EFFECTS OF ETHICAL PRACTICES ON CORPORATE GOVERNANCE IN DEVELOPING COUNTRIES: EVIDENCE FROM LEBANON AND EGYPT

Abdul-Nasser El-Kassar*, Leila Canaan Messarra, Walid Elgammal*****

Abstract

Companies in some developing countries, such as those in the Middle East and North Africa region, do not place high importance on ethical behavior and practices within the organization. The aim of this study is to examine the effects of ethical behavior and practices within small and medium size enterprises (SMEs) in developing countries on promoting good corporate governance. Data collected in Lebanon and Egypt provided evidence that ethics impact all major corporate governance categories. A deeper analysis of the relationships enabled the profiling of SMEs with lower levels of corporate governance relative to Ownership Structure. The findings created a path for useful recommendations to enhance corporate governance, in particular the Ownership Structure category, through adopting expedient ethical practices.

Keywords: Corporate Governance, Middle East & North Africa, Lebanon, Egypt, Ethics, SMEs

**Department of Information Technology & Operations Management, School of Business, Lebanese American University, P.O. Box 13-5053 Chouran, Beirut 1102 2801, Lebanon*
Tel: +9611786456 Ext. 1189, +9613915257
Fax: +9611867098
***Department of Management Studies, School of Business, Lebanese American University*
****Department of Finance and Accounting, School of Business, Lebanese American University*

1 Introduction

The importance of Corporate Governance is apparent from the vast expansion in its literature across various fields, such as management, economics, accounting, and finance. Corporate governance is generally known as the set of actions and mechanisms by which enterprises are directed, controlled, and monitored (Larcker, Richardson, &Tuna, 2007). In the narrower sense, it is concerned with increasing stakeholders' capital. While in the broader sense, corporate governance is concerned with the well-being of society, including stakeholders. This topic has raised various stakeholder concerns. As a result, large socially responsible stakeholders have leveraged their power to guide board decisions into being more ethical.

Ethics is a normative science which relates to human behavior. It is the morals, standards and guidelines upon which an individual within a culture operates. However, reaching an international understanding of ethics can be problematic. In some firms, it is substituted with responsible business code and/or integrity. On the other hand, business ethics is the art of applying ethical principles to examining and solving complex moral dilemmas. Its aim is to indoctrinate a sense of how organizations should conduct themselves responsibly. A business is not considered ethical unless it attempts a tradeoff between pursuing economic growth and fulfilling social obligations.

Major corporate scandals happened because of a lack of adherence to good corporate governance structures. The lack of corporate governance was at the root of the financial crisis that took the world by storm, rendering global instability (United States Financial Crisis Report, 2011). According to Othman & Abdul Rahman (2011) and Arjoon (2005), companies lack moral compasses for good governance, thus plaguing society at large—including shareholders and stakeholders— and causing a deterioration in governance systems worldwide. Therefore, it is important to examine corporate governance from a moral stance. Delving into ethics and moral principles is essential to creating a culture of ethics in a business environment that is sure to guarantee a system for effective corporate governance.

Effective corporate governance requires distinct traits: accountability (of the management, board of directors, and audit committee), responsibility (of the firm towards its investors), and transparency (in the organization's activities and structures).When compared to developed countries, developing economies face more challenges when applying corporate governance practices. According to McGee (2010), some of these challenges include: pyramid ownership structures, relation-based governance, finding active owners and skilled managers amid disseminated ownership structures, protecting and enforcing minority shareholders' rights; cultivating technical and professional know-how and de-politicizing decision-making among others.

The subject of corporate governance has gained momentum in the Arab region as early as 2001 (Saidi, 2004). In 2003, the first MENA regional corporate governance forum was launched that assessed the state of corporate governance and discussed the trends and challenges facing corporate governance in the region. Nonetheless, studies on corporate governance in SMEs have concerted chiefly on developed countries and less on developing economies. According to Saidi (2004, p.85), "SMEs and FOEs constitute over 85 percent of the corporate universe in the MENA countries." It is then essential to examine this matter in SMEs from a milieu of developing economies as corporate governance shows a discrepancy across different cultures (Abor & Adjasi, 2007). In line with the aforementioned, the aim of this study is to examine the effects of ethical behavior and practices within SMEs in developing countries on promoting good corporate governance practices; mainly, Lebanon and Egypt.

