Review of management of shareholders' meeting: 18%
- Enhancement of A.T.S: 15%
- Enhancement of disclosure: 14%
- Review of directors' remuneration: 4%
- No idea: 0%
Part Five

The awareness of publicly listed companies
1. Are there many companies selling products or services that compete with your company?

Companies Selling Products that Compete with your Company

- Many companies: 26%
- Few companies: 6%
- No company: 68%

2. Which of the following four factors is the most important to enable your company compete in its market?

Most Important Factors that enable your Company to Compete in the Market

- Price: 37%
- Overall quality: 16%
- Innovative products / services: 16%
- Tailoring products to specific customers’ needs: 16%
3. What is your view of corporate governance in your company compared with other listed companies?

View of Corporate Governance Compared to other Listed Companies

- Much better: 0%
- Slightly better: 16%
- About the same: 19%
- Slightly worse: 29%
- Much worse: 36%

4. How do you compare your company’s current corporate governance practices with those of three years ago?

Comparison of your Corporate Governance Practice of those Three Years Ago

- Much better: 44%
- Slightly better: 0%
- About the same: 23%
- Worse: 33%
5. Should audit committee of a public company generally pre-approve all audit and permissible non-audit services by the company's external auditor?
6. What level of financial and human resources has been committed by government to promote awareness?

![Graph showing the level of financial and human resources committed by government to promote awareness.]

- Low: 23%
- Moderate: 13%
- High: 32%
- Do not know: 6%
- No answer: 26%
7. Should Awareness regarding the concept of independent directors’ increase?

Should Awareness Regarding the Concept of Independent Directors Increase

- Strongly agree: 13%
- Agree: 37%
- Neither agrees nor disagrees: 3%
- Disagree: 0%
- Strongly disagree: 47%

8. How do you rate your general awareness of recent developments relating to internal control assessment and reporting?

General Awareness of Recent Developments Relating to Internal Control Assessment and Reporting

- Low awareness: 48%
- Moderate awareness: 0%
- High awareness: 52%
- No awareness: Don't know
9. Are listed companies required to rotate auditors every certain number of years?

Are Listed Companies Required to Rotate Auditors every Certain Number of Years

- Yes: 32%
- No: 68%

(If yes, does this apply to the specific partner in charge or to the company?)

Does this Apply to the Specific Partner in Charge or to the Company

- Yes: 36%
- No: 64%
Part Six

The attributes of transparency and disclosures.
Ownership Structure

1. Do you have an Audit Committee appointed by shareholders?

Audit Committee Appointed by Shareholders

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>47%</td>
<td>53%</td>
</tr>
</tbody>
</table>

If yes, do they provide shareholders with the formal assurance that the auditors are fully independent?

Do they provide shareholders with the formal assurance that the auditors are fully independent

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>89%</td>
<td>11%</td>
</tr>
</tbody>
</table>
2. Does the audit committee provide full disclosure of the audit and non-audit fees paid to the auditors?

- Yes: 67%
- No: 33%

3. Does the audit committee provide full disclosure for the names and holdings of major shareholders?

- Yes: 79%
- No: 21%
4. Which of the following bodies approve the following decisions? (Check one for each decision)

Which of the following bodies approve the following decisions

- Additional share issues (9%)
- Nomination of the BOD members (9%)
- Election and dismissal of CEO (6%)
- Annual Budget (7%)
- Nomination of Compensation Committee (7%)
- Outsized Financial Transactions (9%)
- Amending the companies by-laws (9%)
- Election and dismissal of BOD members (7%)
- Setting BOD’s compensation (8%)
- Nomination of Audit Committee (8%)
- External Auditors’ appointment (9%)
- Dividends’ Payment (10%)
1. How easy is it for your shareholders to participate in voting at the shareholders meeting?

