

THE ANALYTICAL ASSESSMENT OF SOME MIDDLE EAST CORPORATE GOVERNANCE STANDARDS AFTER THE GLOBAL CRISIS

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Abstract

The purpose of this paper is to present a set of comparative corporate governance standards in some Middle East countries including: Turkey, UAE, Saudi Arabia plus IIFS Code (Institutions offering Islamic financial services). There are strengths and weaknesses in these codes or practices which will be identified in this paperwork.

Therefore, this paper not only identifies different points in latest corporate governance standard principles and systems in the above three (3) countries, but also provides with a summary of evaluation of current corporate governance systems in these above countries which may enable relevant organizations in re-evaluating their current ones. Last but not least, it aims to illustrate a limited comparative set of standards of Middle East corporate governance, and give proper recommendations to relevant governments and institutions toward a sustainable practices in business life.

Keywords: Corporate Governance Standards, Board Structure, Code of Best Practice, Financial Crisis, Corporate Scandals, Market Manipulation, Internal Audit

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1. INTRODUCTION

The nature of the environment in which contemporary businesses function is systemic which is described in corporate governance practices or codes.

The Turkey 2003 Principles of Corporate Governance mentioned sound corporate governance practices bring out advantages for companies and countries. With respect to companies, high quality status of corporate governance means low capital cost, increase in financial capabilities and liquidity, ability of overcoming crises more easily and prevention of the exclusion of soundly managed companies from the capital markets. In the light of different views on Corporate Governance and Company Acts, which are among interests of many organizations, after financial crisis 2007-2009, this paper mainly concentrates on analysis of Code of Best Practices for Corporate Governance in selected Middle East countries and separates it from the analysis of relevant Company Act and Accounting regulations, which can be used as reference for further scopes. Despite of trying to select an easy-reading writing style, there is still some academic work need to be explained in further.

This paper is organized as following. First (1st) session is Research literature review, which gives us a summary of what has been done in this field. Next, second (2nd) session provides some theories in

corporate governance and manipulation. The third (3rd) session handles with empirical research findings and performing a comparative analysis among different Codes.

And final (4th) session turns to the conclusion and policy suggestion. Last but not least, a reference and web resources are introduced for further research and analysis. At last, there are exhibit session which covers some summary of this paper's analysis and comparison. And a glossary note is provided with information for reference.

2. RESEARCH LITERATURE REVIEW

Many researches so far are done in the corporate governance area in Europe. Hopt, Klaus J., and Leyens, Patrick C., (2004) pointed recent development trend in Europe Corporate Governance is specialized rules for listed companies and indicate growing convergence in internal control mechanisms independent of board structure. EU (2002) also issues the Code of Best practices and the 2006 Directive requires that each listed company should publish an annual corporate governance statement to what extent the company can comply with that code. Among its key principles is the separation of roles between the CEO and the Chairman as it stated "The Chairman and CEO roles should be separate and the CEO should not immediately become Chairman of either a

unitary or a supervisory board". Noia, Carmine Di., (2009) at ECIIA Conference shows after the crisis 2009 in Europe, there is no definition of shareholder due to national jealousy of company law; no harmonization of record date; and no shareholder identification. And OECD (2009) confirmed that the financial crisis can be an attribute to failures and weaknesses in corporate governance system, including risk management system and executives salaries. After crisis 2007-2008, Erkens, David., Hung, Mingyi., and Matos, Pedro., (2010), found out that during crisis, firms with more independent boards raised more equity capital, which partially caused them to experience worse stock returns. Last but not least, AFG 2010 Corporate Governance (CG) Code, France, stated the European code should be completed so that basic CG guidelines were defined to encourage best CG practices in every field for all listed companies in European Economic Area. Furthermore, Dermine (2013) mentioned that the debate on bank governance should concern not only the boards but also the governance of banking supervision with clearly identified accountability principles. Last but not least, Bekiaris et al (2013) identified in Greece that the rapid growth in new products and changes in market structure can affect the development of processes and infrastructure of risk management. And the most important factor that could highlight all risks in time is to perform audits on liquidity, capital and balance sheet consolidation.

But, what are the comparative standards of Middle East corporate governance standards?

Theory of Corporate Governance, Scandal and Market Manipulation

Theory of manipulation

Different ownership structure affects manipulation. In dispersed ownership regime, manager may have incentives to do some stock market manipulation. Baik, Bok., Billing, Bruce K., and Morton, Richard M., (2005) expressed SEC' concerns that managers can manipulate non-GAAP measures to mislead investors.

