TRANSPARENCY AND DISCLOSURE AS AN INTERNAL CORPORATE GOVERNANCE MECHANISM AND CORPORATE PERFORMANCE: EGYPT’S CASE

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Abstract

Our paper aims to examine the impact of an “objective” measure for the quality of transparency and disclosure practice that is extracted from the Egyptian corporate governance guidelines on the performance of a selected sample of 85 Egyptian listed companies. We use mixed methods (i.e., content analysis, regression analysis, questionnaires and interviews) to test the relationship between the transparency and disclosure index and corporate performance for the period 2006-2010. We found no significant relationship between transparency and disclosure practice and corporate performance. Our results suggest that governance mechanisms such as transparency and disclosure practices are considered to be just ink on paper without any actual value added adopting corporate governance in Egypt.

Keywords: Corporate governance, Corporate Performance, Transparency and Disclosure, Egypt

1. INTRODUCTION

Following the agency theory, corporate governance literature shows that effective implementation of corporate governance practices (including transparency and disclosure practices) affects corporate performance. Research on developed stock markets shows a positive relationship between corporate governance and corporate financial performance as well as numerous studies show that corporate governance increases valuations and boosts the bottom line.

Sound corporate governance practices can generally play in an emerging capital market as the Egyptian. The vital role that the Egyptian corporate governance guidelines specifically serves in compensating for the lack of protection in a civil law system, it is found crucial to investigate the impact of transparency and disclosure as an internal corporate governance mechanism on performance of Egyptian listed companies. The motivation towards conducting this study generally comes from the fact that the impact of disclosure on firm value is still an empirical issue (Hassan et al. 2009). Additionally, although many researchers have examined corporate governance in developed nations, there is little direct empirical evidence on disclosure/governance-performance in general and for emerging markets in particular (Velampiris (2013), Gurbuz et al. (2010), Yasser et al. (2011), Sami et al. (2011), Hassan et al. (2009), Omran et al. (2008), Reed (2002) and Shleifer and Vishny (1997)). Second, developing and emerging countries have intended to mimic the practices of developed nations, despite evidence, for example from Rabelo and Vasconcelos (2002), of the presence of differences between the factors giving rise to the need for corporate governance in developing nations. Third, there are structural variations, such as the dominance of government and/or family/ close held companies that render the implementation of Western style corporate governance both of questionable value and...
troublesome (Mensah, 2002). Fourth, there are major differences between the emerging countries of Eastern European and China, as there are between countries in the Middle East, North Africa and sub-Saharan Africa (Euro money, 2007; Fawzy, 2004). Finally, while there exist an increasing convergence among national and international corporate governance codes, there are also still significant deviation in terms of disclosure practices and content of disclosure between countries (Bhuiyan and Biswas, 2007).

Moreover, most studies - using the Egyptian context - do not investigate the impact of the transparency and disclosure practices included in the Egyptian corporate governance code on the performance of listed companies. Accordingly, we aim to fill this gap by examining the impact of the transparency and disclosure practices as an internal corporate governance mechanism on corporate performance. Thus, the main research question is:

- Does transparency and disclosure practices included in the Egyptian Corporate Governance Code impact the performance of listed companies?

This paper contributes to existing literature by providing a better understanding of the transparency and disclosure practices adopted in a developing, non-Anglo-American country that has not been extensively examined. This paper is being the first in the Egyptian context to investigate the impact of an objective transparency and disclosure (TD) index and a questionnaire that is extracted from the Egyptian corporate governance guidelines on the performance of a sample of 85 Egyptian listed companies included in EGX100 index. It also addresses transparency and disclosure practices over a period (2006-2010) of considerable changes in the business environment in general and the capital market in particular as referred to by Soliman (2013). Furthermore, the paper contributes to existing literature on the Egyptian capital market by validating its quantitative findings through a number of interviews with managers of Egyptian listed companies.

Accordingly, the paper can be of interest to both managers and investors, because of the influence of transparency on the domestic and foreign investments which is vital for a developing country such as Egypt.

Our results show no impact of transparency and disclosure practices as an internal corporate governance mechanism on Egyptian listed companies' performance. The qualitative findings collected through a number of interviews showed an equal consensus on the fact that in the Egyptian capital markets' case, compliance with the corporate governance practices embedded in the Egyptian stock exchange listing rules and the Egyptian Corporate Governance guidelines specifically have turned into some administrative steps that has no actual baring or effect on Egyptian listed companies performance, apart from multinational and foreign entities which are relatively few in number in the local market. Consequently, governance mechanisms (such as transparency and disclosure practices) are considered to be "just ink on paper without any actual value added to any company that is required to adopt corporate governance in Egypt".

The remainder of the paper is organized as follows. Section 2 provides a discussion of the current literature and the research hypotheses. Research methodology, data collection and information sources, are presented in Section 3. Section 4 provides a discussion of the empirical results obtained from the transparency and disclosure index while Section 5 presents the empirical results and findings of the TD questionnaire. Section 6 presents the qualitative findings of the conducted interviews that support our quantitative output. Finally, the research conclusions and suggestions for future work are presented in Section 7.

2. LITERATURE REVIEW

Demand for a high level of transparency (through better disclosure and timely reporting) can arise from the information asymmetry problem and agency conflicts between management and outside investors (Healy and Palepu, 2001). Thus, enhanced corporate transparency and disclosure is believed to mitigate these problems by reducing information asymmetry between outsiders and corporate insiders and between institutional shareholders and minority shareholders (Haat et al., 2008). Increased transparency and disclosure is argue to reduce the uncertainty surrounding the estimation of stock returns leading to the decrease in the rate of return required by investors to hold the firm's shares, hence the firm's cost of equity will fall and firm value will rise. Moreover and as a result of a reduction in agency problems (Lambert, Luey, and Verrecchia, 2007; Lang, Lins, and Miller, 2003) expect increased disclosure to reduce the amount of cash flows that managers and controlling shareholders appropriate for themselves and accordingly lower the cost of monitoring. In this context, Coffee, 1999 and Stulz 1999 therefore suggest that increased disclosure may increase the cash flow that shareholders receive.

On the other hand, Wagenhofer (2004) challenge the above mentioned traditional view of disclosure effects and argue that the effects of disclosure depend on three factors; uncertainty, multi person settings with conflicts of interest, and information asymmetry. Thus, based on the assumptions made about these factors, it can be possible to predict a negative relationship between increased transparency and disclosure and firm value. In this essence, Hassan et al. (2009) argue that more public disclosure can reduce the acquisition of private information by market participants leading to the reduction in the total amount of information available in the capital market. More public information may also have a negative net benefit if the information places a firm at a competitive disadvantage relative to its rivals.