1.1 Is voting by mail allowed?

1.1 Is voting by mail allowed

- Yes: 13%
- No: 87%

1.2 Can anybody serve as a proxy?

1.2 Can anybody serve as a proxy

- Yes: 29%
- No: 71%
2. Among various stakeholders, whose role do you think is most important in preventing the controlling owners (of your company) from abusing their power (to pursue their private interests)?

<Write 1, 2, 3, 4, starting from the most important.>

- Minority (non-controlling) shareholders: 24%
- Institutional investors (investment trust companies, banks, etc.): 52%
- Outside directors: 0%
- Creditor financial institutions: 24%
3. The applied role of shareholders in nominating candidates and electing outside directors to the company:

3.1 Are director candidates disclosed before the shareholders meeting?

3.2 Can minority shareholders (holding more than a certain level of shares) nominate candidates at the shareholders meeting or prior to the meeting.
3.3 Is cumulative voting practiced in your company?

3.3. Is cumulative voting practiced in your company

- 37%: Introduced, and has been exercised at least once
- 5%: Introduced, but has not occurred so far
- 21%: The company opted out (by the articles of incorporation, etc.)
- 37%: never discussed

3.4 Would it be possible for the director candidates proposed by management of your company fail to be elected at the shareholders meeting?

3.4 Would it be possible for the director candidates proposed by committee members are independent directors [50% 2 out of 3, etc.]

- 34%: Sometimes
- 52%: Rarely
- 14%: Unthinkable
4. Does your board have the following committees? What proportion of the committee members are independent directors [50%, 2 out of 3, etc.]?

4.1. Audit Committee
- Yes: 89%
- No: 7%
- Other: 4%

4.2. Compensation Committee
- Yes: 76%
- No: 24%

4.3. Nomination Committee
- Yes: 77%
- No: 0%
- Other: 23%
Financial Transparency and Information Disclosure

1. Does your company disclose the following information? If yes, by what means?  
<More than one choice can be made.>

1.1 Self-dealing (related-party) transactions

![Chart showing disclosure methods for self-dealing transactions]

- Company's web page: 60%
- Annual report: 12%
- Report to regulatory agencies: 0%
- No disclosure: 28%
12 Directors selling or buying shares in their company

1.2 Directors selling or buying shares in their company

- 39% in Company’s web page
- 30% in Annual report
- 18% in Report to regulatory agencies
- 13% in No disclosure

1.3 Resume/background of directors

1.3 Resume/background of directors

- 34% in Company’s web page
- 28% in Annual report
- 25% in Report to regulatory agencies
- 13% in No disclosure
1.4 Remuneration of directors

- 48% Company's web page
- 27% Annual report
- 22% Report to regulatory agencies
- 3% General assembly
- 3% No disclosure

1.5 Fees paid to external auditors, advisors, and other related parties

- 47% Company's web page
- 29% Annual report
- 18% Report to regulatory agencies
- 3% General assembly
- 3% No disclosure
1.6 Major contingent liabilities such as cross-guarantees of debt repayment

1.7 Policies on risk management
1.8 Significant changes in ownership

- 38%
- 2%
- 12%
- 48%

Options:
- Company's web page
- Annual report
- Report to regulatory agencies
- No disclosure

1.9 Governance structures and policies (explicit corporate governance rules and vision)

- 44%
- 8%
- 31%
- 17%

Options:
- Company's web page
- Annual report
- Report to regulatory agencies
- No disclosure
1.10 The extent to which the company’s corporate governance practices conform to the established standards Web

- Company’s web page: 49%
- Annual report: 35%
- Report to regulatory agencies: 8%
- No disclosure: 8%

2. What are the consequences of non-disclosure?

- Sanctions criminal law: 3%
- Sanctions civil law: 17%
- Sanctions administrative law: 24%
- As per law: 56%
3. Does the company have a written disclosure policy?