2 Literature review

Researchers cannot agree on a single definition of corporate governance. However, it is commonly understood as a system that structures and operates a company in order to please creditors and shareholders, satisfy employee interests, maintain customer and supplier relations, and comply with mandates and regulations (Cadbury, 2000). However, corporate governance is not just about compliance with laws and regulations; rather, it is a strategic business system that maximizes firm value on the long term, while protecting the interests of stakeholders (Gompers et. al, 2003). The major categories contributing to the success of corporate governance (Dahawy, 2007) are: (1) Transparency of Financial Data; (2) Analysis of Ownership Structure and Control Privileges; (3) Structure of Board of Directors and Management; (4) Corporate Social Responsibility; and (5) Analysis of Auditing committee and elements.

2.1 Transparency of financial data (disclosure)

Most of the businesses in the Middle East and North Africa (MENA) nations are SMEs or family-owned enterprises (FOEs). These countries feature large gaps on aspects of corporate governance in comparison to industrialized nations. Braendle, Omidvar, & Tehraninasr (2013) affirm that corporate governance is specifically imperative in the Middle East. These economies show an absence of the conventionally established infrastructure which deals with corporate governance subjects. A study conducted by Hassan (2013) in Egypt shows the failure of enterprises to clearly disclose information which may be attributed to some ineptitude and inadequacy in the regulatory framework of Egypt. This can also be ascribed to socio-economic issues in the country. It is then anticipated that it will take a long time for Egyptian companies to consider the benefits of a larger level of corporate governance disclosure (Samaha et al, 2012). Moreover, Chakroun & Matoussi (2012) studied the relation between the internal and external mechanisms of corporate governance and corporate voluntary disclosure through annual reports of Tunisia (MENA region country). The outcomes of the study strongly demonstrate that corporate intended disclosure is vastly influenced by the internal and external governance mechanisms.

Information disclosure is a necessity for corporate governance that is why the Lebanese Transparency Association established specific guiding principles for disclosure for SMES and FOEs (Koldertsova, 2010). Regardless, such codes in Lebanon, or the MENA region at large, remain of a voluntary nature rather than strict guidelines. A study by Elgammal, Assad & Jourdi (2014), on the implementation of corporate governance rules and procedures in Lebanese firms, indicated a low level of disclosure. The authors believe that this could be attributed to the lack of awareness of the benefits of proper corporate governance among top managers and stakeholders. The extent of disclosure exposes the power of the manager in decision making, and the allocation of this power between the manager and the shareholders (Khlif & Souissi, 2010). Allegrini & Greco (2011), claim that a larger board size is positively related to corporate voluntary disclosure. This is not necessarily true for SMES. According to Utama (2012), SMEs have a lower level of disclosure.

2.2 Analysis of ownership structure and control privileges

Country characteristics, such as the legal protection for minority shareholders and the echelon of economic and financial growth, affect the enterprises' expenses and benefits in employing actions to perk up their governance and transparency. According to Khali, Saffar, & Trabelsi (2014), the variation in the quality of protection made available to shareholders across nations result in discernible variation in financial contracting. Companies in developing nations find it most advantageous to spend less in terms of governance, and the rights of minority stakeholders is usually specified at the country level, not at the company level (Doidge, Karolyi, & Stulz, 2007). Effectual corporate governance is vital, though, for enterprises in developing countries since it can result in managerial vividness and excellence, and assist in raising capital (Okpara, 2011).

Within Lebanon, corporate governance is a fairly late occurrence and therefore, there is a shortage of research on practices of corporate governance in the nation's firms. Thus, putting into practice a well-developed corporate governance system is relatively difficult as many SMEs are inclined to operate and manage their business by themselves instead of following a definite set of policies and regulations, and thus fail to recognize the significance of corporate governance. Also, the regulatory system in Lebanon remains to be weak and the regime of politics is unsteady. Most SMEs are controlled by families either by owning majority of voting shares or through elaborate paramedical structures (such a structure allows families to have control over a number of subsidiaries and/or holding companies through ownership of a small equity percentage in each business). Under the Lebanese commercial law, shares with unequal voting rights can be issued by companies; thus, allowing families to be decision makers in the company regardless of the number of shares (Salloum, et al., 2013). According to Abdel Shahid (2001), under Egyptian law, the concept of independent directors is not well established even among listed companies, and no separation exists between the role of the chairman and managing director. Also, there are no rules governing the composition between non-executive and executive directors. Nevertheless, the Egyptian Institute of Directors was a pioneer in introducing corporate governance systems in the MENA region. It introduced a corporate governance code for state-owned enterprises (SOE) and in 2006 for SMEs (Gamal El Din, 2009).

