

CORPORATE GOVERNANCE IN EGYPT: THE LANDSCAPE, THE RESEARCH, AND FUTURE DIRECTIONS

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Abstract

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Egypt is an emerging economy that has in recent years been exposed to several severe economic, political, and social shocks, all within a relatively short period of time. This has amplified the importance of the rule of law, regulatory enforcement, and corporate governance best practices, in order to restore the investing public's confidence in the Egyptian market. Historically, the focus on corporate governance had preceded these recent events. Building on this history, today's corporate governance landscape in Egypt is much more robust with more effective regulators, clearer streamlined governing rules, and better corporate governance literacy. This paper identifies four main areas of corporate governance research in Egypt: firm performance, reporting quality, corporate responsibility, and auditing. While extensive research has already been conducted in these areas, the paper provides some recommendations for further enhancing its quality. These pertain mainly to the development of comprehensive corporate governance databases, the increased focus on emerging and current market-relevant aspects of corporate governance, and the release of more proprietary data by regulators.

Keywords: Corporate Governance, Egypt, Emerging Economy, Monitoring

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1. INTRODUCTION

This study surveys corporate governance academic papers that focus on Egypt. The objective is to identify the main facets of corporate governance research, especially from the accounting and finance disciplinary perspectives. Also, gaps between 'research clusters' and contemporaneous changes in the Egyptian corporate governance landscape are identified. Last of all, future research trends on corporate governance are discussed within the context of market relevance and data availability.

There are several classical definitions of corporate governance; for example, Shleifer and Vishny (1997) define corporate governance as

"the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. How do the suppliers of finance get managers to return some of the profits to them? How do they make sure that managers do not steal the capital they supply or invest it in bad projects? How do suppliers of finance control managers?" (p. 737). Another widely adopted definition is introduced by the Cadbury Report (The Committee on the Financial Aspects of Corporate Governance & Gee and Co Ltd, 1992), which describes it as *"the system by which companies are directed and controlled"* (p. 15). Finally, corporate governance has also been defined by international economic bodies, such as the Organization for Economic Co-operation

and Development (OECD) (2015), as “a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined” (p. 9). One major common feature of these definitions is that governance is viewed as a vital framework, which is conducive to two facets: enhancing the performance of the firm and balancing the interests of the various stakeholders of the firm.

From an academic perspective, researchers have approached corporate governance (CG thereafter) from several angles, based on several well-established theories. These include the agency theory (Alchian & Demsetz, 1972; Eisenhardt, 1989; Jensen & Meckling, 1976; Fama & Jensen, 1983), stakeholder theory (Freeman, 1984), stewardship theory (Davis, Schoorman, & Donaldson, 1997), transaction cost economics theory (Coase, 1937; Williamson, 1975), and resource dependency theory (Pfeffer & Salancik, 1978) (for a detailed presentation of the alternative theoretical bases of corporate governance see Abid, Khan, Rafiq, and Ahmed, 2014).

However, agency theory is probably the most commonly used theoretical perspective applied to CG research. Its general premise is that providers of capital or owners (principals) delegate management or control to specialized managers (agents) (Alchian & Demsetz, 1972; Eisenhardt, 1989). Such separation between ownership and control would yield several problems, such as information asymmetry and moral hazard (Jensen & Meckling, 1976; Fama & Jensen, 1983). A mitigating solution to agency problems is interest alignment through providing managers with equity incentives (Mirlees, 1976; Holmström, 1979). However, this solution has its own unfavorable side effects where managers may become myopically ‘over incentivized’ and manipulate reported performance in order to unduly inflate stock prices (Bar-Gill & Bebchuk, 2003; Cheng & Warfield, 2005). This dedicates the presence of complementary monitoring internal and external mechanisms, which collectively constitute the CG system or the “corporate governance mosaic” as Cohen, Krishnamoorthy, and Wright (2004) describe it.

Emerging economies, such as Egypt, naturally have developed regulatory frameworks with the primary objectives of increasing investor confidence in its capital market, combating corruption (including any form of managerial corporate malfeasance), and enhancing the sharing of information and its credibility. This leads to a natural inclination towards creating a CG landscape that is more conducive to effective monitoring, interest alignment, and information

sharing mechanisms, such as the board of directors, audit committees, the external auditor, internal controls, fair disclosure, and executive compensation schemes. The Egyptian market’s focus on the quality-enhancing attributes of these mechanisms has two implications. First, it brings agency theory to the forefront of the CG conversation. Second, it is best embraced by academic research within the general fields of accounting and finance, given their inherent disciplinary focus on the aforementioned mechanisms. Accordingly, this paper focuses mainly on accounting and finance research addressing CG in Egypt. The impactful and rapid political and economic changes that occurred in Egypt in the last decade, the adopted ambitious economic reform program, the focus on combating corruption and facilitating doing business to attract investment, makes Egypt a very interesting setting to examine CG.