![Pie chart showing 50% yes and 50% no for written disclosure policy]

4. Does the policy fully express the company’s commitment to transparency?

![Pie chart showing 68% yes and 32% no for full expression of commitment]

5. Is the disclosure policy easily available to market participants and other interested parties?

61% Yes 39% No

6. Does the company fully comply with its legal disclosure obligations?

90% Yes 10% No
7. How significant a problem, if at all, do you believe a negative disclosure assessment would have on a joint venture between a listed and a non-listed company?
8. How do we build an effective financial disclosure system? (Several answers accepted)

- A common body of knowledge (standards) 23%
- A business that respects the integrity of fair and full disclosure 0%
- An independent, educated, and professional auditor 19%
- A disciplined self-regulatory professional accounting association 1%
- Setting the highest level of standards based on international norms 29%
- By facilitating the provision of low cost capital to developing nations 28%
**Board and Management Structure**

1. How is your board composed?

1.1 How many directors does your (supervisory) board have in total?

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside Directors</td>
<td>58</td>
</tr>
<tr>
<td>Independent Directors</td>
<td>88</td>
</tr>
<tr>
<td>Directors</td>
<td>193</td>
</tr>
</tbody>
</table>
1.2 Are there any foreign nationals on your board?

1.2 Are there any foreign nationals on your board

61% Yes
39% No

1.3 Does the CEO of your company also serve as board Chairman?

1.3 Does the CEO of your company also serve as board Chairman

45% Yes
55% No
2. Does the BOD have any of the following committees?
Asset and Liability Committee

If yes, please indicate how many?

<table>
<thead>
<tr>
<th>Independent Directors</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board members</td>
<td>0</td>
</tr>
</tbody>
</table>
Strategic planning Committee

Does the BOD have any of the following committees?
Strategic planning Committee

- 39% No
- 61% Yes

If yes, please indicate how many?

Does the BOD have any of the following committees?
Strategic Planning Committee (how Many)

- Independent Directors: 1
- Board members: 4
Compensation Committee

Does the BOD have any of the following committees?
Compensation Committee

- 19%
- 81%

If yes, please indicate how many?

Does the BOD have any of the following committees
Compensation Committee (how many)

- Independent Directors: 0
- Board members: 9
Nomination Committee

Does the BOD have any of the following committees
Nomination Committee

- 92%
- 8%

If yes, please indicate how many?

Does the BOD have any of the following committees
Nomination Committee (How Many)

- 1 Board members
- 3 Independent Directors
3. (If you have an audit committee) How effective and independent is your audit committee?

3.1 Does it have someone with accounting/finance expertise?

3.1 Does it have someone with accounting/finance expertise

- Yes: 95%
- No: 5%

3.2 Is it chaired by a genuine independent director?

3.2 Is it chaired by a genuine independent director

- Yes: 35%
- No: 65%
3.3 Are minutes written for each audit committee meeting?

3.4 Is each member's remuneration approved separately at the shareholders meeting?
3.5 Are there written rules governing overall audit function?

3.6 Does it autonomously select/recommend external auditors and conduct a proper review of his work?
3.7 Does it approve the appointment of internal auditor and supervise him to routinely review risk exposure and accounting procedures?

4. What do you think about the following reasons for “independent directors” not being fully independent from the CEO or the controlling owner?

4.1 Because the CEO has effectively selected the board members
4.2 Because of concern over personal relationships with other directors

Because of Concern over personal relationships with other directors

- Strongly agree: 20%
- Agree: 60%
- Neither agrees nor disagrees: 8%
- Disagree: 8%
- Strongly disagree: 4%

4.3 Because openly objecting to the management-proposed agenda is viewed as an act contrary to behavioral norm

Because openly objecting to the management-proposed agenda is viewed as an act contrary to behavioral norm

- Strongly agree: 13%
- Agree: 53%
- Neither agrees nor disagrees: 13%
- Disagree: 13%
- Strongly disagree: 8%
4.4 Because the CEO will decide the extension or termination of the directorship

Because the CEO will decide the extension or termination of the directorship

- Strongly agree: 4%
- Agree: 13%
- Neither agrees nor disagrees: 13%
- Disagree: 25%
- Strongly disagree: 45%

