

РАЗДЕЛ 1
НАУЧНЫЕ ИССЛЕДОВАНИЯ
И КОНЦЕПЦИИ

SECTION 1
ACADEMIC
INVESTIGATIONS
& CONCEPTS



PROGRESSING CORPORATE GOVERNANCE DISCLOSURE IN
EGYPT: CURRENT STATUS AND ACTION PLAN

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Abstract

This study examines the level of corporate governance disclosure in Egypt and explores the attitudes of Egyptian regulators, auditors, accountants, academics and company directors about the strategies needed to enhance CG disclosure. The measurement of disclosure is based on a checklist developed by the United Nations, which was gathered using a content analysis of financial statements and websites of a sample of Egyptian companies listed on Egyptian Stock Exchange (EGX). Levels of CG disclosure are found to be very low, however, disclosure is high for items that are mandatory under the Egyptian Accounting Standards (EASs) that are based on International Financial Reporting Standards (IFRS). The failure of companies to disclose such information clearly shows some ineffectiveness and inadequacy in the regulatory framework in Egypt. Moreover, the phenomenon of non-compliance may also be attributed to the socio-economic factors in Egypt. Therefore, it is expected that Egyptian firms will take a long time to appraise the benefits of increased CG disclosure. Therefore, awareness building, education and training, incentives or disincentives to disclose including the nature of enforcement regimes are among possible policy recommendations based on interviews with Egyptian experts, but all carry costs as well as benefits. The findings provide a benchmark of performance against which future research can measure longitudinal changes after a further learning period.

Keywords: Corporate Governance, Disclosure, Emerging Capital Markets, Egypt, Egyptian Stock Exchange, Enforcement, Education and Training, Regulation

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1. Introduction

Several researchers have examined the position of CG in developed countries, however, developing nations were nearly absent from the CG research arena. CG has many benefits for developing nations. It helps developing nations to realize high and sustainable rates of growth, increases

confidence in the national economy, and deepens capital market and increases its ability to mobilize savings. In addition, it results in raising investment rates protecting the rights of the minority shareholders or small investors. Also, it encourages growth of private sector by supporting its competitive capabilities, helping to secure financing

for projects, generating profits, and creating job opportunities (Reed, 2002; Tsamenyi et al., 2007).

Developing nations are known to have different political and socio-economic environments than those of the developed nations. Developing nations usually suffer from state ownership of companies, weak legal and judiciary system, weak institutions, limited human resources capabilities, and closed/family companies (Young et al., 2008). In addition, it is reported that special issues like dominance of government ownership and/or family/closed companies makes CG implementation questionable and troublesome (Mensah, 2002). Furthermore, individual developing countries are very different between themselves. Specifically, developing countries are an amorphous and heterogeneous group, showing diversity in many respects (Dahawy and Samaha, 2010). First, the group includes countries in different geographical locations (Africa, Asia, Latin America, the Middle East, the Oceania, and Eastern Europe). Second, the group includes countries with different historical developments and economic philosophies. Included are (1) countries which were colonised (e.g., Mozambique) and former imperial countries (e.g., Portugal); and (2) communist and capitalist countries, while others have changed from capitalist economies to communist and then back to capitalist economies (e.g., Egypt). Third, developing countries include countries at different stages of economic development. Included are the rapidly industrialising countries like Hong Kong and Singapore. Also included are countries with rich natural resources like Kuwait and Angola and countries poor in natural resources such as Tanzania.

In common with many developing and emerging nations in the late 1990s, Egypt started to implement a well-tailored economic reform program (Samaha and Stapleton, 2008) covering the whole economic spectrum in order to gain the trust of the international community and encourage foreign direct investment, and to encourage more Egyptians to invest in the domestic markets. As part of its privatization program, the government revitalized the capital market, and sought to build confidence among investors and improve its reputation by developing programs aimed at implementing sound financial principles, and increasing the availability of reliable corporate information (Samaha and Stapleton, 2008). This far-reaching reform process includes the adoption of international accounting and auditing standards, and mimic CG practices designed for use in developed countries.