In general, the majority of developing countries do not encompass a sturdy regulatory system which ensures a proper application of corporate governance (Mulili and Wong, 2011; Young et al., 2008). However, as Lebanon becomes part of the World Trade Organization and integrates internationally, the structure and organization of its enterprises ought to be assessed and modifications should take place in order to enhance growth, efficiency, and competitiveness (Saidi, 2004).

2.3 Structure of board of directors and management

Much has been written about the duties/roles of the board of directors in setting the organization's ethical values. The board is responsible for articulating, determining and communicating the standards and values of the business, and for making sure that the procedures, policies and controls are in place to promote, rather than deter, ethical values throughout the business community. According to Salloum et al. (2013) "Lebanon's experience with corporate boards and their effectiveness as a control mechanism are not well known because of the lack of transparency. Separation of ownership and control has not yet been fully realized." In SMEs, the ownership, top management, and the board of directors often imbricate, with the same person, or the same family, in charge (Brunninge, Nordqvist, & Wiklund, 2007). The amalgamation of ownership and management makes the manager less subject to pressure from other monitors and investors who stipulate information transparency and disclosure. This pressure encountered is augmented with the size of the firm (Carney, 2005).

Some corporate governance research has adopted the Agency Theory approach which centers on the principal– agent relationship, utterly concentrating on resolving conflicts of interest between management and shareholders (Brennan & Solomon, 2008; Jensen & Meckling, 1976). In small and medium-sized enterprises (SMEs), where the owners can also be the managers and/or shareholders, the agency problems are less apt to subsist.

2.4 Corporate social responsibility

A business is regarded as ethical if it attempts to reach a valid balance between trailing economic purpose and acting upon its obligation to society. Kostyuk et al. (2013) assert that firms are being adjured to accept responsibility for how their operations sway the environment and the society. Ayadi et al. (2014) affirm that corporate social responsibility (CSR) is not a waste of firm resources that are scarce but rather a momentous feature of stakeholder value creation. Even though there has been a growing interest in CSR in recent years, not much of the practice of CSR is recognized in developing countries. For instance, Lebanon, as a post-war nation, cannot be exemplified as the most prolific base for CSR intentions to prosper (Jamali & Mirshak, 2007). Recently, however; some Lebanese banks (for example; Bank of Beirut, Audi Bank and Byblos Bank) have started engaging in CSR, mainly through philanthropy, while other Lebanese companies have introduced ethical codes of conduct. Similarly, the American Lebanese Chamber of Commerce (AmCham) initiated a Better Business Group (BBG) in 2009 which aims to get ethical managers and decision makers together to shares their business principles (AmCham On Line Newsletter, May 2009, p. 9). In the case of Egypt, a recent study showed that companies do not have a CSR direction and that when implemented; it is only for marketing purposes (El Kayaly, 2014). Similar to Lebanon, some private companies (such as QNB Al Ahli bank and Procter & Gamble Egypt) have started applying some principles of CSR. Companies in both countries have a reactive stance to CSR and lack proper vision and planning. Generally, most CSR initiatives are started by large groups/corporations. According to Charbaji (2009), valuable corporate governance can be reached in Lebanon and other developing countries through erecting new corporate ideals within firms and conceding the associations among environmental, social, cultural, and economic values.

2.5 Analysis of auditing committee and elements

Corporate governance is also about preparing a system of check-and-balance to avoid authority abuse and to guarantee the integrity of financial statements (Mahmood, 2008). Corporate governance should be examined from a moral standpoint, especially after revealing scantiness of its structures through several corporate scandals and deception (Arjoon, 2005) such as the Enron case which was a foremost reason for passing on the Sarbanes-Oxley Act. According to Arjoon (2005), creating a corporation culture of moral values and high ethical standards is the funnel to endorsing a successful governance system of responsibility, honesty, transparency, and accountability.

