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Corporate Governance Practices and Reporting in Listed Companies-Comparative Study between Egypt and the UAE

Afaf Mubarak[1]

Faculty of Business Administration, Al Hosn university Abu Dhabi, United Arab Emirates

Abstract. The purpose of this study is to examine in some depth the details of objectives and instruments of corporate governance (CG) which companies listed in Egyptian Securities Exchange (EGX) and Abu Dhabi Securities Exchange (ADX) adopt and report. Although there is a growing acknowledgment of the importance of corporate governance all over the world and in the Middle East, the region is rarely examined in the literature or introduced or linked with the international academic arena. Data for this paper was collected from the EGX 30 which represents the most active 30 companies in the EGX in 31 Dec. 2010 and a similar number of most active companies in ADX and D. at the same period. Annual reports and websites and other sources of these companies were checked. The author compared the objectives and tools of companies in each country with the other and with the code of CG of its own country. Results are in line with previous research that issuing reports about CG is more by UAE companies comparing to Egypt. Also it was found that public companies in Egypt are more concerned with adopting and reporting CG than private companies there unlike in the UAE where such distinction did not appear. Enforcement by law was more serious in the UAE than in Egypt where adopting CG still more voluntary like. Having independent managers was not a differentiator between the two countries.

Keywords: corporate governance practice, index, Egypt, UAE

1. Introduction

CG receives increasing concern and attention in the Middle East due to many reasons; one of it is that some countries experienced some financial scandals resulted from poor and corrupted management decisions and another reason was the influences of the international crisis when managers in banks especially took too risky investment decisions in US banks and hence made huge losses when the credit crisis evolved as recored by the International Monetary Fund (2010). The region is experiencing influential change and calls for more transparency and democracy. These calls and winds of change affected not only the political atmosphere but also the business-doing atmosphere. For this reason the Emirati Hawkamah Institute of CG allocated its 6th conference in 2011 in Dubai to discuss. Over the last 20 years, the region experienced what was named "waves" in adopting CG as described by Koldestrova (2010). Many countries issued codes of CG (e.g. Oman, Egypt, UAE,..etc) however, adopting the concept and techniques of CG remaining largely voluntarily. The aim of this paper is not to record the history of CG in the Middle East, but to assess the current practices there in form of a comparison between two countries Egypt and the UAE. The two countries have some elements in common and other elements are different. The remaining of this paper will present Egypt's code of CG and the UAE's, and the research question will be focused then the methodology implemented to examine the research question along with data, sample, participants, tools for collecting data and analyses will be indicated. The last section will report some findings and an attempt will be made to relate those preliminary findings with those of similar studies.

[1] Corresponding author: Tel. +971 2 4070700; Fax +971 2 4070599
E-mail address: a.mubarak@alhosnu.ae

2. Codes of Corporate Governance in Egypt and the UAE

On 23rd March 2010, Egypt has launched a new index for listed companies called *Standard and Poor's/Egypt Stock Exchange Economic Social and Governance Index* (known as S&P-EGX ESG). The index was constructed by the Egyptian Corporate Responsibility Center (ECRC), a joint project between UNDP and the Egyptian Institute of Directors (EIoD) affiliated to the Ministry of Investment, in collaboration with the Cairo-Alexandria Stock Exchange, using Standard and Poor's (S&P) methodology (Source: UNDP ref.4). The index is designed to track the performance of the top 100 listed companies on the Egypt Stock Exchange that demonstrate leadership on environmental, social and corporate governance ("ESG") issues covering a number of variables. UNDP considers the index another step that compliments Egypt's efforts in improving practices of corporate governance and corporate social responsibility. Since 2000, Egypt has been modifying its laws and regulations and listing rules adding additional corporate governance provisions. The new index aims to create some sort of a healthy competition among listed companies. Many companies hurried to construct investor relations websites and developed Annual Reports – this wasn't part of their standard practice. The index calculation is rather complex but goes generally through 3 phases. During the first phase, the index team evaluates EGX 100 companies based on the information they make available to the public voluntarily. At the second phase, the team evaluates the same information that is available "about the companies" from independent sources such as the media, environmental authorities, labor authorities, etc., scores are then adjusted according to the results of this stage. Finally, scores get into a mathematical model that produces the final index. This step taken by Egypt is the first of its kind in the MENA region.