Ultimately, CG-related policy-making and enforcement should be complemented by relevant and data-enabled academic research, in order to gauge the effectiveness of the various facets of CG and take corrective actions when needed. This paper contributes to the CG literature through highlighting some disparities between academia and practice regarding CG. It also provides some insight on how to advance CG research on Egypt, in terms of timely topics and availability of data, which could potentially be extended to other emerging markets.

The remainder of the paper is organized as follows: Section 2 presents the institutional background of CG in Egypt, Section 3 presents the literature review, Section 4 proposes future directions for corporate governance research, and finally, Section 5 is the summary and conclusion.

2. THE INSTITUTIONAL BACKGROUND OF CORPORATE GOVERNANCE IN EGYPT

2.1. The corporate governance landscape in Egypt

CG research in Egypt should not be examined in isolation from two other interrelated aspects. The first one is the historical context of CG in Egypt and its development over time. Secondly, it should be examined within the context of the political, economic, and social fluxes that occurred in Egypt during the last decade. The CG landscape in Egypt has undergone significant changes since the 1990s. These changes manifested in three main areas: 1) laws, regulations, and guiding codes for best practices governing the Egyptian capital market; 2) regulatory bodies; and 3) awareness and capacity building. Figure 1 presents the major historical milestones pertaining to the CG landscape in Egypt.

Figure 1. Major changes in the Egyptian corporate governance landscape

1883	· Alexandria Stock Exchange is established
1903	· Cairo Stock Exchange is established
1909	· The issuance of the first general regulations for stock exchanges
1980	· The Capital Market Authority (CMA) is established
1992	· Capital Market Law No. 95 (1992) known as The Capital Market Law is enacted
1993	· Executive Regulations No. 135/1993 for The Capital Market Law issued
2001	· The World Bank issues the (2001) ROSC report on CG in Egypt
2002	· CMA issues new listing rules of Cairo & Alexandria Stock Exchange (CASE)
2003	· The Egyptian Institute of Directors (EIoD) is established
2004	· The World Bank issues the (2004) ROSC report on CG in Egypt
2005	· The EIoD issues the first release of the Egyptian CG Code
2006	· The EIoD issues the CG code for state owned enterprises (SOEs)
2008	· Law No. 123 (2008) amending Law No. 95 (1992) merging Cairo and Alexandria Stock Exchanges into one entity — The Egyptian Exchange.
2009	· The World Bank issues the (2009) ROSC report on CG in Egypt
2009	· The Egyptian Financial Supervisory Authority is established per Law No. 10 (2009)
2011	· The EIoD issues the second release of Egyptian CG Code
2016	· The EIoD issues the third release of Egyptian CG Code
2017	· Rebranding the Egyptian Financial Supervisory Authority (EFSA) to become the Financial Regulatory Authority (FRA)
2020	· FRA's board of directors issues Decision No. 100: Governance rules for non-banking companies
2021	· FRA's board of directors issues Decision No. 2: Controls for combating money laundering and the financing of terrorism

The first stock exchange in Egypt dates back to 1883. However, the first rules regulating its operation were adopted in 1909. The Capital Market Authority (CMA) was established in 1980 as a regulator, and in 1992 the Capital Market Law was enacted. Subsequent changes to the Exchange, and in laws and regulations, paved the way to establishing a clear CG landscape. For example, in 1999 a disclosure department was established in the Exchange. Subsequently in 2002, the CMA introduced new listing requirements for the Cairo & Alexandria Stock Exchange (CASE) (Capital Market Authority, 2002). The listing rules had more pronounced CG elements, such as the mandatory disclosure of certain attributes of directors and managers, which include interlocking directorate, threshold ownership in the company's capital, together with other information; it also mandated the establishment of an audit committee and the appointment of an Investor Relations Officer (IRO).