Furthermore, information might have a negative value if investors perceive themselves to be worse off in the case of the company disclosing information which might be exploited to their detriment. Investors might suspect or misinterpret the intentions of the company in providing more information to the market without an obligation to do so. This argument is even more valid especially in the secretive environment that controls the Egyptian financial markets and the Egyptian culture in general (Samaha & Stapleton, 2008). Moreover, Abd-Elsalam (1999); Dahawy et al. (2002); Fawzy
(2003); PSCU (2000); ROSC (2002) refer to the lack of an effective enforcement policy for noncompliant companies has contributed to the low levels of compliance with mandatory disclosure among listed companies in Egypt. This suggests that the costs of noncompliance may be negligible besides implying that the introduction of the new Egyptian corporate governance code has not improved information symmetry and thus may not have a positive impact on Egyptian listed companies’ performance.

Hence this study investigates the impact of the level of transparency (more specifically the level of disclosure and timeliness of reporting) on listed companies’ performance in Egypt. Our motivation is enhanced given the little empirical evidence with regard to the relationship between transparency and disclosure as a corporate governance mechanism and firm value for emerging markets in general and particularly Egypt as will be presented further in this section.

Hassan et al. (2009) examined the value of mandatory and voluntary disclosure in the Egyptian capital market which applies International Accounting Standards (IAS). Their empirical results show that mandatory disclosure has a highly significant but negative relationship with firm value while voluntary disclosure has a positive yet insignificant association with firm value. The authors justified this puzzling result from a traditional perspective by that mentioning that it is consistent with the predictions of analytical models which emphasize the complex interplay of factors determining the relationship between disclosure and firm value.

On the other hand, Samaha and Dahawy (2010) studied the impact of both corporate governance characteristics as well as company characteristics on voluntary disclosure using the annual reports of the 30 most active share trading firms in Egypt. They found no significant relationship between voluntary disclosure and profitability while high liquidity is related to greater voluntary disclosure which again is not in conformity with the author’s predicted direction. These findings were justified by referring to the highly secretive Egyptian culture which in return directly impacts the extent of voluntary disclosure in the Egyptian capital market.

Desouky and Mousa (2012) investigated the impact of firm characteristics including performance related ones such as liquidity on transparency and disclosure as a main pillar of corporate governance. The main drawback of this study which despite aiming towards investigating the impact of firm characteristics on transparency and disclosure a main pillar of corporate governance, the authors did not develop their transparency and disclosure index from the items included in the Egyptian corporate governance guidelines which was already issued in 2006. Another drawback is using the data of only one year and thus not tracking the transparency and disclosure practices of listed companies after the initial issuance of the Egyptian corporate governance guidelines. They found an insignificant relationship between liquidity and the transparency and disclosure index which contradicts Desouky and Mousa and Dahawy (2010) findings which showed that high liquidity is related to greater voluntary disclosure.

Soliman (2013) investigated the association between the voluntary disclosure level in annual reports and firm characteristics (including profitability) of more active 50 Egyptian companies. He finds that profitability has a significant positive association with voluntary disclosure which to some extent contradicts Hassan et al. (2009) and Samaha and Dahawy (2010) findings above.

Additionally, Shehata et al. (2014) examined the relationship between firm characteristics and mandatory disclosure level in the Egyptian context. Findings of the correlation analysis which were conducted to test the relationships between the dependent variable; disclosure level, and the independent variables; (assets, sales, debt ratio, debt equity ratio, assets in place, company age, return on equity, profit margin, return on assets, liquidity, business type, foreign activity, and auditor type) revealed that the most correlated variables with disclosure level are the sales and foreign activity variables (at 0.05 level) while the auditor type is significant at the 0.01 level. On the other hand, liquidity had a negative relationship while all firm age as in [Gompers et al. (2003), Black et al. (2007), Amran and Ahmad (2010) and Lee (2011)], 3) Business type, foreign activity, with the predictions of analytical models which emphasize the complex interplay of factors determining the relationship between disclosure and firm value.

Based on the previously presented literature, it is notable the lack of studies that tended to investigate the impact of transparency and disclosure as a main pillar for corporate governance practices in the Egyptian capital market using a tool that is developed from the Egyptian corporate governance guidelines itself despite the fact that most of these studies were conducted after the issuance of the guidelines in 2006. Moreover, only one study (Hassan et al., 2009) in the Egyptian context aimed to investigate the value relevance of mandatory and voluntary disclosure while all other studies aimed to examine the impact of specified firm characteristics on the transparency and disclosure level among listed companies yielding contradicting results. Even Hassan et al.’s (2009) study used data relating to the period 1995-2002 which was before the issuance of the Egyptian corporate governance guidelines. Consequently, this paper will aim to fill the exiting gap in the Egyptian literature by conducting a study that aims to investigate the value relevance of transparency and disclosure as a main corporate governance mechanism using a tool that is extracted from the Egyptian corporate governance guideline itself. In this regard, the proxy for corporate transparency and disclosure (which in this paper is the independent variable) will be that suggested by (Hassouna and Ouda, 2013) along with nine independent control variables which namely are 1) firm size as in [Bebczuk (2005), Kim and Yoon (2007) and Omran et al. (2008)], 2) financial leverage as in [Abdel Shahid (2003), Black et al. (2004), Barontini and Caprio (2006), Bebczuk et al. (2004), Bebczuk (2005), Mustafa (2006), Kim and Yoon (2007), Javed and Iqbal (2007), Bhagat and Bolton (2007), Amran and Ahmad (2010) and Lee (2011)], 3) firm age as in [Gompers et al. (2003), Black et al. (2004), Bebczuk et al. (2004), Bebczuk (2005), Brown and Caylor (2006), Amran and Ahmad (2010) and Gürbüz et al. (2010)], 4) Industry type as in [Black et

3. RESEARCH METHODOLOGY AND HYPOTHESES

To investigate the effect of the transparency and disclosure level on the performance of Egyptian listed companies, this study uses 4 ratios to proxy for firm performance (independent variable) as mentioned in the previous section. These proxies have been commonly used in the Egyptian context in similar studies thus to yield comparable results they are used in this paper. The transparency and disclosure level (dependent variable) will be measured using the “Transparency and disclosure index” suggested by Hassouna and Ouda (2015). Accordingly, the index will include a total of 32 objective indicators which are originally extracted from the Egyptian corporate governance guidelines as this study is aiming towards examining the impact of transparency and disclosure practices as a main internal corporate governance mechanism. Additionally, nine control variables will be included in the model based on the fact that they have been extensively used in similar corporate governance-firm performance literature studies besides the availability of data in the Egyptian market which also restricts the authors from calculating and including other possible control variables in the tested model.