The author makes the following points regarding this index. First, it is still relatively new in application (about one year) and no information were made available about any effort to assess its application in 2011 in reality after issuing it. Secondly, this index looks to be a country-level kind of measurements and may be designed to represent CG in Egypt as a whole measured via the practices of top 100 listed companies. The aim of this study is to go through company-level kind of analysis and company-related factors are targeted such as type of industry, ownership concentration …etc. Third, it strikes the attention that the statement made by UNDP –the developer of the index- yet confesses the voluntary adoption feature in the CG instruments, although the objectives and benefits of CG are not questionable. Fourth, the index is an outcome of scores calculated for the practices of top 100 companies listed in the Egyptian securities in Cairo and Alexandria, in addition to making compliance to it a requirement for ruling, this is consistent with the choice made in this study which focuses on top companies listed in the securities exchange.

The Egyptian code is divided into six groups:

- Ensuring the existence of an effective regulatory and legal framework for the public enterprise sector
- The State acting as the owner
- Equitable treatment of shareholders (owners)
- Relationships with stakeholders
- Transparency and disclosure
- Responsibilities of the board of directors of public enterprises

In May 2007, the Emirates Securities and Commodities Authority (ESCA) promulgated the Code of Corporate Governance for Joint-Stock Companies to enhance governance practices and the disclosure of listed companies. The 2007 International Monetary Fund (IMF) report recommended implementing the Code of Corporate Governance and adopting the proposed Companies and Commercial Activities Law. The Corporate Governance Guidelines for UAE Bank Directors were also drafted by the Central Bank of the UAE in May 2006. The Dubai International Financial Center (DIFC) was established in 2004. It focuses on capital markets, asset management, banking services, and insurance and reinsurance. the establishment of the DIFC has fostered competition in the UAE financial markets, and has partly contributed to the ESCA's initiatives for greater transparency and improved corporate governance (Koldertsova 2010, Hawkamah 2010) . The DIFC created the Hawkamah (a word means "governance" in Arabic language) Institute for corporate governance in 2006, which is active in promoting corporate governance codes and guidelines in the UAE and throughout the region. The IMF states, however, that the regulatory and supervisory regime for the DIFC is entirely separate and independent. The basic principles of the UAE code includes :

- Ensuring the Basis for an Effective Corporate Governance Framework
- The Rights of Shareholders and Key Ownership Function
- The Equitable Treatment of Shareholders
- The Role of Stakeholders in Corporate Governance
- Disclosure and Transparency
- The Responsibilities of the Board

There is a new code issue to be effective from 30th April 2010 on companies listed in Abu Dhabi and Dubai securities exchange. It updates and clarifies the old code. Recently in 2011, Emirate of Dubai issued a code for corporate governance for small and medium organizations, but this is outside the scope of investigation of this research which focuses on top companies listed in securities exchange.

When comparing the two codes the author makes the following. First, in overall, there is a high degree of similarity between the two in purpose, general framework and major instruments. Both aim at providing a degree of assessment and control over the management. Both requires clearly that the interests of shareholders mainly and other stakeholders to be maintained and monitored. Specific and clear statements are expressed in the two codes regarding the structure of management, affiliation, responsibilities and remuneration and the importance of disclosure and transparency issues. The author examined the latter factor and how practiced in the two countries and some variables affecting in a previous paper (Afaf Mubarak 2011). In the dissimilarity side comes the orientation of emphasis. While the Egyptian code in its first statement targets to ensure effective regulatory and legal framework for public enterprises, the UAE one seeks to generally ensure existence of an effective CG not specified to public companies. There are two points here, while the Egyptian code targets explicitly public companies, it reality it was adopted by all companies public and private being a requirement for listing companies in the securities exchange which suggests that there was no need to specify the code to public companies. This equally means the UAE format was much consistent with target and application. Secondly, it appears that the Egyptian code aims to practice a tight control over management of companies by looking for "existence of effective regulatory and legal framework" for public enterprises. While regulations in themselves are not targets but means to organize issues of interests to people and institutions in a society. Thus, the UAE first principal seems more successful in stating CG requirement in essence.