In addition to the introduction of the local laws and rules pertaining to CG, another factor also had an impact on shaping CG practices in Egypt. Since 2001, the World Bank conducted three CG country assessments of Egypt through its *Report on Observance of Standards and Codes* (2001, 2004, and 2009). Although the last report acknowledged Egypt's efforts to enhance CG in terms of the legal, regulatory, and institutional frameworks, it was still critical of the fact that CG laws and regulations were not being fully enforced, especially in regards to smaller companies¹. During the early 2000s, there

¹ The World Bank (2009) ROSC highlighted the steps taken towards enhancing CG in Egypt by stating, "The Capital Markets Authority (CMA) created a special Corporate Governance Department and the Egyptian Stock Exchange (EGX) began to consistently enforce its listing rules, leading to an impressive wave of de-listings from a high of 1,148 in early 2002 to 333 by mid-2009. The Egyptian authorities have implemented many of the key recommendations of the 2001 and 2004 Corporate Governance ROSCs" (p. 5).

was also direction by the state to raise the awareness of CG and disseminate best practices. In 2003, the Egyptian Institute of Directors (EIoD) was established with the mandate to promote CG in Egypt, the Middle East and North Africa (MENA) region. The EIoD caters to the CG perspectives of various forms of organizations, such as listed, non-listed, family-owned, and state-owned enterprises (SOEs). It also aims at CG capacity-building for the different constituents of the organization, such as directors, executives, and shareholders. Finally, the EIoD has active partnerships with international bodies, such as the United Nations Development Program (UNDP), World Bank Institute (WBI), International Finance Corporation (IFC), Organization for Economic Cooperation & Development (OECD), European Union (EU), and the Center for International Private Enterprise (CIPE). In terms of CG codes, the EIoD issued its first code in 2005 followed, by two revised versions in 2011 and 2016, with an emphasis on the “comply or explain” principle for all forms of companies. The EIoD also issued a CG code for state-owned enterprises (SOEs) in 2006.

With the objective of improving and streamlining the regulation and monitoring of non-banking enterprises, in 2009 the Egyptian Financial Supervisory Authority (EFSA) was established. EFSA would later be rebranded in 2017 to become known as the Financial Regulatory Authority (FRA). Replacing the CMA and two other regulators, the Egyptian Insurance Supervisory Authority (EISA) and the Mortgage Finance Authority (MFA), the scope of FRA includes supervising and regulating non-banking financial markets and instruments, including the capital market, futures exchanges, insurance activities, mortgage finance, financial leasing, factoring, and securitization. FRA has been adopting a modern and scientific approach *vis-à-vis* the Egyptian market, in terms of addressing global and timely issues.

In recent years, the FRA issued several important decisions, which aimed at streamlining corporate governance rules, as well as addressing important emerging issues. For example, in 2020, the FRA’s board of directors issued Decision No.100, which provides specific mandatory corporate governance rules applicable to non-banking entities. These rules provide a single clear, coherent, and comprehensive regulatory framework that is more conducive to compliance. Areas covered include the board of directors, its committees, general assembly meetings, disclosure and transparency, the control environment, the external auditor, insider trading and confidentiality and treasury shares. The FRA also appreciates the role of sound corporate governance in combating money laundering and the financing of terrorism. In 2021, it issued Decision No. 2 that highlights the rules concerning the role of controls in combating these dangerous phenomena. Overall, CG in Egypt has come a long way in terms of legislation, regulatory enforcement, and adoption of best practices.

2.2. The new Egypt

Since 2011 Egypt, has been exposed to several profound and relatively rapid shocks — both politically and economically. This included three

regime changes in a span of less than three years. With the new government in power in 2014, the first priority was to restore security to pave the way for an impactful development program. Since that time, several measures have been taken to enhance the Egyptian economy. In November 2016, supported by a three-year Extended Fund Facility (EFF) from the International Monetary Fund (IMF) worth US\$12 billion, Egypt introduced an economic reform program. This was coupled with the floatation of the exchange rate by the Central Bank of Egypt (CBE). Fiscally, the sales tax system was replaced by a value-added tax (VAT) system, direct price subsidies for fuel products, electricity and utilities were reduced, and the food subsidy system was reformed. Economic indicators seem to be responding to these measures as suggested, by reduction of the overall budget deficit from almost 13% of gross domestic product (2012–2013) to around 10.9% (2016–2017)².