The current study contributes to disclosure and governance literature by studying corporate governance disclosure practices in a developing country, which is distinguished from most developed nations by four important characteristics

(Fawzy, 2004). Firstly, most companies are closely held, secondly there is considerable state ownership of privatized companies, thirdly that board independence is weak and finally disclosure is not a common practice. While Bremer and Ellias (2007) note that Egyptian businesses are starting to appreciate the need for corporate governance mechanisms, they argue that together with Fawzy's four characteristics, weakness in the economic structure, and lack of awareness of corporate governance concepts and benefits, hinder the development of corporate governance in Egypt. Thus the results of this research may be useful for regulators in developing and emerging nations with similar characteristics as they continue to deliberate appropriate corporate governance requirements in their own nations. Corporate governance has many benefits for developing nations like Egypt. It helps developing nations to realize high and sustainable rates of growth, increases confidence in the national economy, and deepens capital market and increases its ability to mobilize savings (Tsamenyi et al., 2007; Gugler et al., 2003; Rabelo and Vasconcelos, 2002; Ahunwan, 2002). In addition, it results in raising investment rates, protecting the rights of the minority shareholders or small investors. Also, it encourages growth of private sector by supporting its competitive capabilities, helping to secure financing for projects, generating profits, and creating job opportunities (Samaha et al., 2012).

The objectives of the current study are two folds: First, to provide a more recent investigation to help assess developments in corporate governance disclosure and to offer a comparative analysis with two international reports on corporate governance disclosure scores conducted by the United Nation Conference on Trade and Development (UNCTAD). Second, to explore the attitudes of Egyptian regulators, auditors, accountants, academics and company directors about the strategies needed to enhance CG disclosure.

Our findings relating to the level of corporate governance disclosure for 2012 are relatively lower than those reported by Samaha et al. (2012) for a sample of Egyptian firms in 2009, although during this period from 2009 to 2012, many regulation changes have taken place in Egypt such as the formation of the Egyptian Financial Supervisory Authority (EFSA), and the update of the CG code. All these changes aim to enhance CG disclosure and transparency in general; however our paper suggests that CG disclosure by listed Egyptian firms is almost very minor. Results from interviews with Egyptian accounting experts highlight the need to strengthen enforcement and corporate governance laws, arrange professional education and training for directors, implement international best practices on auditor qualification and licensing, and establish an effective regulatory

framework to strengthen shareholders rights and board practices.

An overview of the developments in the Egyptian corporate governance framework is provided in Section 2. Data selection and collection, and the research techniques, are described in Section 3. Results and analysis are presented in Section 4. In this final section of the paper we reflect on the findings and consider the policy implications.

2. Corporate governance in Egypt

Three international organizations have been predominant in establishing the need for improved CG mechanisms in Egypt. In 2000, the Privatization Coordination Support Unit, supported by USAID, examined the CG policy framework in Egypt and recommended the need for a strong, clear and well enforced legal framework, greater information disclosure levels, and the need for independent, accountable, oversight (Carana, 2000). In 2001 Egypt became the first Arab country to undergo an assessment by the World Bank and the IMF of its observance of standards and codes of CG (World Bank, 2001). This assessment evaluated Egypt's CG practices against the requirements of the OECD Principles of CG (OECD, 1999), and indicated that just 62% of the principles were applied by the Egyptian companies studied. In the Egyptian situation, the apparent importance of CG was strongly shown by a study that was performed in 2002 by McKinesy Consulting that surveyed over 200 institutional investors (McKinesy, 2002). The results of the survey showed that 80% of the respondents were ready to pay a premium for well governed companies. The results further indicated that this premium amounted to 40% in the case of Egypt. Thus improving CG in Egypt can be used as means of creating value for the country's firms, and increasing foreign direct trust and inflows that are much needed by the Egyptian Economy.

Consequently it is hardly surprising that the government examined its position on CG and two important measures resulted. Firstly, it issued new rules to increase companies' compliance with CG practices, of which the most important is the new EGX listing rules issued in 2002 (CASE, 2002). These include: new CG disclosure requirements (Article 12-19); detailed requirements for financial statement preparation and presentation (Article 20-33); additional disclosures about board members, contracts signed with other companies, auditors, and the audit committee (Article 4). In addition, there are new rules (Article 34-35) which force listed companies to make a commitment to CG requirements, or risk losing their listing on the stock exchange. Secondly, the government established the Egyptian Institute of Directors (EIOD) in 2003 under the supervision of the

Ministry of Foreign Trade. The EIOD works jointly with a range of international organizations, which include, but are not limited to, the World Bank, International Finance Corporation, the United Nations, and the centre for International Private Enterprise, to spread awareness of and improve CG practices not only in Egypt but also in Middle Eastern and North African countries.