4.5 Because of the concern of possible responsibility/blame when their views turn out to be wrong in the future

Because of the concern of possible responsibility/blame when their views turn out to be wrong in the future

- Strongly agree: 8%
- Agree: 8%
- Neither agrees nor disagrees: 13%
- Disagree: 17%
- Strongly disagree: 54%
4.6 Because the CEO and management team are supposed to be better informed on most issues and have better judgment

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agrees nor disagrees</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>4%</td>
<td>29%</td>
<td>34%</td>
<td>29%</td>
</tr>
</tbody>
</table>
Part seven

The variance among different countries in the Arab world
1. Which of the following tasks is most effective for better corporate governance in your country?

Which of the following tasks is most effective for better corporate governance in your country

- Making the internal corporate governance mechanisms work better: 42%
- Making the external governance mechanisms (more effective): 29%
- Enhancing the standards of accounting, audit and disclosure: 6%
- Conducting and publicizing corporate governance rating: 4%
- Prohibiting or tightly controlling some types of related-party transactions: 15%

- 0%
2. What are the differences that exist between the MENA countries?

Differences that exist between the MENA Region

- Differences in legal traditions and origins: 24%
- Accounting standards differ between countries: 46%
- Historical reasons: 9%
- Cultural reasons: 21%

3. Are there different listing segments on the stock exchange focusing on corporate governance?

Are there different listing segments on the stock exchange focusing on corporate governance?

- Yes: 36%
- No: 64%
4. Is there a specific department within the stock exchange with responsibility for monitoring and enforcing listing requirements?

Is there a specific department within the stock exchange with responsibility for monitoring and enforcing listing requirements

- Yes: 77%
- No: 23%

5. What are the recent significant legal developments affecting corporate governance?

The recent significant legal developments affecting corporate governance

- Company law: 49%
- Securities law: 40%
- Listing rules: 11%
6. Can companies issue shares with varying voting rights?

Companies issue shares with varying voting rights:

- Preferred shares: 62%
- Founders shares: 14%
- Non-voting shares: 5%
- Multiple voting rights: 19%
- Removable voting rights: 0%

Pie chart showing the distribution of different types of shares among companies.
7. Does the legal and regulatory framework require a discussion on company objectives in the annual report in the management discussion and analysis?

- Yes: 67%
- No: 33%

8. Are listed companies required to make the following disclosures (through accounting requirements or other regulations):

- Nature of relationship where control exists, even if there were no transactions between the related parties: 39%
- Type of transactions with related parties: 38%
- Details of the transaction(s) including whether it was at market price: 23%
Part Eight

The Compliance of publicly listed companies
1. Is there a board or board committee within companies designated to oversee compliance with company governance standards?

- Yes: 18%
- No: 82%

2. Should publicly listed companies create a taskforce to monitor the country's compliance with international standards in corporate reporting?

- Strongly agree: 10%
- Agree: 37%
- Neither agrees nor disagrees: 0%
- Disagree: 3%
- Strongly disagree: 50%
3. With the high-profile securities cases dealing mostly with stock manipulation, is it easy to overlook the effects of similar tactics on bond investors?

4. How transparent are accounting and reporting practices applied in the country?
5. Do ownership disclosure rules enable shareholders obtain a clear picture of a company's ultimate ownership and the identity of intermediaries?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>36%</td>
<td>64%</td>
</tr>
</tbody>
</table>

6. What are the sanctions for non-compliance?
(Several answers accepted)

Sanctions for non compliance

- Warning: 24%
- Fines: 12%
- Suspension of trading: 9%
- Public reprimand: 9%
- Restatements: 18%
- Civil penalties: 4%
- Criminal penalties: 24%
7. How likely or unlikely is it that local companies will voluntarily begin to meet the requirements, irrespective of whether they are registered?

[Diagram showing distribution of responses with percentages: Very likely (10%), Fairly likely (0%), Fairly unlikely (3%), Very unlikely (19%), Certain not (32%), Do not know (36%)]

8. How likely or unlikely would you personally be to mark down the shares or securities of a company / to consider selling the shares of a company if they received a negative report from the auditor?