The Government of Egypt is also implementing an ambitious portfolio of mega-projects across Egypt as catalysts of growth. These include increasing the country’s arable land by roughly 18.75%, ensuring more food sovereignty and agricultural exportation, expanding and enhancing highways, establishing the Suez Canal Economic Zone as the country’s major global logistics hub, and the construction of the New Administrative Capital.

Egypt has always strived to enforce investors’ confidence in its markets with a stronger focus to attract foreign direct investment (FDI), given its favorable ripple effects on its economy. There are two factors that have a significant impact on the investing environment. The first is an enabling factor, which is the ease of doing business. The second is an impeding factor, which is corruption. Regarding the first factor, according to the World Bank’s *Doing Business Reports*, which is based on assessing 190 economies, Egypt’s ranking went up from 120th in 2019 (Ease of Doing Business Score of 58.56) (World Bank, 2019) to 114th in 2020 (Ease of Doing Business Score of 60.1). It further mentions four major business reforms (World Bank, 2020). These reforms concern the ease of starting a business through improving its one-stop shop, improving the reliability of the electricity supply, protecting minority investors by requiring shareholder approval for listed companies to issue new shares, and introducing an online system for filing and payment of corporate income tax and value-added tax. In terms of combating corruption, through its National Coordinating Committee for Combating Corruption, a National Anti-Corruption Strategy was adopted in 2014³.

Finally, a persistent feature of the Egyptian market is the increasingly pronounced

² For more information, please refer to *Egypt’s voluntary national review 2018* (Ministry of Planning, Monitoring, and Administrative Reform of Egypt, 2019).

³ The strategy has ten main objectives: “a) Raising the governmental and administrative performance of the state, improving the public services; b) Sending the transparency and integrity principles to the employees in the administrative office of the state; c) Stipulating and updating the legislations supporting corruption combating; d) Improving the judicial proceedings to achieve prompt justice; e) Supporting the authorities concerned with anti-corruption; f) Raising the living standard of citizens and achieving social justice; g) Raising the public awareness of corruption danger and the importance of combating it, building the citizens’ confidence in the state institutions; h) Reinforcing the local cooperation in the field of anti-corruption; i) Reinforcing the regional and international cooperation in the field of anti-corruption; j) Participating with the civil society organizations in anti-corruption” (Administrative Control Authority, 2014, p. 19).

entrepreneurial posture of Egyptians as evidenced by the growing number of startups with the support of a booming entrepreneurship ecosystem. Ismail, Tolba, Barakat, and Meshreki (2018) report that the total early-stage entrepreneurial activity (TEA) was 13.3% (2017), which was higher than the global average of 12.3% and situated Egypt in the 19th position worldwide. Overall, despite challenges, Egypt remains to be an emerging economy with promising potential.

3. LITERATURE REVIEW: ACADEMIC RESEARCH ON CORPORATE GOVERNANCE IN EGYPT

This paper classifies prevalent academic research on corporate governance within the Egyptian context into four major clusters: CG and firm performance, CG and reporting quality, CG and corporate responsibility, and CG and auditing. The following is a sample of papers covering each of these areas.

3.1. Corporate governance and firm performance

Effective CG is not the end, but rather the means, for companies to create value. Prior studies have linked CG, with its various elements, to several firm performance metrics. For example, using a sample of Egyptian companies Wahba (2014) examines the joint effect of debt and managerial ownership on firm performance measured by Tobin's Q and ROA. The results suggest that managerial ownership concentration has a dampening (i.e., negative) moderating effect on the relationship between debt and firm performance. El-Habashy (2018) also focuses on capital structure and finds that ownership (managerial, blockholders, and institutional), CEO duality, and board size, are key determinants of capital structure decisions. Finally, Hussein (2020) uses a sample of 168 Egyptian companies during 2012–2016 to examine the effect of capital structure (captured by short-term debt to assets and long-term debt to assets) on four performance metrics (ROA, ROE, EPS, and Tobin's Q). Results show that short-term leverage is negatively associated with ROA, ROE, EPS and positivity associated with Tobin's Q. However, long-term leverage is negatively (positively) associated with ROA (ROE).

Another aspect of firm performance is financial distress. Shahwan and Habib (2015) attempt to examine whether CG strength is associated with the likelihood of financial distress. No significant relationships were found. Firm performance metrics, such as ROA, ROE, and Tobin's Q, have also been used to associate performance with the various CG elements. For example, El-Habashy (2019) finds that CG effectiveness, proxied by a composite index of board characteristics and ownership structure, is positively associated with firm performance for a sample of non-financial companies. Examining the effect of CG on performance was also conducted for banks (e.g., Abobakr, 2017).