Theory of corporate governance and financial crisis

The 2012 CG Code in Pakistan mentioned good CG instills investor confidence. The UK Financial Reporting Council (2010) stated corporate governance is about what the board of a company does and how it sets the values of the company, and is to be distinguished from the day to day operational management of the company by full-time executives. We can see, therefore, different approaches on corporate governance.

Research methodology

First of all, we perform a comparative analysis of Middle East corporate governance principles in each of two (2) different groups including: 1) Middle East representative Corporate Governance group, here, we select two countries: The UAE and The Kingdom of Saudi Arabia which have some modifications in issuing corporate governance principles; and 2) Relatively good Corporate governance group including Turkey and IIFS Code (Institutions offering Islamic financial services);

We also use international standards of corporate governance for reference such as: ADB and OECD's corporate governance principles as reference.

After that, we make a suggestion on what so-called common corporate governance principles for Europe which is aiming to create a basic background for relevant corporations interesting in corporate governance subject. Additionally, it can be considered as the recommendation to relevant countries' government and other relevant organizations for public policy and necessary evaluation. For a summary of our standards, see Exhibit sessions and the below table D.3.

3. EMPIRICAL FINDINGS

A-Findings on Corporate governance issues after financial crisis, corporate scandals and market manipulation

There are several popular issues including: the appraisal of following code of ethics of the company and industry in specific markets is not done with full of responsibility or is done just on the business surface. Furthermore, the internal control and audit system are weak.

Continuously, there is an issue of legal and compliance with international accounting standards which is being used improperly by company executives. Also, there involves a matter of a sound process for decision-making which fails in some cases.

B-Findings on Ways of Manipulation during Corporate Scandals

Several Manipulation Techniques found out during corporate scandals involve, but not limited to:

B.1 – The manipulation techniques in the income statement:

Here, the company's revenues are recorded when the company is not completing all services committed. Or managers join in cooking the firm books and manipulating the company earnings. For example, in the Global Crossing scandal, in 2001, revenues of the

company is misstated because it recognized long term contracts in full at the initial.

B.2 - The manipulation techniques in both the income statement and balance sheet:

Lehman Brothers (2008) is accused of using another company, Hudson Castle, for its accounting manipulation which means transferring its asset and risks. OR in Parmalat scandal, a dairy product company in Italy, not only the lack of board composition is a matter, but also there is false disclosure in financial reports. The debt in reality doubles, compared to what disclosed in reports, and it is said that in 2004, the firm debt was 14.3 billion euro, 8 times what it had admitted.

B.3 - The manipulation techniques relevant to international accounting practice code:

We can see two (2) below different popular accounting rules on treatment “impairment” term which may mislead the company.

In IFRs: Impairment is recorded when an asset's carrying amount exceeds the higher of the asset's value-in-use (**discounted present value of the asset's expected future cash flows**) and fair value less costs to sell.

And in GAAPs: Impairment is recorded when an asset's carrying amount exceeds the **expected future cash flows** to be derived from the asset on an undiscounted basis.

B.4 - Other manipulation techniques net belong to above classifications:

Manipulation can happen when the individual or company sells share when the price is high and buy back when low price to maximize the return. Or it is just an issue of violation of code of ethics which lead to losses for investors and damage their confidence. For example, in 2009 Stanford financial fallout, \$8

billion collected were used for a hedge fund, instead of safe CDs, and brings benefits for management lifestyle, then, the money lost. Or it is related to insider trading which helps some people earn illegal profits. For example, in 2009 Galleon hedge fund scandal, a firm headquarter in the US, some investors trade on inside information to profit illegally.

C- Actions on Preventing or Controlling negative manipulation

Necessary actions to prevent or control negative market manipulation are, but not limited to, periodically re-evaluation of Code of Best Practices, review of audit and internal control system and enhancement of internal system and mechanisms.

D- Findings on Construction of a Limited Common Middle East Corporate Governance standards

These findings will be shown in a detailed analysis of a model indicated in the later sessions.

<D.1> - Group 1 – Middle East representative corporate governance standards analysis

In The Kingdom of Saudi Arabia

The 2006 Code of Corporate Governance mentioned shareholders may appoint another shareholder not a board member and not an employee t attend general assembly.

One of its main characteristics is enhancing shareholder roles. In general assembly, those hold 5% or more can list one or more items on agenda.

Among its advantages include the definition of stakeholders which include any person that has an interest in the company.

On the other sides, it still needs to clearly identify duties of a compliance officer.