[Diagram showing distribution of responses with percentages: Very likely (10%), Fairly likely (0%), Fairly unlikely (3%), Very unlikely (24%), Certain not (53%), Do not know (10%)]
Part Nine

Enforcement of Objectivity and Independence among Publicly Listed
1. How could you define the Independence Disclosure in the annual proxy statement?

- Companies must identify which directors are deemed independent and disclose the basis for that determination.
- Categorical standards of independence, if adopted, must be disclosed, not incorporated by reference.
- The proxy must include a discussion of any relationships considered by the board in determining the relationship need only be disclosed if it falls outside of the categorical standards.
2. What is the aim of the security market regulator?  
(Several answers accepted)

- Enlarge the cycle of trading of the securities issued in the country through investment promotion efforts.
- Increase public awareness of investors and paving the way to new horizons.
- Make full use of investments potentialities within the country, which will in turn have a positive effect on the people and living standards in the country.
- Prove protection and guarantee to the operations between listed companies.
- Encourage foreign investment in companies.
- Improve and expand the role of the intermediaries at the country level with the aim of reaching the
3. Does the present board of the security market regulator award licensing to the financial intermediaries based on entry standards?

Does the present board of the security market regulator award licensing to the financial intermediaries based on entry standards

<table>
<thead>
<tr>
<th>41%</th>
<th>59%</th>
</tr>
</thead>
</table>

Yes  No
4. By what means is the enforcement of objectivity and independence conducted? (Several answers accepted)

By what means is the enforcement of objectivity and independence conducted

- Suggesting amendments to laws, particularly the Code of Commerce: 450
- Strengthening minority and foreign shareholders’ rights: 325
- Identifying responsibilities of the board of directors and of individual directors: 225
- Providing for mandatory application of IAS (IFRS) and ISA: 475
- Providing additional provisions for transparency and control: 300
- Developing bankruptcy and procedural laws: 200
5. What are the objectives of the Legal and Regulatory bodies?  
(Several answers accepted)

### Objectives of Legal and Regularity Bodies

- Lobbying for the legal amendments: 37%
- Lobbying for the amendments of the CG Principles: 33%
- Drafting and lobbying for the adoption of other laws: 30%

6. Must rules and regulations amended to have IAS (IFRS) applied and made uniform across all companies and sectors?

### Rules amended to have IFRS

- Strongly agree: 59%
- Agree: 34%
- Neither agrees nor disagrees: 7%
- Disagree: 0%
- Strongly disagree: 0%
7. Do you think that enforcement takes the form of guidelines and incentives of principles and rules leading to sanctions as a mean of enforcement?

Do you think that enforcement takes the form of guidelines and incentives of principles and rules leading to sanctions as a mean of enforcement

- Strongly agree: 8%
- Agree: 0%
- Neither agrees nor disagrees: 15%
- Disagree: 0%
- Strongly disagree: 77%
8. Given the increased emphasis on corporate governance, how likely does your company take actions to voluntarily strengthen internal control over financial reporting, regardless of the regulatory environment?

Given the increased emphasis on corporate governance, how likely does your company take actions to voluntarily strengthen internal control over financial reporting, regardless of the regulatory environment:

- Likely – within 1 or 2 years: 23%
- Very likely - already in train or within current reporting period: 37%
- Not likely - would only act in response to regulatory requirements: 40%
9. Have stock exchanges and securities regulators reinforced their monitoring of companies' conduct taken to lead in corporate governance reforms?