It appears from this discussion that the research question is: To what extent the companies in each country –as represented by the sample investigated- adopt CG practices that are encouraged and introduced in the country's code? Why? or why not?

3. Methodology

Given that this study is exploring companies adoption and reporting on CG in two countries, under two CG codes, it appeared suitable to check those practice comparing to each country's code via a list for the most key items that code contained. The study apply to the EGX 30 was includes the most active –in terms of value- companies in the Egyptian securities on 31 Dec, 2010 and similarly the top biggest 30 companies in Abu Dhabi securities of exchange at the same date. EGX 30 was selected because it includes the biggest listed companies in the Egyptian securities and the leading of that market as well. On the other hand, it was targeted to see whether making the adoption of corporate governance one of the items for listing companies was enforced in reality or artificially shown so. The year 2010 was chosen to avoid any potential influence on businesses due to the political changes going on in the Arab region during 2011 known as the Arab Spring. To maintain similarity, with UAE data, the same number of companies for the same date was examined. To collect data, annual reports, websites and other sources were visited to detect any data about participants. EGX 30 and Abu Dhabi exchange.

4. Preliminary Findings

The data analysis of this study is still undergoing. Primary results which the author can record here are that there is generally more compliance among UAE listed companies than among Egyptian companies by each country's code of CG. First; All UAE companies examined report on CG either in a separate report, within the annual report or in their websites. Whereas, around 18 Egyptian companies do. All Egyptian and Emirates companies examined starts their reports by a statement which either expresses that they compliance to the code of CG or awareness of the importance of CG and adherence to it and its standards at highest level. Both also disclose names, jobs, affiliations, responsibilities and remunerations of the board of directors and main top management members. Also almost all companies have and disclose information about the role and responsibilities of audit committee, disclosure policies. Generally the examined companies show a clear concern of maintaining shareholders' interests and by less degree other stakeholders e.g. employees.

In the dissimilarity side, Few Egyptian companies provided a section in its report for "insider trading" which means they prohibit managers, directors ,…etc from dealing in their companies shares which they owned prior to joining. This practice reflects a willing to maintain fairness, as such not to allow managers to manipulate performance to affect company's share in the market in a way that may harm other shareholders. Some Egyptian companies include what they name "Code of ethics" which expresses the values and other morals they focus on while doing business. It was noted that some Egyptian companies does not have a policy of corporate governance by name but under "Investors Relations" section of their website. Others, while showing a report for CG published on their website, it includes minimal information and brief statement –rather general- about CG. This sounds like an artificial fulfillment of regulations.

UAE reports included more details about the board of directors and key management positions always included in the annual reports. Most of UAE companies publish a separate report for CG in their website – even before the new code of April 2011- which suggests that disclosure about CG is wider in UAE than in Egypt. Companies in both countries produce financial annual reports and held annual general meetings for shareholders but in UAE, publishing the outcome of such meetings are more. Minority rights are emphasized in both countries and in CG statements of the companies but shareholding structure is reported and disclosed in UAE much more than in Egypt. While the companies listed in the Egyptian securities belong to more diverse industries including construction, natural resources, telecommunications, tourism and leisure, financial service, steel, …etc, the companies in UAE more work in banks, insurance and financial service and construction and real estate and telecommunications. Banks –particularly- in UAE suffered huge losses much more comparing to Egypt due to the world financial crisis and doing more international business. Findings proves improvement in CG voluntary reporting than Dahawy 2008 reports and Baydou et. Al. (2005) although there is still no evidence on serious enforcement in the two countries.

Differences can –at this early stage of analysis- be interpreted by differences in ownership which is more concentrated in UAE and more companies are family owned and managed comparing to Egypt. Also companies in UAE have more international links which imposes more obligations in terms of adopting and reporting on CG. There is a need to further examine the influence of type of industry as the structure of the economy in Egypt is much more diverse in industries (construction, steel and iron, aluminum, textile, chemicals and petro-chemicals, leisure and resorts, banks and services while companies in UAE mainly work in banking and financial services, insurance and construction along with fewer number in other sectors.

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