H1: There is a significant relationship between the transparency and disclosure index and the performance of the Egyptian listed firms.

Hence, to test for the above listed research hypothesis, we use the following model:

\[
FP = \alpha + \beta_1 \text{TD1}(i,x) + \beta_2 \text{FSIZE}(i,x) + \beta_3 \text{FLEV}(i,x) + \beta_4 \text{SALESGRTH}(i,x) + \beta_5 \text{LIQUDITY}(i,x) + \beta_6 \text{CAPEX}(i,x) + \beta_7 \text{CAPINT}(i,x) + \beta_8 \text{SECTYPE}(i,x) + \beta_9 \text{BIG5NOT}(i,x) + \beta_{10} \text{FIRMAGE}(i,x) + \varepsilon (i,x)
\]

where:
- \(FP\) = Firm performance measured by ROE, ROA, Tobin’s q and M/BV ratios.
- \(TD\) = Transparency and disclosure level.
- \(FSIZE\) = firm size.
- \(FLEV\) = financial leverage.
- \(SALESGRTH\) = sales growth ratio.
- \(LIQUDITY\) = liquidity ratio.
- \(CAPEX\) = capital expenditure.
- \(CAPINT\) = capital intensity.
- \(SECTYPE\) = sector type.
- \(BIG5NOT\) = external auditor is one of big 5 auditing firms or not (dummy variable).
- \(FIRMAGE\) = firm age (dummy variable).
- \(I\) = firm (i).
- \(X\) = year X (ranging from 2006 till 2010).
- \(\epsilon\) = error term for firm (i) at year (x).

The components of the above regression model are further discussed in the below sub-sections.

3.1. Transparency and Disclosure Index - Indicators (Independent Variable)

The transparency and disclosure mechanism was included in extensive literature corporate governance indexes including that of Black et al. (2001, 2004, 2006, and 2009), Drobetz and Zimmermann (2004), Cheung et al. (2007) and Javed and Iqbal (2007) above demonstrates the 32 objective index indicators that were extracted from the recommendations required by the Egyptian corporate governance guidelines 2005 and amended in the year 2011. The Transparency and disclosure index score is based on a binary system (0, 1), where a score of “one” is given to each corporate indicator that proves to be present in the listed company and a “zero” placed for each indicator that proves not to be present. For more details on the constituents and the scoring process of the index, refer to Hassouna and Ouda, (2015).

3.2. Performance (Dependent Variables)

In general, researchers used two alternative approaches to measure corporate performance. The accounting measures of corporate performance and the market measure of performance (i.e. Tobin’s Q ratio). Martin (1993) suggests that Tobin’s Q and accounting measures “should be regarded as complements rather than substitutes. Both contain information about market power, and there is no compelling reason to think that either type of measure dominates the other”. For this reason, we use both measures of corporate performance. Accounting measures have included ROA, ROE and ROI. The paper uses ROA and ROE as in Klapper and Love (2002), Omran and Fatheldin (2002), Abdel Shahid (2003) as well as Bebczuk (2005). It is necessary to note that the fundamental evaluation of companies, measured by, its financial indicators such as (ROA and ROE) are the most important factors used by investors in Egypt to assess company’s performance as referred by Abdel Shahid (2003). Accordingly, both indicators are used as accounting measures of corporate performance.

Market valuation measures have been presented in the literature to support the use of the Tobin’s Q ratio as an appropriate measure for corporate performance. For instance, Tobin’s Q ratio is a long term measure that takes risk and return dimensions into account (Manuel et al. 1996) and reflects the firm’s ability to improve performance overtime (Caton et al. 2001). Similarly, Salinger
(1984) argue that Tobin’s Q ratio is better than single period measures of profits, as it recognizes the present value of the future profits.

Finally, the market/book value (MBV) ratio: is used widely in the empirical studies of finance and investment particularly after the study of Fama and French (1992), Studies in the area of corporate governance include Abdel Shahid (2003) and Omran and Fatheldin (2002).

3.3. Data Collection

The data collection process involves using mainly listed companies annual reports for the years 2006 to 2010 as well as relevant information disclosed on official websites to fill the constructed "Transparency and disclosure index" which will include 23 indicators. The remaining 9 indicators will form an objective "Transparency and disclosure questionnaire" which is distributed among the same sample of listed companies used to fill the index. However, the questionnaire covers year 2010 only as will be further justified in the following sections.

3.4. The Sample

The sample includes 85 companies listed in EGX100 for the years 2006, 2007, 2008, 2009, and 2010. Fifteen companies of EGX100 listed companies' are excluded from the sample due to the insufficiency of data. It is worth mentioning that the Egyptian stock exchange introduced on 2 August 2009, the new price index, the EGX 100 Price Index, which tracks the performance of the 100 active companies, including both the 30 constituent companies of the EGX 30 Index and the 70 constituent companies of the EGX 70 Index. In addition, it measures the change in the companies' closing prices, without being weighted by market capitalization, and was retroactively computed as of 1 January 2006, as well as covering most of the sectors included on the Egyptian stock exchange. Accordingly, the sample companies will relate to the following major sectors:

1. Building material and construction;
2. Chemicals;
3. Communication;
4. Electrical equipment and engineering;
5. Entertainment;
6. Financial services;
7. Health and pharmaceuticals;
8. Textiles and clothing.

3.4.1. Method of Data Collection

Data is primarily obtained from the annual reports of listed companies published from 2006 through 2010. In addition to annual reports, websites (if present) of the sample companies is also used as well as data disclosed by the Egyptian Exchange sent originally by the listed companies and thus disclosed to shareholders on their behalf in the form of disclosure books or documents disclosed on the Egyptian Exchange website (www.egyptse.com). Data is also collected using COFACE Egypt financial yearbook for the years being studied.