A re-assessment of CG implementation in Egypt by the World Bank in 2004 showed that Egyptian companies now applied 82% of the principles (World Bank, 2004). This second assessment noted improvements in relation to basic shareholders rights, but no change was noted in relation to the role of stakeholders in CG. Policy recommendations emanating from this second assessment involve legislative reform over five areas including a disclosure and transparency category, together with recommendations to strengthen the Egyptian Capital Market Authority (ECMA) and EGX and for a Code of CG to be developed by the EIOD.

Egypt has recognized that CG reforms are an ongoing process, and a number of initiatives have occurred since the World Bank's 2004 assessment. The ECMA has strengthened its commitment to CG by restructuring its organization in 2005, creating an auditors registry in 2006 and issuing a new code of ethics for auditors in 2007. In a similar timeframe codes of CG were written for both listed companies in 2005 and for state owned companies in 2006, with the intention of enhancing the quality of information issued by listed companies, improving decision-making, attracting investors and stimulating economic development through increased competition and enhancing the level of confidence of foreign portfolio investors in the Egyptian capital market (Carana, 2000; and MOFT, 2007).

The 2005 Egyptian Code of Corporate Governance (ECCG), written in Arabic, was introduced by the Ministry of Investment and the General Authority for Investment and free Zones, and applies primarily to joint-stock companies listed on the stock exchange, and companies that use the banking systems as a major source of finance. The code's recommendations, which are in accordance with the CG principles, issued by the OECD and a number of countries including South Africa, Malaysia and the Philippines, are additional to legislation and are not mandatory; rather, they promote and regulate responsible and transparent behavior in managing corporations according to international best practices. Furthermore, EGX is currently working on new listing rules to further strengthen CG practices of EGX listed companies, although it has not publicized any expected dates for completion or enforcement.

This code includes many provisions, the objectives of which are to guarantee the rights of all

shareholders as well as various stakeholders. Enhancing corporate disclosure transparency is one of the pillars of corporate governance. The introduced ECGC searches for more accuracy of disclosed corporate information organizing the relationship between the shareholders, board of directors and management. However, compliance with the ECCG code is not mandatory.

A more recent assessment by the World Bank in 2009 shows that actual corporate governance practices of Egyptian listed companies continue to lag behind the law on the books, in particular for companies outside the EGX 30 (World Bank, 2009). For example, a number of boards do not guide or supervise management by helping them develop and holding them accountable to a set of key performance indicators. Key policies on risk management, internal control and audit processes, and succession planning are often absent. Board nomination processes largely remain opaque and are frequently dominated by majority owners, at times leading to important skills-gaps and insider boards. Although financial reporting has improved markedly in terms of the timeliness and quality of disclosure, non-financial disclosure remains underdeveloped. Few companies publicly disclose their ownership and governance structures, remuneration policies, or foreseeable risk factors online or in their annual reports (World Bank, 2009).

3. Methods

Regarding our first objective relating to examining the level of CG disclosure, the study uses a corporate governance checklist developed by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) that is organized by UNCTAD. The checklist follows ISAR's good guidance practice (ISAR, 2006), which has become its benchmark for conducting the content analysis for the annual reports and websites to identify corporate governance disclosure score for our sample.

Regarding our second objective relating to exploring the attitudes of Egyptian experts on the strategies needed to enhance CG disclosure, we carried out semi-structured interviews during the period September 2012 – February 2013 with 12 experts in Egyptian accounting representing four constituencies: academics, auditors, regulators, and reporting companies. These experts were not randomly selected, but were chosen on the basis of their expertise and the potential contribution they could make to our understanding of the issues. We

first determined how many experts were necessary for our study, then compiled an initial list of experts for each constituency based on our personal knowledge of the leaders in international accounting in Egypt; all contacted experts participated. We used a qualitative method because it allows rich insights into the research field and allows key topics to be synthesized. It works particularly well with small sample sizes where suitable expertise already exists within the group to facilitate full discussion of the topic as in the case in this issue.

In order to achieve the research objective, experts were chosen to provide a full range of insights into the changes: 2 regulators (Reg1 – Reg2); 3 'Big Four' firm partners (Aud1 – Aud3); 3 academics (ACA1- ACA3); and 4 company directors with accounting qualifications (D1 – D4). Some flexibility was applied in the ordering of questions to ensure continuity. Neutral prompts were used when appropriate to encourage further explanation. As the number of experts used is small and were not randomly selected, a frequency analysis was not undertaken.

3.1 Sample and data

The study examines annual reports and websites of the most active 100 Egyptian companies on the Egyptian Stock Exchange as measured by the EGX 100 index at the financial year ends on 2012. The CG disclosure data were measured using a content analysis technique. The sample included the current CG disclosures on the companies' websites for 2012. As a starting point we examined official company websites in order to get information concerning the annual reports for 2012, internet reporting and any CG stand-alone reports for 2012. Annual reports and corporate governance data are purchased from the Egyptian Company for Information Dissemination (EGID) in case the company did not have a website or did not provide its annual report on the website.