Table C.0. The Corporate Governance Code general standards in the Kingdom of Saudi Arabia (a short summary evaluation)

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	Have NED in BD; not less than 3 members;	Duties disclose in BD report;	Notify BD its activities;	<u>Not mentioned clearly in the Code</u>	
Nomination committee	Have NED in BD;	Duties disclose in BD report;	Notify BD its activities; recommend BD membership; review BD suitable skills, capabilities;	<u>Not mentioned clearly in the Code</u>	
Compensation or Remuneration committee	Have NED in BD;	Duties disclose in BD report;	Notify BD its activities;	<u>Not mentioned clearly in the Code</u>	

CEO	<u>Not mentioned clearly in the Code</u>	Compensation disclose in BD report if in top 5 executives;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
The Chair	Notify general assembly activities if BD member has a personal interest;	Compensation disclose in BD report;	May request BD meeting;	<u>Not mentioned clearly in the Code</u>	
CEO and The Chair relationship	<u>Not mentioned clearly in the Code</u>	Consult CEO and BD before preparing agenda;	Not conjoin position of chairman with CEO; BD approve agenda by chair;	<u>Not mentioned clearly in the Code</u>	
Corporate Secretary	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Compliance officer	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Board of Directors	Responsible manner, good faith, due diligence;	Formation disclose in BD report;	Approve functional structure of firm, objectives, strategic plans; not enter into loans > 3 yrs;	Compliance with laws;	
Executive director	<u>Not mentioned clearly in the Code</u>	Disclose in BD report;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	Understood from the Code
Non-executive director	Disclose in BD report; sufficient information ;	Not full time mgt; not receive monthly or yearly salary;	BD member; majority of BD is NEDs;	<u>Not mentioned clearly in the Code</u>	
(Senior) Independent director	Not less than 2 members in BD, or 1/3;	Independence ; hold 5% or more shares;	BD member;	<u>Not mentioned clearly in the Code</u>	
CFO/Finance Director	<u>Not mentioned clearly in the Code</u>	Compensation disclose in BD report if in top 5 executives;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Management team	BD delegate powers to MGT;	BD decisions based on sufficient information from MGT;	BD assume necessary powers for MGT;	<u>Not mentioned clearly in the Code</u>	
Supervisory board	<u>Not mentioned clearly in the Code</u>	BD supervise main capital expenses;	BD supervise implantation of strategic plans;	<u>Not mentioned clearly in the Code</u>	
Internal control	<u>Not mentioned clearly in the Code</u>	BD supervise IC;	Annual audit of effectiveness of IC disclose in BD report;	<u>Not mentioned clearly in the Code</u>	
Internal audit	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	AC supervise IA department; review IA report;	<u>Not mentioned clearly in the Code</u>	
External audit	AC review audit plan with EA;	AC supervise EA activities;	AC recommend BD EA;	<u>Not mentioned clearly in the Code</u>	
Disclosure and transparency	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	Disclose classification of BD in BD report;	<u>Not mentioned clearly in the Code</u>	
Shareholders and Minority Stockholder	Have access to information;	Have rights to supervise BD; General Assembly once a year;	Accumulating voting increases chance of minority shareholders to appoint representative in BD;	<u>Not mentioned clearly in the Code</u>	
Accountability	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	Firm not grant cash loan to BD;	<u>Not mentioned clearly in the Code</u>	

		<u>Code</u>			
Leadership	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	Act by BD;	<u>Not mentioned clearly in the Code</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				

In UAE

The 2011 CG Code for SME is a benchmark for CG practices.

It includes roles of independent NED participation in board.

A short summary and evaluation of this revised Code is shown in the Exhibit 1.

Different from other Codes, the 2011 Dubai Code emphasizes the CR role in supporting sustainability of SMEs which account for 95% of all firms.

Besides, it pays attention to family governance and control environment including risk mgt, audit and internal control (IC).

In short summary, strengths of the 2011 Code are, but not limited to, meetings b.t new outside directors with senior middle mgt, though it still need to specify duties of compliance function.

Comparison between UAE and the Kingdom of Saudi Arabia Corporate governance standards

It is in the 2006 Saudi Arabia Code that the General assembly will approve dividends.

While, the 2011 Dubai Code take into account of meeting minutes of AGM.

Another advantage in the 2006 Saudi Arabia Code is the role of BD in supervising the Code of Conduct.

On the contrary, the Dubai Code illustrates roles of The CEO and Chair need to be clearly identified. Another strong feature of the Saudi Arabia Code is pointing MGT send periodic reports to BD on delegated powers.

The 1st Establishment of so-called Limited Middle East Representative Corporate Governance standards

With the selection of The Kingdom of Saudi Arabia and UAE as two Middle East countries (limited) which represent in the construction of general corporate governance principles and standards, we build the below table with the following criteria:

Firstly, it includes contents that enable firm to encounter corporate governance issues after the corporate scandals and financial crisis. It also functions as a summary of general corporate governance standards from these two Middle East representative countries.