3.2. Corporate governance and reporting quality

Prior studies have examined the effects of the attributes of CG on the quality of financial reporting and disclosure. These elements include audit committee independence (Klein, 2002), board

independence (Ahmed & Duellman, 2007; Peasnell, Pope, & Young, 2005), institutional investors (Koh, 2003; Chung, Firth, & Kim, 2002; Cornett, Marcus, & Tehranian, 2008), and CEO duality (Dechow, Sloan, & Sweeney, 1996; Tsui, Jaggi, & Gul, 2001). Prior research using Egyptian companies' data focused on several aspects of financial reporting and disclosure.

One stream of research examines the impact of CG effectiveness on the quality of accounting information of Egyptian companies. For example, Nasr and Ntim (2018) document a positive (negative) association between board independence (board size and auditor type) and accounting conservatism. Abdou, Ellelly, Elamer, Hussainey, and Yazdifar (2020) find that Egyptian firms are likely to have lower levels of earnings management in the presence of larger boards, more independent boards, and boards with less female directorship. However, Khalil and Ozkan (2016) argue that the mitigating effect of board independence on opportunistic earnings management is contingent on other CG characteristics, namely high blockholders and management ownerships. While the former research is archival, an experimental study by Ebaid (2013) finds a positive association between CG strength and perceptions of earnings quality. Finally, Ebrahim and Abdel Fattah (2015) show that companies with high institutional ownership, high foreign representation on the board, and higher quality auditor, exhibited better compliance with recognition and disclosure requirements of International Accounting Standard (IAS) 12 — Income Taxes, which is the basis of Egyptian Accounting Standard (EAS) 24 — Incomes Taxes.

Another stream of research investigates the role of CG as a driver of several forms of voluntary disclosures. Mokhtar and Mellett (2013) find that CEO duality, board size, ownership concentration and auditor type are significantly associated with risk reporting in Egypt. Samaha, Dahawy, Abdel-Meguid, and Abdallah (2012) use the voluntary nature of corporate internet reporting (CIR) to show that there is a higher (lower) likelihood of CIR by Egyptian companies with greater (less) ownership dispersion, managerial ownership, governmental ownership, and (board independence). However, the comprehensiveness of this CIR is positively (negatively) associated with greater (less) ownership dispersion, board size (governmental ownership, board independence). Elfeky (2017) uses a weighted relative disclosure index to capture voluntary disclosure and finds that it is positively (negatively) board independence and auditor size (blockholder ownership).

3.3. Corporate governance and corporate responsibility

There is a growing stream of research at the intersection of CG and non-financial corporate responsibility (i.e., social and environmental). A more comprehensive construct that redefines the role of companies is sustainability. As the United Nations introduced the Millennium Development Goals (MDGs) in 2000, their successors the Sustainable Development Goals (SDGs) in 2015, and the "2030 agenda", sustainability and sustainable development became the center of a global conversation. Furthermore, business

communities were actively engaged in this conversation, which has, in turn, acted as a catalyst to rethink the role of companies and to change corporate disclosure practices⁴. Since the extent and form of corporate responsibility towards society and the environment is captured through its disclosure, researchers focused on the latter as their main proxy. Gray, Owen, and Maunders (1987) define social and environmental accounting (SEA) as “*The process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organizations (particularly) companies; beyond the traditional role of providing a financial account to the owners of capital, in particular shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders*” (p. 9).

Several CG dimensions have been considered in examining corporate social responsibility (CSR) disclosure. For example, Soliman, Bahaa El Din, and Sakr (2012) focus on the ownership structure dimension of CG. They capture CSR activity using CSR ratings, based on information of annual reports of the 50 most actively traded companies on the Egyptian Exchange. They find that CSR ratings are positively (negatively) associated with ownership by institutions and foreign investors (top managers). Such results suggest different types of owners may have different inclinations towards CSR. The association between other aspects of CG, such as board diversity and board independence on CSR reporting, was also examined. El-Bassiouny and El-Bassiouny (2019) found that foreign BODs, board independence, and institutional ownership, have significant effects on the level of CSR disclosure by a sample of Egyptian companies. While the former set of studies focused mainly on the determinants of CSR activity and disclosure, others focused on the consequences of environmental, social, and governance (ESG) disclosure. For example, Aboud and Diab (2018) examine the effect of ESG practices, disclosure, and Egyptian firms’ values. They document a positive association between the firm’s ranking on the ESG index and its value proxied by Tobin’s Q⁵.