The key fundamentals of a code of corporate governance generally include the Board of Directors, corporate financial reporting, an independent external audit, and an internal audit (Mahmood, 2008). It has been shown that an elevated quality of internal audit positively influences corporate governance (El-Kassar, Elgammal, & Bayoud, 2014).

According to Rossouw (2005, p.37), "corporate governance has a distinct ethical nature". All aspects of corporate governance are simply "means to ensure that the corporation will act in a manner that is fair, accountable, responsible, and transparent." Many studies have emphasized the critical role of ethics in corporate governance (see for example; Othman &Abdul Rahman, 2011; Arjoon, 2005). Abdul Rahman and Othman (2011) studied the role ethics plays in corporate governance. Their results indicated that ethical position (independent bodies and whistle blower), ethical principles (corporate philosophy) and ethical structure (ethical reporting, code of ethics,), are essential requirements to promoting governance practices (Othman &Abdul Rahman, 2011).

2.6 Business ethics

Generally, business ethics is the application of ethical ideals and moral principles in an organizational setting. It assists in distinguishing between morally right and wrong business decisions as well as identifying benefits and harms linked with ethical matters within the enterprise (Crane & Matten, 2007). Mahmood (2008) connotes that while many large companies have obtained their reputation by applying ethical standards, SMEs in the world are progressively becoming more alert to the significance of trustworthy dealings with employees, clients, suppliers and society. Nevertheless, SMEs in developing countries require more understanding and awareness of the implication of business ethics and its benefits. SMEs may not be able to recognize these gains because of the lack of a long-term vision. This is particularly true for Lebanon, which ranks 136th out of 175 countries by The Corruption Perceptions Index of 2014, rank 1 being the cleanest country and rank 175 the most corrupt. Even though Egypt ranks above Lebanon at 94, it still encloses more corruption than other Arab countries.

2.7 Research questions

Since the main purpose of the study is to examine the effects of ethical behavior and practices within SMEs in developing countries on endorsing good corporate governance practices, the research questions that will be addressed to determine the impact of ethics on the different categories of corporate governance are as follows:

- Determine the corporate governance categories that are significantly affected by level of ethical behavior and practices and identify the categories that are most and least affected.
- Examine the aspects of ethical behavior and practices that significantly affect the corporate governance categories.
- Explain the relationships for the corporate governance category least affected by ethical behavior.
- Determine whether the relationship between ethical behavior and a corporate governance category differ across the groups or levels of the various corporate demographical variables.

3 Methodology

This research set out to study the ethical behavior and practices within SMEs in developing countries (Lebanon and Egypt) and its effect on corporate governance practices.

3.1 Research design

The study is quantitative for the results were measured numerically and analyzed. Moreover, the study is a combination of both a descriptive and explanatory nature. An explanatory study, however, is more emphasized since the research establishes a causal relationship between ethical behavior and corporate governance practices. The research is a cross-sectional study since it involved a one-time interaction with the sample.

3.2 Sample and questionnaire

The target population of the research is SMEs operating in developing countries in the MENA region. A questionnaire was distributed to SMEs in Lebanon and Egypt randomly chosen from a list of SMEs provided by the Chambers of Commerce in both countries. Of the 400 questionnaires distributed (200 in Lebanon and 200 in Egypt), 147 were returned, yielding a response rate of 36.75%.

A questionnaire was self-administered. The questionnaire included three parts of fixed-alternative questions of mostly a Choice Determinant and Likert Scale type. The first part asked demographics. The individual demographics included age, gender, years of experience, types of professional certificates, and qualifications. Moreover, the corporate demographics questions asked about size of the company, board size, frequency of board meetings, CEO compensation, sales, difference in annual sales, and debt ratio.

The second part, included self-created questions related to the ethical aspect in corporate governance, shown in Table 1 below. Using a 5-point Likert scale (ranging from Strongly Agree to Strongly Disagree), the third part of the set of questions asked respondents about their perception of the existence and/or effectiveness of the items that make up the five major categories of corporate governance (see Tables 2 to 6 below).