Therefore, we use the term "Limited Middle East Representative Corporate governance standards" to represent for the common criteria. The term "limited" here means the criteria mentioned below is better in the light of the author's appraisal, which is considered in the context that the financial crisis and the corporate scandals caused many errors in the system of Corporate Governance in Middle East. It is also constructed in the way that being the better understandable criteria.

Table C.1. A summary of A Limited Middle East Representative Corporate Governance general standards

Subjects or parties	Main quality factors	Sub quality factors
Audit committee	Have NED in BD; not less than 3 members;	Duties disclose in BD report;
CEO and The Chair	Chair consult CEO and BD before preparing agenda;	Not conjoin position of chairman with CEO; BD approve agenda by chair;
Corporate Secretary	N/A (for further research and implementation)	N/A (for further research and implementation)
Compliance officer	N/A (for further research and implementation)	N/A (for further research and implementation)
Board of Directors	From 3 to 11 members;	Succession plan; roles defined in BD charter; meet frequently;
Independent director	Fresh views, more objective thinking;	Join SB, BD;
Supervisory board to the Management	BD supervise main capital expenses;	BD supervise implantation of strategic plans;
Supervisory to the Board of Directors	2 to 3 members; No formal decision making power;	AC supervise EA activities;
Internal control	Annual audit of effectiveness of IC disclose in BD report;	BD supervise IC;
Internal audit	AC supervise IA department; review IA report;	Ensure RM approach followed, IC in place, CG processes in place;
External audit	AC review audit plan with EA;	EA think about key issues to interact effectively with MGT;

Disclosure and transparency	Timely, accurate;	Disclose classification of BD in BD report;
Shareholders	Open, transparent information flow with shareholders;	Accumulating voting increases chance of minority shareholders to appoint representative in BD;
The corporation as a whole entity (enterprise)	Firm understand employee attitudes, customer perspectives, impacts on community;	Firm not grant cash loan to BD;

<C.2> -Group 2 – Relative Good Corporate governance group analysis

Turkey Code of Corporate Governance analysis:

Good recommendations involved in the 2003 Code include, but not limited to, disclosing ethical rules within the scope of firm information policy.

In addition to, it encourages firm to disclose to public a list of executives and who can possess price-sensitive information.

For a summary on corporate governance factors, please refer to the Exhibit 2.

In summary, the description on stakeholders as third parties in direct relationship with the co. is among good sides in the Code 2012 while it does not analyze well duties for NEDs.

Principles of Corporate Governance for IISF 2006 analysis:

The Code is for Institutions offering Islamic financial services.

It pointed guiding principles help IIFS establish effective CG practices. And it also mentions roles of CG committee complement to those of AC.

Different from other Codes, the IIFS Code indicated the company acknowledges investment account holder rights to monitor investment performance. Last but not least, it suggests CG committee make proper recommendations to board. However, it would be better if it explains roles of IC function. (see exhibit 4).

Comparison

The Turkey Code mentions several good points such as: description on meeting agenda of BD and chairman.

On the other hand, 2006 IIFS Code complement internationally recognized standards of CG. It also enhances the task of CG committee in providing reports to BD.

Therefore, based on above analysis, here we try to build a set of common standards.

The 1st Establishment of a so-called relatively Good Corporate Governance standards

This following table is built with the consideration of comparative analysis of three (3) selected above countries.

Table C.2. A relatively Good Corporate Governance standards

Subjects or parties	Main quality factors	Sub quality factors
Audit committee	BD members not assigned to more than 2 committees; meeting compliant with that of BD;	Reports to BD on compliance with intl. accounting standards;
CEO and The Chair	Chair consult CEO, board on BD meeting agenda;	Meeting agenda cover: decide business area, approve biz/fiscal plan, elect chair, new board member, establish/terminate administrative divisions, appoint/dismiss CEO, committee, M&A;
Corporate Secretary	Established to serve BD, keep records, meeting minutes;	Preparation for BD/committee meeting;
Compliance officer	N/A (for further research and implementation)	Have compliance function;
Board of Directors	Prohibited from join in transactions competing with the co., making false comments about the co.;	majority are NEDs; NEDs of BD conduct internal meeting regularly;
Independent director	Independence statement in annual report;	Not BD member with 7 yrs;
Supervisory board to the Management	BD supervise whether operation comply with legislation, policies;	N/A (for further research and implementation)
Supervisory to the Board of Directors	AC supervise whether periodic F.S comply with legislation;	AC supervise financial and operation; execution of accounting system;