In order to cover the extracted objective transparency and disclosure indicators that are not required to be disclosed in listed companies’ annual reports, a questionnaire was also distributed among the sample of listed companies including 9 transparency and disclosure indicators. Worth-noting that it was initially aimed to collect data for the same time period as that of the index (for years 2006 till 2010) but due to: 1) the unavailability of documented historical data on corporate governance among Egyptian listed companies especially that this data is not required for disclosure in listed companies' annual reports and 2) the availability of this type of historical data depends on listed company's staff and its turnover which is unstable particularly when considering a five year duration (from 2006 to 2010), the data collected by the questionnaire was limited to the year 2010.

3.4.2. Statistical Technique

To investigate the impact of transparency and disclosure as an internal corporate governance mechanism on each of the selected performance ratios, step-wise regression will be used as a statistical technique.

Employing step-wise regression will primarily provide an empirical output which demonstrates the percentage change in the dependent variable (firm performance) which is caused by the independent variable (The transparency and disclosure index and its 32 indicators). Accordingly, the impact of the transparency and disclosure index as a whole (as well as each individual indicator in the index) on every performance ratio can be determined for the sample companies during the pre-set range of years. This represents the main objective of the empirical examination demonstrated by the main hypothesis presented in this paper.

Secondly, step-wise regression technique provides the advantage of the automatic selection of the significant independent variables (which includes the transparency and disclosure index, control and dummy variables) constructing the regression model constructed in this paper. Consequently, the step-by-step iterative construction of the model will eliminate those independent variables that are not statistically significant which results in a clearer empirical output of the significant independent variables impacting firm performance.

Thirdly, stepwise regression will not only eliminate the insignificant variables in the tested explanatory models, but will also display the direction of significance for each significant independent variable constructing the model. The direction of the significant relationship will be demonstrated in the coefficient tables which are one of the most important empirical output tables resulting from employing stepwise regression. The direction of the significant relationship between the transparency and disclosure index and every performance ratio will consequently be determined which in return provides a better understanding of whether the transparency and disclosure practices in the Egyptian corporate governance guidelines enhance Egyptian listed companies accounting and market performance or not. Thus such empirical tables provided by the step-wise regression statistical technique contributes in a more in-depth investigation of the impact of an internal corporate
governance mechanism such as transparency and disclosure on Egyptian listed companies which is the main objective of the constructed hypothesis in this paper.

Finally, step wise regression is widely used in related studies in prior research. Accordingly, to yield comparable results, step wise regression was selected as the main statistical technique after testing for the presence of multi-Collinearity and endogeneity as will be presented next section).

4. EMPIRICAL RESULTS AND FINDINGS-TD INDEX

This section will present and analyze the empirical results of the tested model and hypotheses relating to the extracted transparency and disclosure index (23 indicators) and questionnaire (remaining 9 indicators). As mentioned above, this process starts with the conduction of the validity (endogeneity and collinearity) tests as shown below.

4.1. Endogeneity Test (Second Stage Least Squares-2SLS Test) - TD Index

To mitigate the presence of endogeneity (reverse causality) in the TD index data, a 2SLS test is conducted. It is worth noting that an endogeneity problem (high performance firms choose good governance rules), can result in causation running from our dependent variable (firm performance) to corporate governance, rather than vice-versa. As per Black et al. (2004), highly performing firms could choose better governance structures for several reasons. They could choose better governance structures because (i) the firm’s insiders believe that these structures will further raise firm value; (ii) firms with high measures of firm performance benefit from improved governance structures more than other firms; or (iii) the firm’s insiders believe that doing so will signal management quality even if the signal (the governance structure) does not in fact affect firm performance.

In the same regard, it is worth noting that our main explanatory model includes one explanatory variable (namely Total TD) and three instrumental variables (namely, Sector type, listed company having one of the big 5 auditing companies as its external auditor and firm age). An additional instrumental variable will be for this test which will be named as EGX30 indicating whether the listed company is among the most active 30 companies in a specific year or not. In this context it is worth noting that some important rules apply to EGX 30 index companies specifically. The index does not include companies that commit several repetitive breaches to listing and disclosure rules (which indicates that it includes companies characterized by a relatively high compliance generally with corporate governance practices embedded in the listing rules), it also excludes companies with less than 15% free float (meaning that companies involved have a relatively high dispersion of ownership compared to other companies excluded from the index).

4.2. Co-linearity Test

A co-linearity test is also conducted on the TD index data to mitigate the presence of an impact of one of the independent variables (including control variables) present in the used explanatory models on each other. Accordingly, this test is equally important as the Endogeneity test in validating the collected data and consequently the regression results.

The co-linearity test on the TD data was conducted using the co-linearity diagnostics test option in the SPSS statistical tool. As for the results of co-linearity test option in the SPSS tool, they generally indicated a tolerance value which in all cases was near to one indicating the absence of a collinearity problem in the collected data relating to all the independent variables involved in the constructed explanatory models. Moreover, the co-linearity diagnostics tables mostly show Eigen values which are greatly less than ten. It is worth noting that the Durbin Watson values was not relied on when judging the collinearity since the presence of collinearity was primarily tested in terms of grouping related transparency and disclosure indicators and running the regression models of the selected performance ratios after controlling for the variables mentioned in the previous chapter. The results yielded similar regression results as those obtained when running the regressions before grouping the related transparency and disclosure indicators. Accordingly, the Eigen values were relied on in terms of judging collinearity.

4.3. Descriptive analysis – TD index

The descriptive analysis of the TD index data as well as the performance, control and dummy variables collected for the sample of 85 listed companies included in EGX100 index mainly shows the following:

The TD index data show that nearly all sample companies comply with most indicators except for the disclosure of the presence of the audit committee (TD19) which indicates that on average nearly 50% on average disclose the presence of the sample companies disclose the presence of an audit committee despite of the fact that is one of the main listing rules since 2003 which in return indicates the absence of effective enforcement by the governmental and regulatory authorities not only for the voluntary Egyptian corporate governance guidelines but also for the listing rules. Our results confirm even more the absence of effective enforcement by the supervisory authorities through showing that around 79% and for some other disclosure practices more than 79% of sample companies fail to comply with the disclosure of BOD report to shareholders concerning annual operating and financial results (TD2), disclosure of board of director’s background (TD3) which confirms with Kenawy and Abdelgany (2009) who refer that Egypt adheres to the criteria related to publishing all statistics and information data except for those related to wages and salaries and the central government processes.