3.2 Indices measurement

To examine CG disclosure levels, one overall index (OVCG) and five sub-indices, corresponding to the five UNCTAD categories, have been calculated. The CG variables are listed and defined in Table 1. The scores for the overall and sub-indices are calculated by assigning equal weightings to each item of disclosure, and the indices were derived by computing the ratio of actual scores awarded to the maximum possible score attainable for items that were applicable to each company.

Table 1. Indices Measurement

Abbreviated Name	Full Name	Index Description
OVCG	Overall CG Disclosure Index	Percent of overall applicable CG disclosure items supplied/satisfied
OSE	Ownership Structure & Exercise of Control Rights Disclosure Sub-Index	Percent of applicable disclosure index items supplied/satisfied for the OSE sub-index
FT	Financial Transparency and Information Disclosure Sub-Index	Percent of applicable disclosure index items supplied/satisfied for the FT sub-index
AUD	Auditing Disclosure Sub-Index	Percent of applicable disclosure index items supplied/satisfied for the AUD sub-index
CR	Corporate Responsibility and Compliance Disclosure Sub-Index	Percent of applicable disclosure index items supplied/satisfied for the CR sub-index
BM	Board and Management Structure and Process Disclosure Sub-Index	Percent of applicable disclosure index items supplied/satisfied for the BM sub-index

Each item of disclosure was scored without a weighting on a dichotomous basis taking the commonly used approach of giving the item a score of 1, 0, or not applicable N/A (see for example, Ho and Wong, 2001; Ghazali and Weetman, 2006). To ensure that companies were not penalized for non-disclosure of irrelevant items each annual report was read in its entirety, following Cooke (1989, 1991). Furthermore, all annual reports were read twice to ensure consistency in scoring. The second examination was done after analyzing all annual reports in the first round to ensure consistency in scoring. In the few cases where differences existed between the first and second scoring, the annual reports were subjected to a third final assessment.

4. Results

The ISAR checklist examines a total of 53 corporate governance disclosure items, which are normally divided into five categories.

4.1 Descriptive Results for Overall CG Disclosure Level (OVCG)

Panel 1 of Table 2 shows that the overall disclosure scores range from 7% to 70% with a mean score of 15%. Thus, there were large variations in CG disclosure practices among the sample companies in Egypt. The indices and their ranges suggest that the overall voluntary disclosure level is relatively very low, implying that, consistent with Ho and Wong (2001) in Hong Kong, analysts in Egypt may need to search for information outside of the published annual reports. No company provided/satisfied 100% of the 53 index items, thereby highlighting the opportunity for further improvement in CG practices.

4.2 Descriptive Results for the 5 Sub-categories of CG Disclosure Level

Some additional insights are achieved by examining scores for the dependent variables, focusing specifically on the sub categories (1) Financial transparency and information; (2) Ownership structure and exercise of control rights; (3) Board and management structure and process; (4) Corporate responsibility and compliance; and (5) Auditing.

Panel 2 of Table 2 shows the distribution of five sub-indices of information. On average, as in other countries the Egyptian companies perform best on FT, where they provide 55% of the items. It is worth noting that Egyptian Accounting Standards require disclosure of five of the nine items in this sub-index and disclosure is checked by the newly formed Egyptian Financial Supervisory Board (EFSA) (<http://www.efsa.gov.eg/>). Companies fare the worst on AUD where, on average, they satisfy less than 1% of the items. Failure to disclose results in a warning letter and ultimately could lead to delisting. Disclosure of items in the other four sub-indices, which are generally not required by EASs or followed by the EFSA, are, on average, all below 23% which is indicative of poor CG disclosure in Egypt.

4.3 Descriptive results for the 53 CG Disclosure Items

For each of the five categories, Tables 3 through 7 present, in the first column, the corporate governance disclosures achieved by the top 100 Egyptian companies, together with comparison figures that show that these disclosure levels are typically lower than those reported by UNCTAD (2006) in its annual international review. The second column of the each table shows the disclosures made by 105 enterprises drawn from both high and low/middle income countries and the third column shows a comparison with 63

enterprises drawn from low/ middle income countries only.