To address the research question of how ethics impacts the various categories of corporate governance, a score for each of these categories is constructed by averaging the responses of the items constituting the categories. In addition to these five scores, an overall corporate governance score and a score for ethics are also constructed. These scores will be denoted by:

- TRSS for Transparency of Financial Data score.
- OWNS for Analysis of Ownership Structure and Control Privileges score.
- BRDS for structure of Board of Directors and Management score.
- CSRS for Corporate Social Responsibility score.
- ADTS for Analysis of Auditing committee and elements score.
- GCS for Corporate Governance score.
- ETHS for ethics score.

These scores, along with the demographics variables and the individual items, will be used to conduct the statistical analysis.

Table 1. Ethics and its role in corporate governance

ETH1: The interest of the organization is prioritized over personal advantages.
ETH2: The interest of stakeholders is prioritized over personal advantages.
ETH3: Following moral norms and values by managers and employees are warranted.
ETH4: A reward system exists for following the code of good conduct.
ETH5: Employees not abiding by the code of good conduct are disciplined.
ETH6: Recently, immoral behavior has not been encountered or successfully contained.
ETH7: Employees who follow rules of good conduct and moral principles are appreciated and valued.
ETH8: A moral strategy in business planning and decisions is followed.
ETH9: A moral corporate culture is promoted and supported.
ETH10: The interests of all stakeholders are considered in decision making.
ETH11: A whistleblower program protection exists.
ETH12: Activities of the board, management, and employees are guided by the moral code of good conduct.
ETH13: The organization's members share a common set of beliefs, values, and practices.
ETH14: Employees are pushed to be truthful in their reporting and their practices.
ETH15: Employees are treated fairly and equally, with no one employee treated with favoritism.
ETH16: Employees are treated with respect.
ETH17: Fundamental values in culture such as integrity and dependability are integrated.
ETH18: Employees are rewarded for their high level of performance and involvement.
ETH19: Managers and employees are encouraged to be compassionate in their decision.
ETH20: Reporting accurate and reliable financial statements is ensured.
ETH21: Responsibility towards the organizations and the community is encouraged.
ETH22: Building and establishing employees' credibility is ensured.

Table 2. Transparency of financial data

TRS1: Financial results
TRS2: Objectives of the company
TRS3: Accounting evaluations
TRS4: Related party transactions: elements and nature
TRS5: Related party transactions: practices and disclosure (under control)
TRS6: Board's duties and financial communications
TRS7: Extraordinary transactions regulations
TRS8: Alternative accounting decisions: impact and analysis
TRS9: The process for decision making and approval of transactions with related parties

Table 3. Analysis of ownership structure and control privileges

OWN1: Structure of ownership
OWN2: Control organization
OWN3: Control and equity stake
OWN4: Control privileges
OWN5: Existence of meeting agenda
OWN6: Procedures for holding annual meetings
OWN7: Shareholdings variations
OWN8: Actions for Anti-Takeovers
OWN9: Regulations that cover and guide the acquisition of corporate control

Table 4. Structure of board of directors and management

BRD1: Structure and goals of risk management
BRD2: Board of directors structure: non-executives versus executive
BRD3: Information about board members such as qualifications and biographical information
BRD4: Responsibilities and positions of outside board members
BRD5: Position held by the executives and the number of outside board members
BRD6: Checks and balances instruments
BRD7: Presence of a succession plan
BRD8: Conflict of interest prevention through committees and governance procedures
BRD9: Governance committee composition and main task
BRD10: Board of directors: function and role
BRD11: Length of contracts for directors
BRD12: Composition of the remuneration of directors and its determinants
BRD13: Number of independent board members
BRD14: Professional activities for training and development
BRD15: Reimbursement plan for senior managers in special cases such as merger and acquisition
BRD16: Presence of procedures covering conflicts of interest among board members
BRD17: Existence of advisors during reporting period
BRD18: Process for evaluating performance
BRD19: Management and board members' material interests

Table 5. Corporate social responsibility

CSR1: Performance based on social responsibility and environmental awareness
CSR2: Firm's sustainability as a function of social responsibility guidelines
CSR3: Regulations to protect the rights of all business stakeholders
CSR4: Code of Ethics for board members
CSR5: Ethical code of conduct for all the employees
CSR6: Awareness of all the employees about corporate governance and their role in implementing it
CSR7: Strategy to protect employees against whistle blowers

Table 6. Analysis of auditing committee and elements

ADT1: Procedures governing collaboration with external auditors
ADT2: Procedures and responsibilities for appointing internal auditors
ADT3: Reliability of external auditors and board's confidence
ADT4: Procedures governing collaboration with internal auditors
ADT5: Decision making procedure for appointing external auditors
ADT6: Internal control systems
ADT7: Period of auditor contracts
ADT8: Audit partner rotation process
ADT9: The remuneration of auditors and involvement in non-audit work

4 Results and discussion

In the following, the results of the data analysis are presented and discussed.