In addition results also show no compliance with the disclosure of board of director’s basis of remuneration (TD7), disclosure of the degree of compliance with the Egyptian code of corporate
governance (TD13) and the disclosure of social, environmental, occupational, health and safety policies (TD15) by sample companies as well as the disclosure of the presence of a remuneration committee (TD20) along with the committee’s meetings, assigned functions and accomplishments (TD21). Accordingly, it can be concluded that Egyptian listed companies do not fully comply with mandatory disclosure and that voluntary disclosure is rather limited which is in conformity with Hassan et al. (2009) findings.

The descriptive analysis for the control variables shows: a) Most EGX100 companies are medium sized ones in terms of the log of their total assets value, capital expenditure and capital intensity results, b) Almost 41% only of the sample companies have one of the big 5 auditing firms acting as their external auditors which sheds light on the possibility of low quality audits being performed.

4.4. Relationship between the TD index and firm performance

The results of the step-wise regression of the model investigating the relationship between the total transparency and disclosure index (Total TD) as well as the individual TD indicators and the selected performance ratios are summarized in Table 1:

Table 1. Summary of step-wise regression results-TD index

<table>
<thead>
<tr>
<th>Performance Ratios</th>
<th>Significance of overall TD index</th>
<th>Significance of individual TD index indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Return on assets (ROA) ratio</td>
<td>Inversely significant</td>
<td>Inversely significant indicators:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>a) Annual audit being performed by an individual, competent and qualified audit (TD1).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>b) Disclosure of social, environmental, occupational and safety policies (TD3).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>c) The existence of investors relations (TD4).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>d) Disclosure of the presence of a remuneration committee (TD5).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>e) Disclosure of the remuneration committee’s assigned functions, meetings and accomplishments (TD21).</td>
</tr>
</tbody>
</table>

| 2) Market/book value (M/BV) ratio | Not significant | Inversely significant indicators: |
| 3) Tobin’s Q ratio | Inversely Significant | |
| 4) Return on Equity (ROE) ratio | Not significant | |

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Coefficients results of the total transparency and disclosure index</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>.428</td>
<td>.183</td>
<td>.103</td>
<td>TOTALTD</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-006</td>
</tr>
</tbody>
</table>

Note: ROA: Return on Assets
TOTAL TD: Total transparency and disclosure index score.
Sample size: 85 companies, No. of Observations: 85 companies X 5 years= 425

4.4.1. Relationship between TD index and ROA ratio

Table 2 above implies a significant inverse relationship existing between the total TD index and the return on assets ratio. Moreover, the coefficient Table 3 shows a negatively significant relationship between leverage, sales growth, external auditor being one of the big 5 companies and capital intensity as well as a positive significant relationship between both capital expenditure and firm age and the ROA ratio.

As per the aforementioned results, 17 transparency and disclosure indicators (out of a total of 23) present an insignificant relationship with the ROA ratio. On the other hand, 5 indicators demonstrate an inverse significant relationship while only the disclosure of the degree of compliance with the Egyptian corporate governance code (TD13) indicator is significantly positive to the ROA ratio. These results are supported by Bavadorj and Khurelbaatar, (2013) study on Mongolian listed companies and Coskun and Sayilir (2012) on Turkish listed companies. A possible justification for this outcome is the presence of a complex interplay of different factors determining the relationship between disclosure and firm performance. Another explanation is provided by Hassan et al. (2009) study which investigated the value relevance of disclosure in the Egyptian (emerging) capital market. The study referred that costs associated with disclosure may have outweighed the benefits of such disclosure even when penalties for noncompliance were negligible in the Egyptian setting. Consequently, the study recommended imposing stiffer penalties especially on mandatory disclosure requirements which in return might encourage greater compliance with mandatory disclosure requirements. The
enforcement problem was also referred to by Dahawy and Conover (2007) study on the accounting disclosure of listed companies in the Egyptian stock exchange. The findings indicated that “the disclosure level for the studied companies averaged 61% of the required level that is mandated by the Egyptian capital market authority requirements that are based on the international accounting standards. The authors added that most of the non-compliance could be explained by the cultural reasons and those companies were selective in their choice of what to comply with and what not to.

Table 3. Coefficient results of the step-wise regression of the TD index individual indicators and the ROA ratio

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Coefficient</th>
<th>Std.</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-0.023</td>
<td>0.001</td>
<td>0.725</td>
<td>1.379</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.013</td>
<td>0.000</td>
<td>0.469</td>
<td>2.132</td>
</tr>
<tr>
<td>TD13</td>
<td>0.082</td>
<td>0.000</td>
<td>0.732</td>
<td>1.365</td>
</tr>
<tr>
<td>TD1</td>
<td>-0.036</td>
<td>0.000</td>
<td>0.439</td>
<td>2.275</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>0.048</td>
<td>0.000</td>
<td>0.790</td>
<td>1.266</td>
</tr>
<tr>
<td>Sales growth</td>
<td>-0.014</td>
<td>0.000</td>
<td>0.577</td>
<td>1.732</td>
</tr>
<tr>
<td>TD15</td>
<td>-0.039</td>
<td>0.004</td>
<td>0.539</td>
<td>1.857</td>
</tr>
<tr>
<td>TD16</td>
<td>-0.063</td>
<td>0.009</td>
<td>0.840</td>
<td>1.190</td>
</tr>
<tr>
<td>TD17</td>
<td>0.024</td>
<td>0.004</td>
<td>0.795</td>
<td>1.258</td>
</tr>
<tr>
<td>TD18</td>
<td>0.090</td>
<td>0.002</td>
<td>0.707</td>
<td>1.414</td>
</tr>
<tr>
<td>TD20</td>
<td>-1.015</td>
<td>0.005</td>
<td>0.747</td>
<td>1.338</td>
</tr>
<tr>
<td>BIG5NOT</td>
<td>-0.020</td>
<td>0.042</td>
<td>0.649</td>
<td>1.340</td>
</tr>
</tbody>
</table>

Note: TD13: The disclosure of the degree of compliance with the Egyptian corporate governance code.
TD1: Annual audit being performed by an individual, competent and qualified audit.
TD20: Disclosure of the presence of a remuneration committee.
TD14: Disclosure of the remuneration committee’s assigned functions, meetings and accomplishments.
TD15: Disclosure of social, environmental, occupational and safety policies.
TD18: The existence of investors’ relations.
BIG5NOT: External auditor is one of big 5 auditing firms or not.
Sample size: 85 companies, No. of Observations: 85 companies X 5 years= 425

On the contrary, our results are not supported by Herly’s (2007) study in Indonesia which demonstrated that firm performance measured in terms of the return on assets ratio is positively related to corporate governance reporting. In addition, the evidence provided in this section also contradicts Chiang (2005) in Taiwan which also indicated that financial transparency and information disclosure possess a significant relationship with firms operating performance measured using the return on assets ratio. These contradicting findings originating mainly from developing countries prove the argument of the presence of mixed literature empirical evidence to be valid.