Table 3 shows that in line with international experience, all 100 companies disclose the company objectives, and financial and operating results, and that at least two thirds make disclosures about accounting estimates and related party transactions. These three financial transparency items are required by Egyptian Accounting Standards (EASs). It is worth noting that the first five items that are implemented by the companies

that are studied are also required by the Egyptian Accounting Standards (EASs). These requirements are further examined by the Egyptian Financial Supervisory Board (EFSA). Companies that do not fulfill these requirements are sent a warning letter and are threatened to be delisted if these items are not fulfilled. The other items that are not fulfilled are not required and/or followed by EFSA. This finding is not surprising because financial items are mostly required and followed by EFSA more than the non financial items.

Table 2. Descriptive Statistics of CG indices

Index	Range	Minimum	Maximum	Mean	Std. Deviation
Panel 1: Overall Corporate Governance Score for EGX 100 Companies					
Overall Corporate Governance Disclosure Index (OVCG)	0.63	0.07	0.70	0.15	0.09
Panel 2: Corporate Governance Disclosure Sub-Indices					
Financial Transparency and Information Disclosure Sub-Index (FT)	0.60	0.30	0.90	0.55	0.11
Ownership Structure and Exercise of Control Rights Sub-Index (OSE)	0.75	0.00	0.75	0.22	0.24
Board and Management Structure and Process Sub-Index (BM)	0.70	0.00	0.70	0.09	0.15
Corporate Responsibility and Compliance Sub-Index (CR)	0.50	0.00	0.50	0.03	0.10
Auditing Sub-Index (AUD)	0.20	0.00	0.20	0.002	0.05

Table 3. Corporate Governance Disclosure Index Egypt Compared with Two UNCTAD Reports
Financial Transparency - Sub Index FT

	Corporate Governance Disclosures		
	Current Study Egypt % n=100	UNCTAD All % n=105	UNCTAD L/M Income n=63
Financial and operating results *	100	100	100
Company objectives *	90	92	90
Critical accounting estimates *	95	90	84
Nature, type and elements of related-party transactions *	80	94	90
Disclosure practices on related party transactions where control exists*	74	47	43
Board's responsibilities regarding financial communications	5	80	73
The decision making process for approving transactions with related parties	1	53	54
Impact of alternative accounting decisions	3	75	68
Rules and procedure governing extraordinary transactions	0	59	57

* mandatory requirements under EAS

Table 4 shows that the degree of disclosure relating to OSE is low by international standards, with even the best items attracting only a 40% implementation rate. Two items in the checklist that were puzzling are "Availability and accessibility of meeting agenda" and the "Process for holding Annual General Meetings". These items low implementation would seem puzzling as they are

required by the Egyptian Laws and further investigation is needed in his area.

The last and least implemented item "Antitakeover Measures" was not reported by any company of the ones in the study. The reason for this may be related to the fact the takeovers are non-existent in the Egyptian Market and thus companies have nothing to disclose about the measures to be taken to avoid potential takeovers.

Table 4. Corporate Governance Disclosure Index
Egypt Compared with Two UNCTAD Reports
Ownership Structure and Exercise of Control Rights - Sub-Index OSE

	Corporate Governance Disclosures		
	Current Study Egypt % n=100	UNCTAD All % n=105	UNCTAD L/M Income n=63
Ownership structure	40	90	89
Control rights	40	82	76
Availability and accessibility of meeting agenda	40	78	65
Changes in shareholdings	40	69	65
Process for holding annual general meetings	10	91	87
Control and corresponding equity stake	8	75	67
Control structure	3	86	86
Rules and procedures governing the acquisition of corporate control in capital markets.	0	30	25
Anti-takeover measures	0	30	22

As Table 5 shows, by far the most frequent disclosures relating to BM in Egypt are “risk management objectives, system and activities”. This could be due to the fact that EASs require the companies to report the different risks that they expect as part of disclosing financial instruments. The World Bank (2009) report indicated that most managers in Egypt believe that board composition, tenure and qualifications are very important secretive information. Many managers in Egypt do not understand the concept of executive/non

executive board members. One of the non executive board members stated that when he was first hired as a non executive board member, he was greeted by the other board members and the managers of the company by stating “so you do not have work to do”. Furthermore, financial remuneration continues to be a very sensitive issue in the Egyptian market. It is typically very difficult to find the remuneration package of most directors, managers, and board members. Indeed, the remuneration packages at all employee levels are considered confidential.

