

Developing Nations and Corporate Governance: The Story of Egypt

Khaled Dahawy
Associate Professor
The Management Department
The School of Business, Economics, and Communications
The American University in Cairo

dahawy@aucegypt.edu

Abstract

There is a lack of studies that aim to assess corporate governance practices in developing/emerging nations. This paper follows prior studies that aim to measure disclosure of corporate governance scores to assess the implementation of listed companies in the Egyptian stock market. It presents a brief overview of key recent developments in Egypt related to corporate governance disclosure, including reforms to the regulatory framework, and the presentation and analysis of the results of the review of corporate disclosure practices among leading enterprises in Egypt.

The data for analysis are gathered from manual review of the financial statements and websites of the thirty enterprises that make up the CASE 30, which consists of the most active companies in the Cairo Alexandria Stock Exchange (CASE) and is the most commonly used index to measure the performance of the Egyptian Capital Market. The study compares the findings to the corporate governance checklist constructed by the United Nations

The findings of this research are in line with previous research from other developing nations that indicate that the level of disclosure in Egypt is low. It also indicates that some of the non conformity might be due to lack of knowledge about the needs and benefits of corporate governance.

This study is important because it shows the differences among developing nations and the need to study these societies at the individual country level. Corporate governance 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.

The main recommendations of this study indicate that there is a need to increase the focus on training and education to explain to all stakeholders the means and benefits of disclosures in general, and disclosures related to corporate governance in particular.

INTRODUCTION¹

Recent financial international scandals have generated hyped interest in the area of corporate governance as a mean to mitigate financial problems faced in developing nations (Tsamenyi et al. 2007, Gugler et al. 2003, Rabelo and Vasconcelos 2002, Reed 2002, Ahunwan 2002). The financial problems faced by developing economies include weak and illiquid stock markets, government interventions, economic uncertainties, weak legal controls and investor protection, and frequent government intervention. In addition, developing nations suffer from poor performance, and large concentration of ownership (Tsamenyi et al. 2007, Rabelo and Vasconcelos 2002, Ahunwan 2002). This study aims to explore and evaluate the current status of corporate governance disclosure in Egypt.

Many researchers have examined the status of corporate governance in developed nations. However, developing nations have not enjoyed such level of investigation. There is a need for understanding the interaction of corporate governance in the developing nations. Globalization, international trade, and international investment practices calls for the development of corporate governance in developing nations (Reed 2002). In addition, Rabelo and Vasconcelos (2002) reports the presence of differences between the factors giving rise to corporate governance in developing nations than those in developed nations. Developing nations are known to have different political and economic environments than those of the developed nations. They usually suffer from state ownership of companies, weak legal and judiciary system, weak institutions, limited human resources capabilities, and closed/family companies (Mensah 2002, Young et al. 2008).

Rabelo and Vasconcelos (2002) report that the special problems faced by developing nations makes the type and degree of corporate governance in developing nations significantly different from that in developed nations. In addition, it is reported that special issues like dominance of government ownership and/or family/closed companies makes corporate governance implementation questionable and troublesome (Mensah 2002).

In addition, individual developing countries are very different between themselves. There are major difference in the Middle East, North Africa countries and sub-Saharan African countries (Euromoney 2007, Fawzy 2004). Therefore, there is a need to study corporate governance in each country separately.

Egypt has adopted several far-reaching measures aimed at improving the local investment environment. Among these measures, Egypt engaged in a number of activities aimed at improving its corporate governance practices, in the late 1990s. It has been recognized that if applied properly, corporate governance helps countries to realize high and sustainable rates of growth. When practiced widely, good practices in corporate governance disclosure boost investor confidence in a country's economy, deepen capital markets and increase the ability of a country to mobilize savings and raise investment rates. Corporate governance disclosure facilitates access to a wider pool of investors by helping to protect the rights of minority shareholders and small investors. It also encourages the growth of the private sector by supporting its competitive capabilities, helping to secure financing for projects, generating profits, and creating job opportunities (Fawzy 2003).

The perceived importance of corporate governance was strongly shown by a study that was performed in 2002 by McKinesy Consulting that surveyed over 200 institutional investors

¹ The author would like to thank Burcin Besim Yurtoglu for his thoughtful and helpful remarks

(McKinesy 2002). Results of the survey showed that 80 per cent of the respondents were ready to pay a premium for well governed companies. The study further indicated that this premium amounted to 40 per cent in the case of Egypt. Thus improving corporate governance in Egypt can be used as means of creating value for the country's enterprises, and increasing foreign direct trust and inflows that are much needed by the Egyptian Economy.