4.1 Reliability

The first step in analyzing the results of the survey was to conduct reliability analysis on each of the five categories of corporate governance as well as the part of the survey related to Ethics. The results revealed the following Cronbach's Alpha values of 0.935, 0.886, 0.939, 0.899, and 0.913 for the Corporate Governance categories and 0.948 for the Ethics part. These results indicate that the data is highly reliable to proceed with further statistical analysis.

4.2 Demographics

Pertaining to the age of the respondents, the majority were above the age of 40, 31.5% were between the ages of 30 and 40, and 28.8% fell into the age category of less than 30 years old. Moreover, most of the survey participants were males, 45.2% were females. As for the years of experience, 58% had more than 10 years of experience, 50% had 5 to 10 years, and 36% had less than 5 years of experience. Furthermore, with respect to holding a specific type of certificate, 31.5% had CPA, 9.6% CIA, and 6.8% CA. 12.3% of the respondents had no university degree.

In reference to the corporate demographic variables, the majority of SMEs had more than 50 employees, 10.4% had 20-50, and 17.3% had 1-19 employees. Additionally, 50.7% of SMEs had a board of directors of 5-10 individuals, 28.8% had a board size of more than 10, and 20.5% had a board between 1-4 people. Moreover, as to the frequency of the board meetings, 36.3% reported meeting 1-3 times a year, 35.6% met more than 6 times, and 26% met 4-6 times. Furthermore, regarding CEO compensation, 38.4% were compensated $250,000 a year, 31.5% made between $100,000 and $150,000, 17.8% were paid between $150,000 and $250,000, 8.2% made between $50,000 and $100,000, and only 4.1% were paid less than $50,000. Likewise, as to the annual sales of the SMEs, 53.4% claimed to make more than $1,000,000, 12.3% made sales ranging between $500,000 and $1,000,000, 17.8% made between $100,000 and $500,000, and 8.2% made less than $100,000. Because of the small difference in the sales of the SMEs that made less than a million dollars per year, the enquiry was divided into two categories; the SMEs that made less than $1,000,000, and the SMEs that made $1,000,000 or more. Results demonstrate that 32.4% of SMEs made less than $1,000,000 a year, and 52% made $1,000,000 or more. When asked about the change of their sales from year to year, 32.9% of SMEs reported a significant increase, 33.5% reported a slight increase, and 17.9% of the companies did not witness any increase. Lastly, 50.7% of the SMEs stated a debt ratio ranging between 25% and 50%, 28.8% a debt ratio of less than 25%, and 12.3% claimed a ratio of more than 50%.

4.3 Scores

For each of the corporate governance categories, a score is constructed by averaging the responses of the items constituting the categories. Table 7 below shows the descriptive statistics for the score of the combined sample, as well as for each of the two countries, Lebanon and Egypt. The results of the tests comparing the means are also displayed. It is worth noting that no significant differences in the mean scores were found for any of the corporate governance categories. Therefore, no separate analysis will be done for each individual country.

Table 7. Scores comparison

		ETHS	*TRSS*	*OWNS*	*BRDS*	*CSRS*	*ADTS*	*CGS*
	p-value	0.263	0.370	0.317	0.179	0.588	0.062	0.148
Lebanon	Mean	3.446	3.863	3.757	3.595	3.655	3.638	3.683
	Std Dev	0.623	0.723	0.633	0.618	0.699	0.645	0.542
	Size	85	85	85	85	85	85	85
Egypt	Mean	3.563	3.966	3.857	3.725	3.716	3.834	3.805
	Std Dev	0.627	0.617	0.538	0.501	0.635	0.585	0.443
	Size	61	61	61	61	61	61	61
Total	Mean	3.495	3.906	3.798	3.649	3.681	3.720	3.734
	Std Dev	0.625	0.680	0.596	0.574	0.672	0.626	0.505
	Size	146	146	146	146	146	146	146

4.4 Correlation analysis

To examine the relationships between ethics and the corporate governance categories, correlation analysis is conducted as a first step. Table 8 below shows the correlation coefficients between the overall ethical score and the corporate governance categories scores. The results indicate that the critical value for the two tailed test is 0.213 for a level of significance of 0.01.