Thus, as per the aforementioned empirical evidence, the results above can indicate the presence of an inverse significant relationship between the TD index and the ROA ratio at a 0.05 significance level. Consequently, Hypothesis H1 can be accepted.

4.4.2. Relationship between the TD Index and the MBV Ratio

Table 1 highlights the absence of a significant relationship between the TD index (Total TD) as one of the main internal corporate governance mechanisms and the market/book value ratio. In addition, it presents an insignificant relationship existing between the remaining 21 transparencies and disclosure indicators and the same ratio. The results are in line with those obtained when regressing the same index to the return on assets ratio as presented earlier in this chapter. In addition, our evidence confirms with Hassan et al.’s (2009) study which showed that, after controlling for factors such as asset size and profitability, mandatory disclosure has a highly significant but negative relationship with firm value. This in return proves the presence of a complex interplay of different factors determining the relationship between disclosure and firm value. Gupta et al. (2009) and Javed and Iqbal’s (2007) empirical results also support our results since they find that their disclosure and transparency index has no significant effect on firm performance justifying that those adequate firm-level governance standards cannot replace the solidity of the firm. Accordingly, they argue that low production and bad management practices cannot be covered with transparent disclosures and transparency standards. This argument can also be used to justify our presented results as they apply to a great extent on Egyptian listed companies as well. The results can also be related to the problem of enforcement which has been also referred to be McGee (2010) in his study on the Egyptian capital market referring that “Enforcement of the disclosure provisions is especially important. The capacity to monitor disclosure needs to be strengthened. Staff needs to be trained to become aware of the issues and the possible abuses.”

On the other hand, the results are not supported by Bubbico et al. (2012) in Italy, Abdo and Fisher (2007) in South Africa, Cheung et al. (2007) in Hong Kong and Black et al. (2004) in Korea who both found sufficient evidence to conclude that there is a positive relationship between the level of disclosure and corporate performance measured in terms of the market book value ratio. The different findings can be justified by the variation in the level of effective corporate governance implementation between both markets on one hand and Egyptian market despite of the fact that the Korean market is an example of an emerging capital market.
In summary, the results above indicate the absence of a significant relationship between the TD index and the MBV ratio at a 0.05 significance level. Further individual analysis of the TD indicators showed that only two TD indicators were significant out of a total of 23 indicators. Therefore, Hypothesis H1 cannot be accepted.

4.4.3. Relationship between the TD Index and the Tobin’s Q Ratio

Consistent with the earlier values, the R² value (refer to Table 4 below) indicates that the independent variables included in the aforementioned explanatory model contributes in predicting only a 2.9% change in the Tobin’s Q ratio at a 0.05 significance level. In addition, Table 1 and 4.5 below displays a significant negative relationship existing between the TD index and firm performance measures in terms of Tobin’s Q ratio.

Table 4. Model summary and Coefficient results of the step-wise regression of the total TD index and the Tobin’s Q ratio

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOBIN'S Q</td>
<td>.172**</td>
<td>.029</td>
<td>.025</td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.763</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>TOTALTD</td>
<td>.044</td>
<td>.014</td>
<td>.003</td>
</tr>
</tbody>
</table>

Note: TOTAL TD: Total transparency and disclosure index score. Sample size: 85 companies. No. of Observations: 85 companies x 5 years= 425.

Table 5. Coefficient results of the step-wise regression of the TD index individual indicators and the Tobin’s Q ratio

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Coefficients</th>
<th>Sig.</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>TD19</td>
<td>-.373</td>
<td>.001</td>
<td>.989</td>
<td>1.011</td>
</tr>
</tbody>
</table>

Note: TD19: Disclosure of the presence of an audit committee. Sample size: 85 companies. No. of Observations: 85 companies x 5 years= 425.

Only the disclosure of the presence of an audit committee (TD19) signifies a significant negative relationship with the Tobin’s Q ratio. Our results, resemble those obtained when investigating the relationship between the TD index and the ROA and MBV ratio’s which all showed significant negative relationship existing. Accordingly, the possible justifications provided for both ratios equally apply on the Tobin’s Q ratio. Additionally, Table 1 indicates a negative significant relationship existing between the disclosure of the presence of an audit committee and Tobin’s Q which may also hint to a possible significant relationship existing between board committees as a corporate governance mechanism and the Tobin’s Q ratio.

Our results confirm with Hassan et al.’s (2009) study on the Egyptian capital market, Herly’s (2007) study on Indonesian listed companies as well as Javed and Iqbal’s study (2008) on listed companies in Pakistani market since their findings show that their disclosure and transparency index has no significant effect on firm performance justifying that those adequate firm-level governance standards cannot replace the solidity of the firm. Accordingly, they argue that low production and bad management practices cannot be covered with transparent disclosures and transparency standards. This argument can also be used to justify our presented results as they apply to a great extent on Egyptian listed companies as well.

On the other hand, our empirical results conflicts with Black et al. (2006) in Korea and Bublico et al. (2012) in Italy who all found a significant positive relationship between their transparency and disclosure practices and the Tobin’s Q ratio. These contradicting results can be due to the difference between the implementation level of corporate governance practices in the above mentioned capital markets and the Egyptian one. In addition, since this contradicting evidence evolve from both developing and developed markets, thus this can highlight the absence of consensus among the corporate governance literature in this context. Summing up, as per the aforementioned empirical evidence, the results above can indicate the presence of a significant inverse relationship between the overall TD index and the Tobin’s Q ratio at a 0.05 significance level. Therefore, Hypothesis H1 can be accepted.

4.4.4. Relationship between the TD Index and the Return on Equity (ROE) Ratio

The R² value is relatively low (refer to Table 6) indicating that the independent predicts only a 14.4% change in the ROE ratio at a 0.05 significance level. In addition, Table 1 highlights the absence of a significant relationship between the total transparency and disclosure index (TOTAL TD) and the ROE ratio as well as a significant relationship specifically existing only between the timely disclosure of financial and operating results (TD3) and the disclosure of the degree of compliance with the Egyptian code of corporate governance (TD13) as shown in Table 7. Consequently, an insignificant relationship exists between the remaining 21 transparency and disclosure indicators are in line with the results obtained when regressing the same index to the ROE ratio.