Internal control	BD establish IC appropriate to minimize adverse effects of risks;	Audit firm opinion on IC disclosed in annual report;
Internal audit	AC work closely with IA to review risk, accounting procedure;	Report to AC;
External audit	Answer questions by shareholders; preliminary approved by AC, then BD;	AC ensure EA capability;
Disclosure and transparency	A balance b.t transparency and protecting interest of the co.;	Disclose information to public at low cost, easy to reach;
Shareholders	New department to improve relation b.t shareholders and firm;	Lack of transparency prevent potential investors;
The corporation as a whole entity	There is head of CG committee;	Establish a comprehensive CG framework and mechanisms to balance IIFS accountabilities to stakeholders;

D.3- The 1st Establishment of a so-called Middle East Limited Comparative Corporate Governance standards

Comparison of corporate governance standards between <D.1> and <D.2> group

Before we come to set up a set of general limited standards of corporate governance, we need to review the standards combined in the previous two (2) groups

The advantages of Middle East Representative Corporate Governance standards are, but not limited to, role of BD in a policy of social contribution.

On the contrary, the relative Good Corporate Governance Group standards states the firm

information policy clarify the type of information to be discussed at GM.

A so-called Middle East Limited Comparative Corporate Governance Set of standards

Based on the 1st Establishment of a so-called relative Good Corporate Governance standards and The 1st Establishment of a Middle East Representative Corporate Governance standards (above establishments), we consider to build comparative standards for a limited Middle East Corporate Governance system.

Table C.3. The Northern Asian Limited Comparative Corporate Governance standards

Subjects or parties	Main quality factors	Sub quality factors
Audit committee	BD members not assigned to more than 2 committees; meeting compliant with that of BD;	Reports to BD on compliance with intl. accounting standards;
Nominating committee	Notify BD its activities; recommend BD membership; review BD suitable skills, capabilities;	Review BD structure, strength and weakness and recommend changes;
Numeration or Compensation Committee	BD members not assigned to more than 2 committees; meeting compliant with that of BD;	Duties disclose in BD report;
CEO and The Chair	CEO ensure communication established among executives and b.r executives and 3 rd persons;	Chair consult CEO, board on BD meeting agenda;
CFO	Compensation disclose in BD report if in top 5 executives;	N/A (for further research and implementation)
Corporate Secretary	Established to serve BD, keep records, meeting minutes;	Preparation for BD/committee meeting;
Compliance officer	N/A (for further research and implementation)	Have compliance function;
Board of Directors or Management Board	Prohibited from join in transactions competing with the co., making false comments about the co.;	Has 2 types: EDs and NEDs; majority are NEDs; NEDs of BD conduct internal meeting regularly;
Independent director	Independence statement in annual report;	Not BD member with 7 yrs;
Supervisory board to the Management	BD supervise whether operation comply with legislation, policies;	BD supervise implantation of strategic plans;
Supervisory to the Board of Directors	In a form of a panel comprising several members or an individual	AC supervise whether periodic F.S comply with legislation;

	adviser;	
Internal control	BD establish IC appropriate to minimize adverse effects of risks;	Audit firm opinion on IC disclosed in annual report;
Internal audit	AC work closely with IA to review risk, accounting procedure;	Report to AC;
External audit	Answer questions by shareholders; preliminary approved by AC, then BD;	AC ensure EA capability;
Disclosure and transparency	Disclose information to public at low cost, easy to reach;	Transparency opposite of secrecy;
Shareholders	Lack of transparency prevent potential investors;	New department to improve relation b.t shareholders and firm;
Stakeholders	Include potential investors; be sufficiently informed about co. policies and procedures;	BD outline a policy that regulate relationship with stakeholders;
Employee	Models to encourage participation of stakeholders in mgt;	BD outline a Code of Conduct for executives and employee;
Accountability	Continuous adoption of intl. best practices;	Transparency create credibility, accountability;
Leadership		
Accounting	Comprehensiveness, timeliness, quality;	Credible books of account; Disclose changes in accounting policies;
Family governance	Clear lines of authority and decision-making;	Family council as a forum to voice their opinions; policies on employing family members;
The corporation as a whole entity	Should establish information policy disclosed to the public;	Has in-house regulation enabling vital decisions made at GM only;
The Code	CG principles aim to a guiding role for future regulation;	BD draft a CG Code;

Note: source are based on corporate governance standards of group <D.1> and <D.2> and the appraisal of these standards

One element of the above content is the *competitive advantage*. It is a sustainable approach to CG and management which are built on non-material factors such as people, social capital (values, motivations, relationships), organisation and management (organisational culture, management systems) and intangible assets (knowledge, regulations). This element can be part of a differentiation strategy when a company aims to stand out as socially sensitive and stakeholders friendly which may be appreciated by the customers and workers.