Table 8. Correlation coefficients

	TRSS	*OWNS*	*BRDS*	*CSRS*	*ADTS*	*CGS*
ETHS	0.552**	0.393**	0.512**	0.613**	0.518**	0.630**

The correlation coefficients in table 8 reveal that the ethics score is significantly correlated to each of the corporate governance categories' scores as well as the overall corporate governance score. Moreover, all correlation coefficients are positive. Thus, the findings indicate that higher ethical behavior and practices lead to a greater level of corporate governance in terms of all five categories. Further examination of the correlations show that ethical behavior and practices impact the corporate social responsibility category the most, followed by transparency, audit committee, and board of directors. The category least affected is ownership structure and control, although, the effects of ethical behavior on this category is significant. The high correlation between ethics score and the corporate social responsibility score may be attributed to the fact that some of the few items in the CSR category are very similar to the ethics items.

In order to investigate the reason behind the ownership structure being less influenced by ethical behavior like the other categories, Factor analysis was conducted on the ethics items. The results grouped the items into two factors. The first grouped items related to the encouragement of ethical behavior. These items are (refer to table 1): ETH21, ETH22, ETH20, ETH16, ETH19, ETH18, ETH14, ETH17, ETH12 and ETH7. On the other hand, the second group consists of the ethical practices items, which are: ETH4, ETH2, ETH1, ETH6, ETH3, ETH15, ETH8, ETH9, ETH10, ETH11, ETH13, and ETH5. Two scores, based on averaging the items, were constructed; the ethical encouragement score (*ETHENCS*) and the ethical practices score (*ETHPRCS*). These scores were correlated to the corporate governance scores. The results are shown in Table 9 below.

Table 9. Correlation coefficients ethics factors

	TRSS	*OWNS*	*BRDS*	*CSRS*	*ADTS*	*CGS*
ETHENCS	.418**	.247**	.438**	.580**	.476**	.526**
ETHPRCS	.588**	.455**	.508**	.568**	.490**	.636**

It is worth noting that the correlations between Ownership Structure and the two Ethics factors are both significant at a level of 0.01. The degree of correlation differs, with low ethical encouragement and high ethical practices. Thus, ethical practices impact more ownership structure than ethical encouragement.

4.5 Analysis of variance

Analysis of variance (ANOVA) test was conducted on each score using the various corporate demographic variables to determine whether differences in the mean scores exist across the classes of these variables. Results illustrate that there is a significant difference in the Ownership Structure score relative to the various size categories of the SMEs. This provides strong evidence that the size of a company affects the ownership structure. Additionally, the results showed significant differences in all of the scores of the corporate governance categories, except that of Transparency of Financial Results. Also, significant differences were found in the ethics scores as well as the overall corporate governance score.

Other ANOVA tests were conducted by using the remaining corporate demographic variables. A summary of the results are depicted in Table 10 below.

Examining the results concerning the Ownership Structure of the SMEs, Table 10 reveals significant differences in the mean Ownership Structure scores relative to size, sales, debt ratio, and sales differences. However, no significant differences were found in relation to the board size and the frequency of board meetings.

Further investigations reveal that a significantly lower level of corporate governance in terms of ownership structure was portrayed for smaller-sized enterprises with lower sales, a debt ratio between 25% and 50%, having no increase in sales, and CEO compensation within the range of $100,000 and $250,000.

5 Conclusion

Past research on corporate governance has stressed more on developed nations rather than on developing economies. However, to ensure success, it is crucial for SMEs to incorporate an effective governance system. This in turn will help further boost investor confidence and develop the company's investment potential and growth on the long run (Fawzy, 2003).