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agrees nor disagrees</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>46%</td>
<td>39%</td>
<td>11%</td>
<td>4%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Have stock exchanges and securities regulators reinforced their monitoring of companies' conduct taken to lead in corporate governance reforms.
10. Should the focus be on implementation and enforcement of the existing laws and regulations?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>49%</td>
</tr>
<tr>
<td>Agree</td>
<td>4%</td>
</tr>
<tr>
<td>Neither agrees nor disagrees</td>
<td>4%</td>
</tr>
<tr>
<td>Disagree</td>
<td>0%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>43%</td>
</tr>
</tbody>
</table>

11. Which bodies in the public sector have been active in promoting corporate governance reform?
(Several answers accepted)

<table>
<thead>
<tr>
<th>Body</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutes of directors</td>
<td>18%</td>
</tr>
<tr>
<td>Institutes of centers</td>
<td>0%</td>
</tr>
<tr>
<td>Institutes of corporate governance</td>
<td>14%</td>
</tr>
<tr>
<td>Associations of shareholders</td>
<td>36%</td>
</tr>
<tr>
<td>Chambers of commerce</td>
<td>32%</td>
</tr>
</tbody>
</table>
12. Are creditor rights effectively enforced in your country during the normal course of business?

Are creditor rights effectively enforced in your country during the normal course of business

- Yes: 86%
- No: 14%

13. In your opinion, what are the areas for future improvements of corporate governance?

In your opinion, what are the areas for future improvements of corporate governance

- Equal treatment of shareholders: 52%
- Elimination through the legislation of the preferential treatment of the state: 10%
- Transparency and dissemination of information management performance: 35%
- All of the above: 3%
Conclusion

The questionnaire survey shows that diffused ownership is rather rare in all the countries under study. The major corporate governance concern in the exchange-listed companies is indeed to prevent the controlling owners from expropriation of minority shareholders.

The firms are doing relatively well in recognizing generally-recognized rights of shareholders. This may be due to the fairly elaborate laws and regulations on shareholder rights and the operation of shareholders meetings. However, there is large room for improvement. Given high ownership concentration in most companies, it seems very difficult for minority shareholders to address their concern through calling a special shareholders meeting or putting issues on a meeting’s agenda.

Shareholders are inadequately protected with such rights as priority capital subscription, approval of major related-party transactions, and dissenters’ right. Moreover, voting by mail is largely unavailable, and minority shareholders seem to play little role in the process of selecting board members. Sample companies are relatively poor in information disclosure and transparency, particularly for matters potentially involving self-dealing or conflicts of interests.

Websites are not yet fully utilized as a mean of timely disclosure of information and enhancing transparency. Boards of directors seem to be too large with too few independent directors. It is notable that the positions of CEO and board chairperson are separated. The true independence of independent directors is rather doubtful particularly judging from their roles in setting board agenda and behavioral patterns in board room discussions. Most responsible for this seems to be the fact that directors are effectively selected by the CEO or controlling owner, while cultural factors such as personal relationship or behavioral norm play relatively little role.
The functions of the boards and board committees in these countries are generally weak, even though corporate directors tend to agree that their boards are a forum for serious discussion of significant corporate matters. In all four countries, boards seem to be rather inactive in selecting, monitoring, and replacing CEO, and reviewing the remuneration of key executives and directors. They are particularly poor in evaluating and supporting directors for their best contribution as board members. Outside or independent directors are inadequately supported with necessary information, access to outside professional services, personnel assistance, education and training, stock-based incentive compensation, and insurance coverage for personal liability.

Corporate directors in the surveyed countries are rather sympathetic with the roles of broader stakeholders. Most of them strongly agree that a corporation has the goal of enhancing the well-being of various stakeholders in addition to making profits for shareholders. Corporate governance practices have been scored to come up with aggregate scores that are to be used for the investigation of the link with firm performance. The scores are based only on practices related to shareholder rights and the effectiveness of the boards. The scores are generally lower for board effectiveness (than for shareholder rights) and more dispersed among the surveyed countries and companies.