4. CONCLUSIONS

The concept presented in this research paper is founded on previous researches and latest governance practices which could provide guidelines of implementing the principles of sustainable corporate governance into businesses and encourage management practices. Sustainable corporate governance and sustainable management, hence, might become concepts in many kinds of companies which may find useful when confronted with complexity and instability of their environment.

The 2006 Saudi Arabia Code mentioned BD outline a policy of mechanisms settling disputes with stakeholders. On the other hand, the UAE Code encourages clear lines of communication with shareholders.

While the Turkey Code suggests a comprehensible, easy to analysis information disclosed with the most basic terminology to shareholders and investors. And the 2006 IIFS Code specifies the BD role in setting up a CG committee with at least 3 members for implementing CG policy framework.

In consideration of corporate governance issues analyzed in the previous sessions, we proposed the main and sub quality factors in this paper a **set of general corporate governance standards** in a limited Middle East model with selected countries. It has some implications for further research and proper recommendations to relevant government and organizations.

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Glossary and Notes

AGM	Annual General Meeting, (and GM, in which can be facilitated by Internet tools)
AFG	Association Francaise de la Gestion financiere
CGB	Corporate Governance Board
GM	General Meeting (see above) or Shareholders’ Meeting
AGM	Annual General Meeting
CG	Corporate Governance
DG	Directorates Governance
SB	Supervisory Board
BD	Board of Directors
SGB	Supreme Governing Body (SB and BD)
CGB	Central Governing Body (SB and BD)
CEO	Chief Executive Officer, or Chief Executive
CFO	Chief Financial Officer, or Finance Director
MB	Management Board
AC	Audit Committee
CNC	Compensation or Numeration Committee
NC	Nominating Committee
SEC	The Securities and Exchange Commission
MGT	Management
BM	Board Meeting
AR	Annual Report
IA	Internal Audit
RM	Risk Management
IC	Internal Control

Exhibit

Exhibit 1. Evaluation of 2011 Dubai Code of Corporate Governance

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	As board-level committee to monitor the overall control environment of firm;	<u>Not mentioned clearly in the Code</u>	
Nomination committee	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Compensation or Remuneration committee	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
CEO	<u>Not mentioned</u>	Roles clearly	<u>Not mentioned clearly</u>	<u>Not mentioned clearly in</u>	

	<u>clearly in the Code</u>	identified;	<u>in the Code</u>	<u>the Code</u>	
The Chair	<u>Not mentioned clearly in the Code</u>	Roles clearly identified;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
CEO and The Chair relationship	<u>Not mentioned clearly in the Code</u>	May be the same in small firms;	Separate roles;	Effective BD oversight of mgt;	
Corporate Secretary	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Compliance officer	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Board of Directors	Proper balance of skills and experience; 5 to 10 in SMEs;	Clear about roles, duties; cornerstone of good CG;	Succession plan; roles defined in BD charter; meet frequently;	<u>Not mentioned clearly in the Code</u>	
Executive director	<u>Not mentioned clearly in the Code</u>	Roles clearly identified;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Non-executive director	Roles clearly identified;	Can join SB;	Join BD;	<u>Not mentioned clearly in the Code</u>	
Independent director	Fresh views;	Can join SB;	Join BD;	<u>Not mentioned clearly in the Code</u>	
CFO	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Management team (Board)	Proper balance of skills and experience;	Clear about roles, duties;	Delegation of authority; Succession plan; can join inside director;	<u>Not mentioned clearly in the Code</u>	
Supervisory board	Outside, NED;	2 to 3 members;	No formal decision making power;	<u>Not mentioned clearly in the Code</u>	
Internal control	MGT adopt proper control framework with size, complexity of business;	Set up IC in place;	BD ensure mgt maintain effective IC system; BD and MGT common understanding about risk tolerance ;	<u>Not mentioned clearly in the Code</u>	
Internal audit	<u>Not mentioned clearly in the Code</u>	Establish IA;	<u>Not mentioned clearly in the Code</u>	Ensure RM approach followed, IC in place, CG processes in place;	
External audit	EA think about key issues to interact effectively with MGT;	Independence ;	Disclose changes in accounting policies; firm evaluate effectiveness of EA;	<u>Not mentioned clearly in the Code</u>	
Disclosure and transparency	<u>Not mentioned clearly in the Code</u>	Timely, accurate;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Shareholders and Minority Stockholder	Open, transparent information flow with shareholders;	Clear about their roles;	AGM agenda in advance; can join inside director;	<u>Not mentioned clearly in the Code</u>	
Accountability	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	Firm understand employee attitudes, customer perspectives, impacts on community;	Not only reduce risks but also identify value-enhancing opportunities for future;	
Leadership	<u>Not mentioned clearly in the Code</u>	Prudent, effective control;	Act by BD;	<u>Not mentioned clearly in the Code</u>	
Family	<u>Not mentioned</u>	Clear lines of	Family council as a	<u>Not mentioned clearly in</u>	