Table 6. Model summary and Coefficient results of the step-wise regression of the total TD index and the return on equity ratio

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>.370**</td>
<td>.135</td>
<td></td>
</tr>
</tbody>
</table>

Note: ROE: Return on Equity ratio. Sample size: 85 companies. No. of Observations: 85 companies x 5 years= 425.

Table 7. Coefficient results of the step-wise regression of the TD index individual indicators and the ROE ratio

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Coefficients</th>
<th>Sig.</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>TD13</td>
<td>.099</td>
<td>.001</td>
<td>.730</td>
<td>1.369</td>
</tr>
<tr>
<td>TD3</td>
<td>-.176</td>
<td>.027</td>
<td>.971</td>
<td>1.030</td>
</tr>
</tbody>
</table>

Note: TD13: Disclosure of the degree of compliance with the Egyptian code of corporate governance. TD3: Timely disclosure of financial and operating results. Sample size: 85 companies. No. of Observations: 85 companies x 5 years= 425.
The results are in line with Bavudorj and Khurelbaatar (2013) on Mongolian listed companies, Coskun and Sayilir (2012) on Turkish listed companies, Javed and Iqbal (2008) on listed companies in Pakistan. Worth noting that all the studies mentioned which support the findings provided in this paper belong to developing or emerging markets that resemble the Egyptian capital market. On the other hand, studies like Black et al. (2004) in Korea, Drobetz and Zimmerman (2004) in Germany do not support our findings in this regard. This can be due to the different implementation levels of corporate governance practices especially when considering listed companies in a developed capital market such as the German capital market. Finally in this regard, the results above can indicate the absence of a significant relationship between the overall TD index and the ROE ratio at a 0.05 significance level. Therefore, Hypothesis H1 cannot be accepted.

4.4.5. Discussion of Empirical Results

Focusing on Egypt's case, the statistical results are not in line with the agency theory that corporate governance might mitigate agency problems leading to reduced agency cost by aligning the interests of controlling owners with those of the company. In fact, our empirical evidence points to the presence of a complex interplay of factors other than those included in the constructed explanatory models presented throughout this paper that impacts Egyptian listed companies' performance as well as the effective implementation of the Egyptian corporate governance guidelines. This conclusion is supported by Cheung and Chan (2004), who argue that corporate governance, is a product of a complex set of cultural, economic and social issues and that the governance structures of corporations differ from country to country. Accordingly, appropriate corporate governance guidelines and practice codes must be designed and adopted by each constituent country. In the end, corporate governance should produce an environment within each country that corporations identify with and can adhere to in their decision making process. Certainly, this seems to be ignored and absent in Egypt's case.

Our conclusion will additionally be supported and complimented by the empirical evidence obtained from investigating the impact of the remaining nine TD indicators integrated in the "objective TD questionnaire" which are not disclosed in listed companies' annual reports (thus were not included in the index) on the selected performance ratios. This is crucial especially when taking into consideration that the insignificant relationships between the individual TD indicators of the index and the various firm performance ratios exceeded the significant relationships as presented throughout this part of the paper. Accordingly, the transparency and disclosure variables included in the questionnaire will be further tested in search for more significant relationships that may exist between the questionnaires' TD indicators and firm performance as will be demonstrated in the following section.

5. EMPIRICAL RESULTS AND FINDINGS-TD QUESTIONNAIRE

Prior to the conduction of the step-wise regression, a reverse causality or endogeneity 2SLS regression test is performed. In addition, a co-linearity test is conducted to the collected data. Thus, it can be concluded that the collected data carries no endogeneity problem. Results of the co-linearity test also indicated the absence of a co-linearity problem in the collected data relating to all the independent variables involved in the constructed explanatory models.

5.1. Relationship between the TD questionnaire and firm performance

The impact of the TD questionnaire on firm performance is tested using stepwise regression after controlling for the previously mentioned selected set of control variables. Accordingly, the total TD questionnaire (Total TD) as well as each individual TD questionnaire indicator is regressed to the four selected proxies of firm performance using collected data for the year 2010 only in an effort to test for hypothesis H1. A summary of the empirical results are presented in Table 8 below:

<table>
<thead>
<tr>
<th>Performance Ratios</th>
<th>Significance of overall TD questionnaire</th>
<th>Significance of individual TD questionnaire indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Return on assets (ROA) ratio</td>
<td>Not significant</td>
<td>No significant individual TD questionnaire indicators exist.</td>
</tr>
<tr>
<td>2) Market / book value (M/BV) ratio</td>
<td>Not significant</td>
<td>Positively significant indicator: a) Company selects supplies who are at the same occupational and ethical level. Inversely significant indicator: b) Internal audit manager reports on quarterly basis to the audit committee.</td>
</tr>
<tr>
<td>3) Tobin's Q ratio</td>
<td>Not significant</td>
<td>No significant individual TD questionnaire indicators exist.</td>
</tr>
<tr>
<td>4) Return on Equity (ROE) ratio</td>
<td>Not significant</td>
<td>No significant individual TD questionnaire indicators exist.</td>
</tr>
</tbody>
</table>

The regression results of the "transparency and disclosure" questionnaire shows no significant relationship between the total TD score and the four selected firm performance proxies. Accordingly, the evidence provided in this section are in line with those obtained when regressing the TD index. However, the only notable difference between both results can be that several transparency and disclosure practices in the index showed a negatively significant relationship while this is not the case with the questionnaire evidence. A possible justification can be the difference in the tested practices used in the index and questionnaire as well as the difference between the periods used in both (the index used data for a five year period...
while the questionnaire data uses only one year data).

Thus, as per our empirical evidence in this section, there is no significant relationship between transparency and disclosure, control and dummy variables included in the above tested model using the questionnaire data collected for the year (2010). Accordingly, we reject hypothesis H1 with regards to the TD questionnaire indicators.

5.2. Commenting on transparency and disclosure index and questionnaire results

Our empirical findings demonstrated throughout this paper show an insignificant relationship between transparency and disclosure indicators included in both the index and questionnaire with the four selected proxies of firm performance. Even those TD practices that were significantly related to firm performance presented an inverse relationship. Consequently and in line with our conclusion with regards to the index, our statistical results confirm the contradiction with the agency theory and the presence of a complex interplay of factors that impacts Egyptian listed companies' performance other than that available in the literature. The evidence provided by the analysis of the questionnaire data also highlights two main problems which are:

1) The lack of enforcement and effective implementation of the Egyptian corporate governance guidelines by government regulatory and supervisory bodies which has transformed corporate governance practices in Egypt to administrative steps required for listed companies continued operation without reaping the benefits of proper implementation.