Table 5. Corporate Governance Disclosure Index
Egypt Compared with Two UNCTAD Reports
Board and Management Structure and Process – Sub-Index BM

	Corporate Governance Disclosures		
	Current Study Egypt % n=100	UNCTAD All % n=105	UNCTAD L/M Income n=63
Risk management objectives, system and activities *	88	89	83
Composition of board of directors (executives and non-executives)	15	99	98
Independence of the board of directors	10	68	54
Number of outside board and management position directorships held by the directors	8	79	71
Types and duties of outside board and management positions	8	74	62
Existence of plan of succession	8	52	46
Qualifications and biographical information on board members	8	83	81
Determination and composition of directors' remuneration	6	68	54
“Checks and balances” mechanisms	5	88	84
Governance structures, such as committees and other mechanisms to prevent conflict of interest	5	88	81
Composition and function of governance committee structures	4	86	83
Role and functions of the board of directors	4	84	78
Professional development and training activities	4	36	27
Duration of director's contracts	3	76	62
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	1	38	27
Existence of procedure(s) for addressing conflicts of interest among board members	1	67	57

Performance evaluation process	1	67	57
Material interests of members of the board and management	1	57	52
Availability and use of advisorship facility during reporting period	0	41	33

* mandatory requirements under EAS

In line with international experience CR and auditing related disclosures are the lowest. Nevertheless, as shown in Table 6 just short of 10% of Egyptian companies do make some environmental and social responsibility disclosures. The relative novelty of many of the disclosure items in this category may explain the low disclosure rate. According to the World Bank report (2009), many company managers confuse corporate social

responsibility and charity. Many of them believe that they do enough charity work. For religious reasons charity should be done in secrecy so that its reward for God does not get diminished. Codes of ethics are not widely available in companies. Most managers believe that the “Workers Law” governs the relationship between the company and its employees and that there is no need for anything else.

Table 6. Corporate Governance Disclosure Index
Egypt Compared with Two UNCTAD Reports
Corporate Responsibility and Compliance –Sub-Index CR

	Corporate Governance Disclosures		
	Current Study Egypt % n=100	UNCTAD All % n=105	UNCTAD L/M Income n=63
Policy and performance in connection with environmental and social responsibility	8	91	87
Impact of environmental and social responsibility policies on the firm’s sustainability	8	78	71
Mechanisms protecting the rights of other stakeholders in business	2	57	48
A Code of Ethics for the Board and waivers to the ethics code	1	73	63
A Code of Ethics for all company employees	1	72	65
The role of employees in corporate governance	1	25	17
Policy on “whistle blower” protection for all employees	0	50	35

Least or non- existent disclosure was evident in the auditing category in Egypt, as Table 7 shows, and in this context it is worth noting that Egypt does not have rules similar to those in the US Sarbanes Oxley Act which prohibit accounting/auditing firms from simultaneously providing both auditing and consulting services to the same client. There can be several reasons for this low occurrence of audit and auditor related disclosures. The Egyptian company’s law depicts in details the required processes and procedures for

the hiring, firing and resignations of auditors. Therefore, some managers may believe that they are not required to disclose their actual processes and procedures in this area. However, it is important to emphasize, as indicated previously, that the law indicates what should happen in a general way, while company disclosure should indicate what actually happens in a specific way. Also, the relationship between the auditor and the company has historically been deemed highly confidential.

Table 7. Corporate Governance Disclosure Index
Egypt Compared with Two UNCTAD Reports
Auditing –Sub-Index AUD

	Corporate Governance Disclosures		
	Current Study Egypt % n=100	UNCTAD All % n=105	UNCTAD L/M Income n=63
Board confidence in independence and integrity of external auditors	0	58	41
Process for interaction with external auditors	0	70	57
Process for appointment of internal auditors/scope of work and responsibilities	0	84	76
Internal control systems	1	75	67
Duration of current auditors	1	32	17
Rotation of audit partners	0	21	13
Process for interaction with internal auditors	0	74	60
Process for appointment of external auditors	0	81	75
Auditors' involvement in non-audit work and the fees paid to the auditors	0	56	41

4.4 Action plan to enhance corporate governance disclosure: attitudes of Egyptian experts

Results from interviews with Egyptian accounting experts highlight the need to strengthen enforcement and corporate governance laws, arrange professional education and training for directors, implement international best practices on auditor qualification and licensing, and establish an effective regulatory framework to strengthen shareholders rights and board practices.