For the whole sample companies, the survey results provide strong evidence that corporate governance matters. Although score for shareholder rights alone does not have any significant association, scores for board effectiveness and overall scores turn out to be significantly associated with firm performance. The regression results provide some other interesting evidence. First, the market seems to discount the quality of corporate governance in the case of companies controlled by a single domestic owner. Second, corporate governance matters more in countries where the legal and judicial system for investor protection is weak. Third, market valuation of companies is also associated with employee participatory practices including shop-floor activities and financial participation. Finally, the components of corporate governance practices that a market pays its main attention may be different across countries.

Among the various components, what appear most significant are support for, and evaluation of, outside directors. This is the area where the sample firms generally score most poorly. It suggests that how adequately independent directors are supported and evaluated for their best contribution to the company is more important than the superficial board structure like the share of independent directors. This finding is consistent with the respondents’ view that the highest priority for a more effective board is timely provision of relevant information to directors.
Overall, the survey results indicate that there is probably not a big gap between the regulatory framework and actual corporate governance practices in form but a substantial gap in substance or spirit. Understandably, larger gaps and variations exist in areas where regulations/guidelines are less demanding or enforcement is difficult, such as supporting and evaluating outside directors and the functions of the board or board committees. For the whole sample companies, there is clear evidence that corporate governance matters in the valuation of companies. And, the market seems smart in evaluating the quality of companies’ corporate governance: it tends to differentiate firms more on the basis of substance rather than form.

The findings indicate that corporate governance frameworks work. Though companies in these countries may not embrace the model in a whole-hearted way, the market obviously discriminates companies according to the standards of the model. It indicates that companies will move towards meeting more of these standards. However, the survey also provides evidence of potential governance role for other stakeholders, although they play little of such a role at present. Their enhanced role is indicated by the perceptions of corporate directors on companies’ objectives, their expectation for creditor banks and employees, and the characteristics of workforce in these countries.

The globalization trend in corporate direct investment and portfolio investment will also be a powerful force for convergence. One may also argue that the complementary institutions to be built around this model will make the prospect for any other models poor. However, many of the institutions now being built, such as relevant legal, accounting and audit systems, are likely to be basic infrastructures for any workable models. And, existing cultural norms and corporate culture might be more favorable to a stakeholder model.

Companies are likely to have room for determining their own corporate governance frameworks depending on their ownership structure and other characteristics. A policy implication of the survey results is that the ongoing corporate governance reform efforts should be continued to encourage companies to pay more attention to substance rather than form. For the enhanced effectiveness of the boards, adequate support for outside directors seems most important as well as the promotion of board room culture encouraging constructive criticism and alternative views. More broadly, as indicated by the respondents, priorities should be placed on making internal corporate governance mechanisms work better and enhancing the standards of information disclosure, accounting and audit. Critically important for these tasks are the roles of regulatory agencies, independent directors and professional societies.
**Recommendations**

Regional financial markets have a long way to go before they can effectively contribute to economic growth and provide relatively cheaper financing. Yet, their role in pursuing corporate governance is indispensable. Exposing companies to new and modern practices is best achieved through capital markets where many of the current impediments can be practically removed. Through capital markets, companies can enlarge their shareholding base by going public, reducing ownership concentration, and building up better risk strategies, as their structure would allow a clearer delineation of management responsibilities. Corporate structure under capital market rules enables proper employment of modern management techniques. In addition, small sized companies can best satisfy their capital requirements for expansion purposes through the market at reasonable cost.

The control structure provides a link between the agency’s strategic objectives and the functions and tasks undertaken to achieve those objectives. A sound governance model will include a robust control and reporting regime which is geared to the achievement of the organization’s objectives and which adds value by focusing control efforts on the “big picture”. Public sector organizations will need to concentrate on the potential of an effective control framework to enhance their operations in the context of the more contestable environment that is being created as part of government reform policy.

As well, with the increased emphasis on contestability and the greater convergence of the public sectors, there will be a need to focus more systematically on risk management practices in decision-making that will increasingly address issues of cost, quality, and financial performance.

It must also be kept in mind that control is a process, a means to an end, and not an end in itself. It affects the whole organization. The control environment is the responsibility of everyone in the agency and is effected by staff at all levels.