Another manifestation of CG attributes is corporate environmental responsibility. Wahba (2008) used ISO 14001 certification as a proxy for environmental responsibility of Egyptian companies to examine its attractiveness for institutional investors. Primary results indicated a positive relationship between environmental responsibility

and institutional ownership. However, when the interaction between environmental responsibility and financial performance is introduced, this positive relationship dissipates. Further analysis on subgroups of companies, based on the level of financial performance, suggests such positive relationships exist only when financial performance is high.

Prior research has focused on examining the relationship between ‘CG quality’ and corporate social and environmental responsibility, through several CG attributes, such as ownership type (institutional, management, foreign), board independence, and board diversity of companies listed on the Egyptian Exchange. Recently the areas of SDGs and SDGs disclosure in the Egyptian market have been gaining traction. Calvin and Street (2020) argue that in general, academic literature focusing on SDG disclosure is still limited; this seems to be the case within the Egyptian setting.

3.4. Corporate governance and auditing

The external auditor is a critical element of any corporate governance system (Jensen & Meckling, 1976). Abdel-Meguid (2012) states that “*the auditor’s proximity to its client’s financial reporting process makes it potentially the most influential monitoring mechanism*” (p. 20). However, the auditor does not operate in isolation from other CG elements. For example, Abdel-Meguid, Ahmed, and Duellman (2013) document a positive relation between financial reporting aggressiveness and auditors’ economic dependence on clients using a sample of US firms audited by Big 5(4) auditors. Their empirical evidence suggests that such a relation is driven by weak non-auditor governance mechanisms (i.e., board of directors and institutional investors). In Egypt, several policies and structures have been put in place to create a setting that is conducive to more effective auditing.

The Capital Market Authority of Egypt created an auditors’ registry in 2006. All listed companies were required to engage only registered auditors. A similar registry was also established by the CMA’s successor, the FRA. In addition, an auditors’ oversight board was established in 2008 and is now housed within the FRA. This board is responsible for, among other things, periodic inspections to assess the quality of audits, recommend disciplinary actions against non-compiling auditors, and to promote continuing professional education and development for auditors. The criticality of the auditor is also echoed by the 2016 Egyptian Code of Corporate Governance Code issued by the EIoD, underscoring the importance of a technically qualified and independent auditor as an effective monitoring mechanism.

Several studies have examined the interaction between the auditor and other monitoring mechanisms for companies listed in the Egyptian Exchange. One facet of this interaction is the initiation of the client – auditor engagement, through the client’s selection of the auditor and the auditor’s acceptance of the client. For example, through an experimental study with 49 audit partners and managers, Ebaid (2011a) provides evidence that strong corporate governance, proxied

⁴ In an opening note by Lise Kingo, CEO & Executive Director of the United Nations Global Compact in the Global Reporting Initiative (GRI) and the UN Global Compact’s 2017 report on “*Business reporting on the SDGs: An analysis of the goals and targets*” she states, “*The SDGs provide a unique opportunity to elevate communication on sustainability. Governments have emphasized this agenda through SDG 12 — recognizing how important it is for companies to adopt sustainable practices and integrate this information into their reporting cycles* [emphasis added]. *The expectations on companies are huge. Companies that align reporting and communication with the SDGs will be speaking in the same language that increasingly is adopted by governments, foundations, NGOs and even investors*” (p. 9).

⁵ The ESG Index for Egypt was created by the EIoD, Standard & Poor’s and Crisil, and the Egyptian Stock Exchange (EGX). The index methodology assigns ranking scores to the top 100 listed companies on the EGX in terms of environmental, social, and CG issues. Ultimately the index is comprised of the top 30 stocks based on qualitative and quantitative composite score components.

by a strong board and an audit committee, is associated with more favorable client acceptance decisions. Empirically, Soliman and Abd Elsalam (2012) document a positive (negative) relationship between board independence (CEO duality) and audit quality, proxied by the dichotomous auditor size (Big 4 vs. non-Big 4). On the other hand, they do not find any significant association between institutional investors and managerial ownership and audit quality.