According to the different responses obtained from Egyptian experts, Egypt can apply a series of strategies that are deemed urgent in closing the gap in corporate governance disclosures to meet the OECD international standards - and thus enhancing transparency which is a key factor in attracting foreign direct investments especially in the post revolution era - by:

- 1) The government of Egypt should renew their efforts to pass the amended Accounting Practice Law No. 133 of 1951.
- 2) The new Audit practice law should ensure that that all auditors should be required to pass a minimum number of hours of continuous professional education.
- 3) The Egyptian Stock Exchange and the Egyptian Financial Supervisory Authority should better enforce material and timely disclosure of non-financial information.
- 4) The Egyptian Financial Supervisory Authority and the Ministry of Investment will both wish to continue their enforcement efforts vis-à-vis financial intermediaries to ensure that market abuses further subsist.
- 5) The Egyptian Institute of Directors together with the Egyptian Stock Exchange should develop a model annual report and training course on how to develop annual reports, with

a particular focus on management's discussion and analysis.

- 6) The Egyptian Institute of Directors should develop model documents and step-up the roll-out of its director training courses on: (i) succession planning; (ii) remuneration policies and practices; (iii) related party transactions; (iv) the role professional company secretary; and (v) the role of the investor relations officer.
- 7) The Egyptian Institute of Directors should further develop and utilize its database of potential independent directors.
- 8) The Egyptian Institute of Directors together with the Egyptian Stock Exchange should offer training courses explaining how to properly implement, and disclose compliance against, the Egyptian Corporate Governance Code.
- 9) The Company Law should be amended to specify whether and under which circumstances the external auditor is liable to shareholders (in addition to the company).
- 10) The Company law should be amended to: (i) define a general "duty of loyalty" and —duty of care, requiring company directors (which can then be expanded on in the Egyptian Corporate Governance Code); (ii) allow the managing director to select, dismiss, and remunerate the general manager, with board approval; (iii) clearly specify the main authorities of the board, (iv) specify that the managing director and general manager are accountable to the entire board; (v) allow the general manager, when s/he is a board member, to retain his or her voting right during board meetings; and (vi) allow for non-board members to serve as managing director or general manager.
- 11) The Capital Market Law and its executive regulations in turn should be amended to: (i) ensure that the prohibition to selectively disclose information is expanded to include

- board members, executives, and other insiders; (ii) required rating agencies to follow IOSCO's Code of Conduct Fundamentals for Credit Rating Agencies; and (iii) fully implement the IOSCO Statement of Principles for Addressing Sell-Side Securities Analyst Conflicts of Interest.
- 12) The Capital Market Law and its executive regulations should be amended to strengthen shareholder rights by: (i) Requiring companies to fully disclose their ownership structure on an ongoing basis; (ii) Providing shareholders the right to obtain information on the company's capital structure; (iii) Requiring shareholders to disclose their shareholdings when crossing five, ten, 15, 25, 33, 50, and 75 percent on an ongoing basis to the Egyptian Financial Supervisory Authority, Egyptian Stock Exchange, and other shareholders; (iv) According majority owners a squeeze-out right; (v) Requiring companies to disclose shareholder agreements; and (vi) Requiring directors and senior executives to follow a duty of loyalty during takeovers, and limit or outright restrict to use of anti-takeover mechanisms.
 - 13) The Egyptian Corporate Governance Code should encourage companies to disclose: (i) the criteria it uses to define an independent director; (ii) the attendance record of board members; and (iii) the remuneration of board members and key executives, as well as the link between remuneration and company performance.
 - 14) The Egyptian Corporate Governance Code should define auditor independence and encourage the board to assure itself of the auditor's independence.
 - 15) The Egyptian Corporate Governance Code should encourage boards to: (i) develop key policies on remuneration, succession planning and information disclosure; (ii) form relevant committees and disclose their terms of reference; (iii) conduct annual self-evaluations; (iv) include at least two or three independent directors.
 - 16) The Egyptian Corporate Governance Code should also encourage directors to limit their number of directorships and recommend that companies disclose which of their directors is executive, non-executive or independent.
 - 17) More generally, the Egyptian Corporate Governance Code should: (i) elaborate on the board's role vis-à-vis management; (ii) include a definition of independence; (iii) recommend that the internal audit function be independent; and (iv) expand on the role of the company secretary.
 - 18) The listing rules should be amended to require: (i) the audit committees of banks, financial institutions and other relevant companies to be responsible for compliance; (ii) boards to be accountable to shareholders for the integrity of the control environment and financial reporting process; and (iii) require directors to undergo a minimum amount of annual training on corporate governance.
 - 19) The listing rules should be amended to strengthen transparency and disclosure, in particular requiring companies to disclose: (i) Information on the rights attached to specific classes of shares to facilitate shareholder access, e.g., online or in the annual report. (ii) Their quarterly financial statements to shareholders, and not only to the Egyptian Financial Supervisory Authority and the Egyptian Stock Exchange; (iii) A full annual report; (iv) Material foreseeable risk factors; (v) Special voting arrangements and rights; (vi) Relevant information on directors on an ongoing basis.
 - 20) The listing rules should also require for the external auditor to report to the board's independent audit committee.
 - 21) The listing rules should strengthen board practices and be amended to: (i) Ensure that the audit committee's remit include the development of a system of compliance with laws and regulations, and internal policies and procedures, including the company's code of ethics; (ii) Include the audit committee's remit to include the review of internal controls with respect to related party transactions; (iii) Specify that the audit committee is further responsible for ensuring for compliance with laws, regulations, and internal policies and processes; (iv) Adopt the Egyptian Corporate Governance Code on a 'comply or explain' basis, and hold boards responsible for the company's corporate governance disclosure; (v) Specify that the internal audit function be independent;