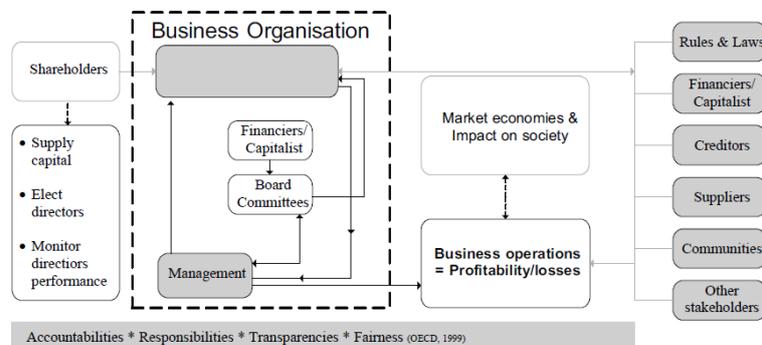
governance	<u>clearly in the Code</u>	authority and decision-making;	forum to voice their opinions;	<u>the Code</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties. Either dual-board or single board can be successful with intensive interaction.				

Exhibit 2. Evaluation of Turkey Code of CG 2003

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	Majority from non executive board members; at least 2 NEDs;	Chairman from independent board member;	BD members not assigned to more than 2 committees; meeting compliant with that of BD;	<u>Not mentioned clearly in the Code</u>	
Nomination committee	Majority from non executive board members; at least 2 NEDs;	Chairman from independent board member;	BD members not assigned to more than 2 committees; meeting complaint with that of BD;	<u>Not mentioned clearly in the Code</u>	
Compensation or Remuneration committee	Majority from non executive board members; at least 2 NEDs;	Chairman from independent board member;	Compensation of BD close to fixed wage per hour of CEO; meeting compliant with that of BD;	<u>Not mentioned clearly in the Code</u>	
CEO	Not a member in CG committee;	Sign annual report; expert;	Direct the main units of the firm;	<u>Not mentioned clearly in the Code</u>	
The Chair	<u>Not mentioned clearly in the Code</u>	Sign annual report;	There is chairman of GDM;	<u>Not mentioned clearly in the Code</u>	
CEO and The Chair relationship	<u>Not mentioned clearly in the Code</u>	Not the same person;	BD member propose amendments to chair prior to meeting;	<u>Not mentioned clearly in the Code</u>	
Corporate Secretary	<u>Not mentioned clearly in the Code</u>	Preparation for BD/committee meeting;	Established to serve BD, keep records, meeting minutes;	<u>Not mentioned clearly in the Code</u>	
Compliance officer	<u>Not mentioned clearly in the Code</u>	Have compliance function;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Board of Directors	Balance b.t co and shareholder interests; rapid and rational decision;	Highest mgt body; good faith; objective; at least 2 independent members;	Who own 5% capital disclose all transactions on firm capital market; approve strategic goals by ED;	Shareholders acquire long term , stable income;	
Executive/Representative director	Disclose to employee definition of tasks and performance;	ED with administrative duties; all attend BD meeting;	Who own 5% capital disclose all transactions on firm capital market; may not permitted to work for a competing co.;	<u>Not mentioned clearly in the Code</u>	
Non-executive director	<u>Not mentioned clearly in the Code</u>	Not have administrative duties;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Independent director	<u>Not mentioned clearly in the Code</u>	Not BD member with 7 yrs;	Independence statement in annual report;	<u>Not mentioned clearly in the Code</u>	
CFO	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Management team	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	