Another dimension of CG-auditing interaction is the level of 'audit quality' generated through the utilization of CG attributes. For example, Afify (2009) examines the association between audit report lag and certain CG characteristics. He finds that board independence, CEO duality, and the existence of an audit committee, all have significant effects on the auditor's report lag. Internal control quality is another proxy for CG effectiveness. In a survey study, Khlif and Samaha (2016) document a significant positive effect of the audit committee activity, captured by a number of meetings, and the quality of internal controls. Furthermore, the engagement of a Big 4 auditor seems to amplify this association. In a similar study, Khlif, Samaha, and Amara (2021) document a positive association between the quality of internal controls and voluntary disclosure, they also demonstrate that this relationship is weakened by CEO duality. Finally, Ebaid (2011b) examines four aspects of the internal audit function, as a CG tool, in Egyptian listed companies: insourcing or outsourcing arrangements of the internal audit function, organizational setting, activities, and interaction with external auditors. Survey results suggest an overall suboptimal level of internal audit effectiveness. One documented deficiency is the limited interaction between the internal and external auditors.

The above sample studies, and others, provide interesting insights regarding the role the external auditor plays in the "corporate governance mosaic" (Cohen et al., 2004) within the context of an emerging market, Egypt. However, there are several factors that might be potentially limiting the growth of this research stream. First, a commonly seen caveat in these studies is to interpret findings with caution, given the small sample sizes. Second, researchers are inclined to use questionnaires in light of the absence of readily available organized data pertaining to auditors and audit quality metrics, as found in other developed markets⁶. Third, an interesting, yet relatively absent context, is focusing on CG and/or auditing failures; however such data might not be accessible to researchers⁷.

⁶ In general, disclosure pertaining to audit firms and their interaction with clients is limited by virtue of confidentiality. Mandatory disclosures beyond the audit firm identity are limited. Audit fees are disclosed in minutes of annual general meetings and typically have to be hand collected. Other detailed auditor-related information, such as disagreements with clients and detailed results of auditors' oversight board inspections, is not readily available.

⁷ Corporate failures due to managerial wrong doing could usually be attributed to the failure of multiple CG defenses. For example, Coffee (2002), Healy and Palepu (2003) argue that the failure of Enron was a result of ineffective gatekeepers including auditors, directors, analysts, and institutional investors.

4. FUTURE DIRECTIONS FOR CORPORATE GOVERNANCE RESEARCH IN EGYPT

A limitation of this study is that the aforementioned CG research clusters might not be exhaustive given that it is based on only a sample of papers. However, several general directions for enhancing CG research could be proposed.

4.1. Developing comprehensive corporate governance databases

The vast majority of CG papers examined in this study are based on some degree of hand collection of data. Secondary data sources include annual reports, companies' websites, and other sources. While CG researchers' efforts are commendable, hand collecting data is inherently challenging in several ways. First, it is both time-consuming and highly susceptible to error. Second, in general, it typically covers a short time horizon, ultimately yielding smaller sample sizes and reducing the power of testing. Alternatively, academic researchers should be encouraged to use more refined and complete databases featuring the maximum number of CG attributes. Also, these databases should generate datasets in formats that could be easily utilized in statistical software. Furthermore, they should cover the entire market with longer historical time horizons to yield a much larger number of observations, than the relatively small samples typically used. These databases have to be updated periodically.

Finally, these databases should be primarily designed for academic research purposes, which would be an endeavor best implemented through collaboration between expert academic institutions and relevant market participants, such as the Egyptian Exchange and the Financial Regulatory Authority. With these databases in place, CG research would be expected to improve both in terms of quality and quantity.

4.2. Focusing on emerging and market-relevant aspects of CG

Continuing the conversations between 'academia' and 'practice' is needed to produce research that is not only scientifically robust but also market-relevant. Such research would further enhance the role of academia in supporting sound policy-making and regulations concerning emerging topics. These topics, which could become more pronounced in mainstream CG research now or in the near future, include: board diversity, sustainability and SDGs, derivatives, ease of doing business, digital disruption, entrepreneurship, and other timely topics. Research in these areas would be a direct response to major changes in the market and would provide more interesting insights beyond classical CG research questions, which have been extensively examined in the past. An important catalyst for research to keep up with these changes is data availability, and ease of use, as mentioned before.