PCSU (2000) recommends four important separate but highly related factors that would lead to the development of corporate governance in Egypt. The report recommends the need for a strong, clear and well enforced legal framework. Also, it recommends the importance of enhancing disclosure to levels to reach greater information disclosure. Finally the report recommends the need for independent, accountable, oversight managers, and other External factors

Furthermore, Fawzy (2004) have reported that listed companies in Cairo, Alexandria, Stock Exchange have four important characteristics that make them special: (1) most companies are closely held, (2) considerable state ownership in privatized companies, (3) weak board independence, and (4) disclosure is not a common practice. These characteristics would definitely have a strong impact on the implementation of corporate governance in Egypt.

Bremer and Elias (2007) investigate the challenges and assess the progress of corporate governance in Egypt. They concluded that Egypt has started to appreciate the need to introduce corporate governance in the Egyptian businesses. However, they report that there are many integral factors that hinder the development of corporate governance in Egypt like: (1) family owned or closely held corporations dominate the Egyptian private sector, (2) State owned enterprise still play a major role in the Egyptian Economy, (3) new and thin capital market, and (4) lack of awareness of corporate governance concepts and benefits, lack of board independence, weaknesses in the Egyptian economic structure.

Based on the previous discussion there is a need to explore the level of corporate governance in Egyptian companies. Therefore, the objectives of this study are to: 1) provide an overview of key recent developments in Egypt related to corporate governance disclosure, and; 2) present and analyze the results of the review of corporate disclosure practices among leading enterprises in Egypt. The next section presents a brief literature review. Section 3 presents an overview of recent developments in corporate governance in Egypt, recent reforms to Egypt's capital markets, and rules and regulations related to corporate practices. Section 4 presents and analyses the results of the study. Section 5 includes the limitations and conclusion.

DEVELOPMENTS IN CORPORATE GOVERNANCE DISCLOSURE IN EGYPT

The Statutory framework in Egypt

Corporate governance in Egypt is a novel term that has started to appear in the late 1990s. However, the statutory framework that governs its operation is based on some laws that originated in the 1980s, which might deem them outdated. There are two main groups of laws that govern the legal framework that impacts the concepts of corporate governance in Egypt; laws which govern the incorporation of companies in Egypt², and laws that govern companies listed in the Cairo Alexandria Stock Exchange (CASE)³.

Generally, the primary source of Egypt's corporate legal framework (companies' law 159/1981) is the French civil law. However, the Anglo-American common law concepts prevail in the Capital Market Law and the Central Depository Law. Currently efforts are underway to draft and discuss a unified law that would replace many laws and dispersed provisions. This unified law would ensure that all businesses in Egypt adhere to the same law following a modernized regulatory system that facilitates investor's dealings with administrative authorities and promotes transparency. The unified companies' law is expected to replace the current laws to remove conflicts and obstacles to local and foreign investments in Egypt.⁴

In the late 1990s Egypt noted the need and importance of gaining trust of the international community and foreign direct investment. As a result, Egypt started implementing a well-tailored economic reform program that covers the whole economic spectrum. As part of the privatization program, the Egyptian government revitalized its capital market, by improving its reputation and building confidence among investors. The aim was to raise new foreign capital and to encourage more Egyptians to invest in the domestic markets rather than continuing to invest abroad. This development program aimed at sound financial principles, availability of reliable corporate information, and adoption of international accounting and auditing standards. As a result the Egyptian government recognized the need for a high level of corporate governance practices to reach its aspired goals.

The World Bank and the IMF started their first assessment of corporate governance in Egypt in 2001, as the first Arab country to undergo a ROSC analysis (ROSC 2001). The assessment evaluated Egypt's corporate governance practices against the requirements of the OECD Principles of Corporate Governance. The ROSC results indicated that 62% of the principles were applied by Egyptian companies that were studied. As a result of the ROSC, Egypt started issuing new rules to guarantee companies' implementation of corporate governance

² The laws that govern the incorporation of companies in Egypt are (1) Companies' Law (CL 159/1981), which regulates joint stock companies, limited liability companies and partnerships limited by shares. (2) Investment Law (IL 8/1997), which endorses investment in specific industrial locations or economic sectors by offering specific income tax exemptions or tax free zones. (3) Public Business Sector Law (PBL 203/1991) which is the law that governs the incorporation of public business sector companies.

³ The laws governing public and private sector companies listed on the Cairo Alexandria Stock Exchange (CASE) are : (1) Capital Market Law (CML 95/1992), which is the main law regulating the Egyptian financial market in terms of monitoring the market status in general and maintaining steadiness and growth. (2) Central Depository Law (CDL 93/2000), which aims at reducing risks associated with trading physical securities, enhancing market liquidity, in addition to assuring fast securities exchange. In other words, the law maintains all registration, clearance and settlement procedures associated with trading transactions.