Results of the study show that higher ethical behavior and practices lead to a greater level of corporate governance in terms of all five categories. Corporate social responsibility category is impacted by ethics category the most, followed by transparency, audit committee, and board of directors. The category least affected is ownership structure. Moreover, the results demonstrate that ethical practices and encouragement are positively related to ownership structure and control; though, practices ethical indicated a higher correlation with ownership structure than encouragement. In addition, findings illustrate a significantly lower level of corporate governance relative to ownership structure for smaller-sized enterprises with lower sales, average debt ratio and CEO compensation, and having no increase in sales.

Table 10. Summary of the ANOVA tests (scores vs corporate demographics)

		p-value	*ETHS*	*TRSS*	*OWNS*	*BRDS*	*CSRS*	*ADTS*	*CGS*
Size			0.022	0.154	0.031	0.002	0.000	0.001	0.003
	1 to 19	Mean	3.44	3.7	3.56	3.56	3.85	3.45	3.6
	20 to 50	Mean	3.87	4.02	3.99	4.09	4.22	4.16	4.09
	50 >	Mean	3.44	3.95	3.84	3.6	3.53	3.72	3.71
Board Size		p-value	0.561	0.046	0.34	0.234	0.595	0.233	0.201
	1 to 4	Mean	3.59	4.17	3.89	3.80	3.69	3.89	3.88
	5 to 10	Mean	3.50	3.81	3.82	3.59	3.63	3.69	3.69
	10 >	Mean	3.43	3.89	3.69	3.64	3.76	3.65	3.71
Sales		p-value	0.396	0.005	0.000	0.507	0.363	0.112	0.071
	<1M		3.44	3.71	3.57	3.61	3.75	3.62	3.64
	>1M		3.53	4.03	3.94	3.67	3.64	3.79	3.79
Debt		p-value	0.001	0.008	0.002	0.044	0.000	0.005	0.004
	<25%	Mean	3.28	3.75	3.93	3.50	3.36	3.55	3.60
	25%-50%	Mean	3.52	3.89	3.65	3.68	3.77	3.73	3.73
	>50%	Mean	3.89	4.31	4.09	3.87	4.07	4.09	4.05
Sales Difference		p-value	0.060	0.000	0.000	0.156	0.476	0.002	0.005
	No Inc	Mean	3.27	3.49	3.34	3.50	3.75	3.38	3.48
	Slight Inc	Mean	3.59	3.99	4.01	3.74	3.73	3.79	3.84
	Sig Inc	Mean	3.52	4.04	3.84	3.64	3.60	3.83	3.77
Frequency of Board Meeting		p-value	0.561	0.046	0.34	0.234	0.595	0.233	0.201
	1 to 3		3.59	4.17	3.89	3.80	3.69	3.89	3.88
	4 to 6		3.50	3.81	3.82	3.59	3.63	3.69	3.69
	>6		3.43	3.89	3.69	3.64	3.76	3.65	3.71
CEO		p-value	0.404	0.631	0.020	0.337	0.799	0.462	0.427
	< $100K	Mean	3.69	3.93	3.96	3.55	3.83	3.84	3.77
	100-150K	Mean	3.40	3.90	3.64	3.67	3.64	3.61	3.69
	150-250K	Mean	3.48	3.76	3.64	3.50	3.67	3.71	3.63
	250K>	Mean	3.52	3.97	3.95	3.73	3.67	3.78	3.81

It is then recommended for SMEs leader to engage in the following practices in order to improve their corporate governance outcome with respect to ownership structure and control:

- Set up an ethical code of conduct and share it with employees while making sure they practice what they preach.
- Set up a system that rewards those who abide by the code of good conduct, discipline those who do not, and protect whistleblowers.
- Follow a moral strategy when planning and making decisions.
- Implement programs to promote and support a moral corporate culture.
- Prioritize the interest of the organization and the stakeholders over personal advantages.

Some of the limitations of this study are the small sample size, and the restriction to solely two developing countries from the MENA region.

For future research, it is recommended to target stakeholders other than managers in order to investigate their perception regarding ethical considerations about their companies' corporate governance practices. In addition, further research can also target larger organizations and publicly-owned or listed corporations, which can reveal the truth behind their implementations of corporate governance practices at large. It is also recommended to extend the study to other MENA region countries.

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