For example, in 2019 the FRA issued decrees No. 123 and 124 mandating that listed companies

and non-banking companies in the financial activities sector have at least one female on their boards of directors, which could be considered a stepping stone towards more gender diversity on boards. Examples of relevant research questions could be; will this rule have an impact on the various performance metrics on the firm? Are the effects of the historical 'voluntary' board diversity different from the now 'mandated' diversity? Research on the role of gender diversity in CG has been gradually gaining some momentum in the Egyptian context. For example, Abdelzaher and Abdelzaher (2019) document a positive effect of female board membership on a firm's value using a sample of 114 Egyptian companies for 2013. Similarly, Ararat, El-Helaly, and Shehata (2017) find that the positive association between board gender diversity and firm performance is amplified by external shocks, such as the 2011 Egyptian revolution.

Another example of an emerging area that could have implications for CG research is sustainability and SDGs. Besides the global inclination towards these areas, there is a clear endorsement of sustainable development by the Egyptian state. This is reflected in the recently drafted Egyptian constitution of 2014, in which several articles explicitly cite "sustainable development" or "sustainability". Furthermore, in 2016 Egypt published its *Sustainable Development Strategy (SDS): Egypt's Vision 2030*, as an action plan to enforce sustainability and SDGs along three dimensions: economic, social and environmental⁸. CG research could examine the relationship between various proxies for CG effectiveness and the propensity of companies to disclose initiatives supporting SDGs.

4.3. Releasing proprietary data by regulators

In order to achieve a breakthrough in CG research in Egypt yielding a significant contribution to the international CG literature, new and interesting data is needed. Once datasets are created, organized and released to the research community, an exciting new stream of CG research will emerge. An example of proprietary data is the details of investigations and disciplinary actions pertaining to non-compliance by companies and auditors⁹. Such data would be used to examine the factors that lead to the failure of CG mechanisms within the Egyptian context, and whether they are different from other contexts. Thus this is a call on the Egyptian FRA and the EGX to disclose more detailed information about CG practices by companies. This might entail relaxing some confidentiality restrictions.

5. CONCLUSION

Although the first Egyptian Stock Exchange was established towards the end of the 19th century, corporate governance gained momentum starting in the late 1990s. This was triggered by enacting many laws, establishing a regulatory framework, several country assessments by the World Bank, and the introduction of the Egyptian Code for Corporate Governance Code with subsequent revisions, and the establishment of the Egyptian Financial Regulatory Authority. Furthermore, to date, Egypt has undergone many economic, political, and social changes that have redefined the role and governance of 'corporate Egypt'. These developments were reciprocated by academic research addressing corporate governance from various perspectives. This paper identifies four main areas of CG research in Egypt: firm performance, reporting quality, corporate responsibility, and auditing.

Although there has been a growing stream of empirical research in the above areas, in many cases samples are small, results are sometimes mixed and/or statistically insignificant, and indices based on hand-collected data and surveys are used as the primary proxies for CG quality. These elements pose a challenge for CG research in Egypt. Given the current state of the Egyptian CG landscape and its potential for future advancement, academic research should be able to match such developments. This study recommends a three-prong approach to enhance CG research in Egypt. First, developing more refined, complete, and researcher-friendly CG databases, which should be updated periodically. Second, shifting the focus to more timely and emerging topics, which would further enhance the relevance of CG research for policymaking and regulation. Third, releasing more data by regulators, which is typically proprietary in nature, would, in turn, result in the introduction of new research questions. A limitation of this paper is that the identification of the main research areas of CG in Egypt was based on a non-exhaustive sample of studies. However, given the ongoing developments in the Egyptian market new research streams are expected to examine CG in Egypt through new lenses such as SDGs, the ease of doing business in Egypt, digital disruption, entrepreneurship, and board diversity.

In conclusion, with the rapid changes occurring in Egypt, especially in the last decade, the Egyptian setting is truly a natural 'sandbox' to study new trends in CG, given a strong research ecosystem, coupled with continuous conversations with the market.

⁸ "Egypt Vision 2030 focuses on improving the quality of life of the Egyptian citizens and improving their standard of living in various aspects of life by ensuring the consolidation of the principles of justice, social inclusion and the participation of all citizens in political and social life, in conjunction with high, inclusive and sustainable economic growth, enhancing investment in human beings, and building their creativity by promoting increased knowledge, innovation and scientific research in all areas" (Ministry of Planning and Economic Development, n.d.).

⁹ Such data is publically available in other countries, such the USA. The Securities and Exchange Commission (SEC) website maintains section on accounting and auditing enforcement releases (U.S. Securities and Exchange Commission, n.d.).

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