5. Summary and conclusion

This paper extends and contributes to recent governance and disclosure literature (i.e. Samaha et al., 2012) by offering empirical evidence on the current status of corporate governance voluntary disclosure for a large sample of most and less actively traded companies in Egypt, as an example of an emerging economy, as well as providing an action plan to enhance CG disclosure by exploring the attitudes of Egyptian experts.

It is interesting to note the significant pressures on emerging and developing countries to mimic the practices of developed nations despite evidence that there are important structural, as well as cultural, differences between developed and developing and emerging countries as well as amongst developing

and emerging nations. In terms of overall disclosure practice, we find that there are generally low levels of disclosure, except for the items which represent mandatory disclosure as required by Egyptian Accounting Standards. It is interesting to note that in total 41 of the 53 items in the checklist are mandatory because of EGX listing requirements (Samaha et al., 2012), but that levels of disclosure are low on many of the items which EGX requires but EAS does not. This does suggest that enforcement of EGX rules requires tightening. Our descriptive findings on the extent of CG disclosure relating to the year 2012 are relatively lower than those obtained by Samaha et al. (2012) for a sample of listed Egyptian companies in 2009. The failure of companies to disclose such information clearly shows some ineffectiveness and inadequacy in the regulatory framework in Egypt. Moreover, the phenomenon of non-compliance may also be attributed to the socio-economic factors in Egypt. Given the present unbalanced political situation, prevalent corruption, deteriorating law and order situation and the influence of the social elite, non-compliance to the legal requirements often go unpunished encouraging more noncompliance. Furthermore, this may imply that the learning curve is very slow in developing countries compared to developed countries. In the absence of independent verification, the credibility of CG information disclosed is questionable. To sum up, the reasons for this phenomenon may be attributed to the lack of statutory CG disclosure requirements, less CG awareness, an under-developed corporate culture and the relatively new stock market which was activated in the mid 1990's. In light of the above, it is expected that firms will take a long time to appraise the payback of increased CG disclosure.

Several conclusions can be reached. First, the concept of CG information disclosure in general is a relatively new requirement for Egyptian enterprises. New initiatives to increase compliance and spread awareness of CG best practices were only introduced in 2002 and 2003 respectively, and the ECCG was only implemented in 2005. Thus the practices and advantages of such disclosures may not have been fully digested in the Egyptian market in time for the year ended 2009 reporting.

Second, It is important to note that Egyptian law explains in detail many of the procedures and rules that companies are expected to follow, especially those related to the general assembly and the board of directors' functions and meetings. Although the disclosure of actual practices is relevant to an enterprise's stakeholders, companies may believe that further disclose represents unnecessary duplication.

Third, some disclosure items such as those relating to takeovers and whistle blowing refer to practices that are not themselves very common in Egypt, so that disclosure is consequently expected

to be uncommon. Five disclosure items are not reported at all, including the item "Auditor involvement in non-audit work and the fees paid to the auditors" (an item that became internationally common only after the 2001 Enron/Arthur Anderson scandal), as well as more traditional CG information disclosures such as the item "Material interests of the members of the Board of Directors" or the item "Antitakeover measures". As a consequence, low levels of disclosure compared to the expectations of the ISAR guidelines may be due to a lack of awareness and knowledge rather than a deliberate act of noncompliance.

Finally, awareness building, education and training, incentives or disincentives to disclose including the nature of enforcement regimes are possible policy recommendations based on interviews with Egyptian experts, but all carry costs as well as benefits. Future research of a qualitative nature might explore further the determinants of low levels of disclosure to assist policy making.

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