2) The voluntary implementation of the Egyptian Code Corporate Governance makes the effectiveness of its requirements highly questionable especially when our empirical evidence shows deficiency in the compliance even with listing rules and mandatory laws.

6. QUALITATIVE VALIDATION OF EMPIRICAL RESULTS THROUGH INTERVIEWS

As a further step towards providing practical and empirical justification to our results, qualitative validation and support is obtained through conducting a number of interviews with the general or financial managers of Egyptian listed companies included in our sample is vital in providing more insight of the conditions present in the Egyptian capital market in this regard.

Accordingly, a total number of 10 interviews with the general or financial managers of 10 Egyptian listed companies (including service, manufacturing and construction listed companies) available in our sample were conducted aiming to answer three main questions which are:

1) What are the main factors that affect your company’s performance (whether internal or external)?

2) Do you perceive that implementing the Egyptian corporate governance guidelines affects your company’s performance? How?

3) What in your opinion can be done to enhance the actual implementation of the Egyptian corporate governance guidelines among listed companies?

Answers to the first main question revealed that in the Egyptian capital market context, internal factors such as firm size, sales growth, leverage, liquidity, capital intensity, capital expenditure, sector type, external auditors, and firm age (which were included in our tested explanatory model and presented in the literature) were not directly referred to as main factors impacting Egyptian listed companies' performance. This in return can support our empirical evidence presented by the low R² value obtained throughout our statistical output presented in the previous sections.

More importantly, is the fact that the transparency and disclosure mechanism in specific was not directly referred to as one of the factors impacting Egyptian listed companies performance which in return supports our empirical evidence showing a large number of insignificant relationships existing between the various tested individual transparency and disclosure indicators and the various firm performance ratios.

Answers of the 2nd question regretfully confirmed a consensus on the fact that in the Egyptian capital markets’ case, compliance with the Egyptian corporate governance guidelines or with the corporate governance practices embedded in the Egyptian stock exchange listing rules have turned into some administrative steps that has no actual harming or effect on Egyptian listed companies performance, apart from multinational and foreign entities which are relatively few in number in the local market. Consequently, governance mechanisms such as transparency and disclosure practices are considered to be “just ink on paper without any actual value added to any company that is required to adopt corporate governance in Egypt” as quoted by the general manager of a listed company that is considered to be one of the pioneers in adopting corporate governance practices even before it was required by laws and listing regulations. Hence, this is in line with our empirical evidence demonstrating more insignificant relationships between the transparency and disclosure mechanism and its related individual indicators and Egyptian listed companies' performance.

As for the 3rd Interview question, the following steps were recommended:

a) The presence and effective implementation of sound auditing and accounting criteria and practices in both public and private economic entities that are consistent with internationally accepted standards. This will contribute in curbing widespread corruption and thus ease the path towards overall economic reform in both institutions.

b) Public supervisory bodies should enhance the actual implementation of corporate governance practices through increasing listed companies managers and staffs’ awareness of the possible benefits of the effective adoption of the Egyptian corporate governance guidelines.

c) Establishing a better legal environment which assures effective law enforcement equally among all parties without any exceptions. Filtering any unnecessary regulations is also crucial in this context.
d) The Egyptian accountants and legal auditors association should be in charge of auditing the corporation’s financial reports and ensuring compliance with the disclosure of corporate governance related practices through listed companies’ corporate governance reports.
e) Enhancing the role of other financial institutions (especially through banks) in increasing compliance with the Egyptian corporate governance guidelines among listed companies. In this regard granting loans and credit could require the effective implementation of corporate governance practices as one of the main perquisites.
f) Increasing Egyptian investors’ awareness of the importance of corporate governance practices in protecting their rights. This process can be initialized primarily through various mass media channels in contribution with the Egyptian Stock Exchange. Shareholders awareness can by time cause pressure on listed companies towards complying with the Egyptian corporate governance guidelines.

7. CONCLUSION, LIMITATIONS AND FUTURE RESEARCH RECOMMENDATIONS

The paper contributes to existing literature by investigating the impact of transparency and disclosure as a corporate governance mechanism on listed companies’ performance in an emerging capital market as the Egyptian one. Accordingly, this paper is the first to use an objective transparency and disclosure index extracted from the Egyptian corporate governance guidelines to study this relationship among a sample of Egyptian listed companies.

Generally, our findings are in line with Samaha and Dalawy (2010) as well as Samaha et al. (2012) who also found low compliance and disclosure levels with CG related information. They attribute this status to the ineffectiveness and inadequacy in the regulatory framework in Egypt besides socio-economic factors in Egypt including the unbalanced political situation, prevalent corruption, deteriorating law and order situation and the influence of the social elite, under developed corporate culture, less CG awareness and a very slow learning curve in case of a relatively new and developing stock market as the Egyptian one.

Consequently, we confirm that the effective implementation of corporate governance practices in general and consequently transparency and disclosure practices being a corporate governance supervisory tool needs a lot of changes both culturally and professionally besides the contribution among various parties including government supervisory bodies, financial (mainly banking) institutions, listed companies board of directors’ members, management and staff as well as Egyptian investors.

Possible limitations for our study could be the inclusion of only the highest trading firms in the sample which can make the results not generalized across all companies in Egypt. Another limitation is that we use the data from only one country and thus do not analyze the interaction of country-level factors into account. In addition, the model built in this paper focused only on including company specific factors while disregarding country related factors such as low law enforcement, corruption, low investors awareness, deficiency of managerial skills as well as relevant culture related factors.

Based on our study of the impact of the transparency and disclosure practices as a main internal corporate governance mechanism on the performance of Egyptian listed companies, we suggest that future research can focus on the following:
a) More empirical research should be conducted on the applicability of the agency theory on developing countries. Future research should thus be extended to investigate the impact of existing corporate governance practices in general and transparency and disclosure practice in specific on companies’ performance especially among other developing markets in order to determine the generality of our results from the Egyptian context.
b) Including more country-level factors as well as variables that relate to the context of culture rather than company level factors when in an attempt to build models that can better explain corporate governance practices in general and the level of disclosure in specific especially when studying developing countries.

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