		<u>Code</u>			
Supervisory for the board	AC supervise financial and operation; execution of accounting system;	Audit and consultancy separated;	Shareholder relation depart. supervise issues of public disclosure;	<u>Not mentioned clearly in the Code</u>	
Supervisory for the managers	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	BD supervise whether operation comply with legislation, policies;	<u>Not mentioned clearly in the Code</u>	
Internal control	BD establish IC appropriate to minimize adverse effects of risks;	BD statement about IC in annual report;	Audit firm opinion on IC disclosed in annual report;	<u>Not mentioned clearly in the Code</u>	
Internal or statutory audit	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	Report to AC;	<u>Not mentioned clearly in the Code</u>	
External audit	Explain in writing whether F.S comply with standards;	Appointed by BD, maximum period of 5 yrs; independence;	Answer questions by shareholders; preliminary approved by AC, then BD;	<u>Not mentioned clearly in the Code</u>	
Disclosure and transparency	Accurate, complete, interpretable;	Disclose information to public at low cost , easy to reach;	Disclose candidate information for BD at GM;	<u>Not mentioned clearly in the Code</u>	
Shareholders and Minority Stockholder	Equal treatment by mgt;	New department to improve relation b.t shareholders and firm;	GM as a forum for communication b.t BD and shareholders;	<u>Not mentioned clearly in the Code</u>	
Accountability	Confidentiality of information of customer/supplier be respected;	There is head of CG committee;	Each employee treated on equal ground in education and promotion;	<u>Not mentioned clearly in the Code</u>	
Leadership	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	Act by CEO, BD, chair;	<u>Not mentioned clearly in the Code</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				

Exhibit 3. Corporate governance parties



Source: Loh Leong Hua & Ragayah Haji Matzin, Corporate Governance: Theory and some insights into the Malaysian Practice, 2007

Exhibit 4. Evaluation of IIFS 2006 Guiding Principles of Corporate Governance

Subjects or parties	Main quality factors	Sub quality factors	Responsibilities	Objectives	Note
Audit committee	At least 3 members; expertise in F.S;	An AC member involve in CG committee;	An organ of CG; work with CG committee and mgt; monitor accounting process;	<u>Not mentioned clearly in the Code</u>	
Nomination committee	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Compensation or Remuneration committee	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
CEO	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
The Chair	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
CEO and The Chair relationship	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Corporate Secretary	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Compliance officer	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Board of Directors	<u>Not mentioned clearly in the Code</u>	Diverse outlook and experience;	An organ of CG; set up a governance committee;	<u>Not mentioned clearly in the Code</u>	
Executive director	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	An organ of CG;	<u>Not mentioned clearly in the Code</u>	
Non-executive director	CG chair understand F.S, link functions of AC;	A NED involve in CG committee;	Independent NED chair CG committee; 3 rd member of CG with legal expertise and biz profficiency;	<u>Not mentioned clearly in the Code</u>	
Independent director	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
CFO	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Management team (Board)	<u>Not mentioned clearly in the Code</u>	Separation on ownership and mgt can lead to agency problem;	work with CG committee and AC;	<u>Not mentioned clearly in the Code</u>	
Supervisory board	AC coordinate with SSB; oversight;	A scholar join CG committee;	By Shariah SSB; special attention to CG committee; direct line supervision of business	<u>Not mentioned clearly in the Code</u>	

			areas;		
Internal control	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Internal audit	AC work closely with IA to review risk, accounting procedure;	Independence ;	An organ of CG;	<u>Not mentioned clearly in the Code</u>	
External audit	AC work closely with EA to review risk, accounting procedure;	Independence ;	An organ of CG; AC ensure EA capability;	<u>Not mentioned clearly in the Code</u>	
Disclosure and transparency	Comparable, reliable; disclose policy of business conduct;	Transparent clarification to public;	Adequate and timely public announcement in annual reports on web; lower transparency, higher transaction cost;	<u>Not mentioned clearly in the Code</u>	
Shareholders and Minority Stockholder	Lack of transparency increases cost of capital;	Lack of transparency prevent potential investors;	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	
Accountability	<u>Not mentioned clearly in the Code</u>	Transparency create credibility, accountability ;	Continuous adoption of intl. best practices;	<u>Not mentioned clearly in the Code</u>	
Leadership	<u>Not mentioned clearly in the Code</u>	<u>Not mentioned clearly in the Code</u>	By BD;	<u>Not mentioned clearly in the Code</u>	
Note	The underlined part is describing some more works needed to be done for relevant subjects and parties.				

Exhibit 5. Corporate governance definition

Corporate governance	<p>A defined set of relationships between a company's management, its Board of Directors, its shareholders and other stakeholders which provides the structure through which:</p> <p>(i) the objectives of the company are set; and</p> <p>(ii) the means of attaining those objectives and monitoring performance are determined.</p> <p>(ii) provision of proper incentives for the organs of governance such as the Board of Directors, SSB and management to pursue objectives that are in the interests of the stakeholders and facilitate effective monitoring, thereby encouraging IIFS to use resources more efficiently;</p>
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Source: 2006 IIFS CG Code