⁴ The first draft of the law was initially prepared in 1998 and since that time several amendments have been made by the ministry of investment and the General Authority for Investment and Free Zones (GAFI). However, as of fourth quarter 2007, this law is still being discussed in the people's assembly and has not yet been formally issued.

practices. The most important among these rules were the new CASE listing rules issued in 2002 (CASE 2002).⁵ Currently, CASE is working on producing new listing rules that incorporate a number of changes to further strengthen the corporate governance practices of the companies that are listed on the CASE. These new listing rules are still being discussed and CASE hasn't publicized the expected date that they will be finalized and enforced. In 2004 the World Bank conducted a re-assessment of corporate governance implementation in Egypt, concluding that Egypt applied 82% of the OECD principles (ROSC 2004). This indicates that Egypt is continuously improving in the area of corporate governance. The report observed that the major areas of improvement included: basic shareholders rights cost/benefit to voting, and disclosure standards. However, all items of the third principle "Role of stakeholders in corporate governance" remained the same in both assessments, thus signalling an area for improvement.

In a parallel effort to develop the investment environment in general the Egyptian government established the Egyptian Institute of Directors (EIoD) in 2003 under the supervision of the Ministry of Foreign Trade.⁶ The EIoD works jointly with a range of international organizations.⁷ One of the EIoD's main goals is to spread awareness and improve corporate governance practices in Egypt. The EIoD meets its mission through a range of training and advocacy activities, including the provision of information on corporate governance principles, codes and best practices.⁸ The EIoD exerts continuous efforts towards improving good corporate governance practices and strengthening the boards of directors in regional companies, for example, hosting international and national conferences, offering competitions to create awareness, and developed manuals and procedures to help implement corporate governance.

In 2005, the CMA further contributed to the corporate governance reforms by restructuring its organization and initiating a separate sector focused on corporate finance and corporate governance. The new CMA organization structure includes three major sectors; (1) the Corporate Finance and Corporate Governance sector, (2) The Market Regulation sector, and (3) Market Surveillance and Enforcement sector, in addition to other central departments and units. The CMA has also taken some actions in support of corporate governance by improving the level of quality in the auditing profession. In 2006 the CMA created an auditors registry. The auditors that join this registry are the only ones that are allowed to audit companies that are listed on the stock exchange. Auditors listed in this registry are expected to be of the highest calibre based on the requirements of acceptance to this registry. In addition, in 2007, the CMA issued a new code of ethics for auditors in Egypt. The code of ethics discusses and explains the rules and regulations for important issues, such as: independence of auditors, objectivity, competence, secrecy, and professional conduct. In

⁵ The CASE new listing rules included comprehensive corporate governance disclosure requirements (Article 12-19). The new listing rules also included detailed requirements for financial statements preparation and presentation (Article 20-33). In addition, the new rules required the presentation of complete information about a company's board members, signed contracts with other companies, auditors, and audit committee (Article 4). Finally, the CASE issued strict delisting rules (Article 34-35) which forced publicly listed companies to make a commitment to corporate governance requirements, or risk losing their listing on the stock exchange.

⁶ Currently the EIoD follows the ministry of investment. In the future the EIoD is expected to become a non-governmental, not-for-profit organization, by the end of 2007. The institute will be established on the principles of membership, which will be available to various categories including both corporate and individual members. Membership will also be available to foreigners who are interested in the Egyptian market and/or would like to make use of Egypt's role as an emerging leader on corporate governance issues in the MENA region.

⁷ The international organizations include, but are not limited to, the World Bank (WB), International Finance Corporation (IFC), the United Nations (UN), and the centre for International Private Enterprise (CIPE).

⁸ As one of the first institutes in the Arab region dealing with corporate governance issues, the EIoD not only serves Egypt, but also Middle Eastern and North African countries (MENA region). It targets senior company officials and other stakeholders at listed enterprises, SOEs and financial services companies. Accordingly, the EIoD organizes conferences, seminars and training sessions on corporate governance targeting different categories including directors, auditors and accountants, businessmen, and anyone interesting in knowing more about corporate governance.

addition, it presents conditions and rules for important topics, including: hiring auditors, conflict of interest, fees, marketing of services, and gifts.

Also in 2005, the first Egyptian Code of Corporate Governance (ECCG) that was written in Arabic was introduced by the Ministry of Investment and the General Authority for Investment and free Zones (GAFI). These guidelines are to be primarily implemented in joint-stock companies listed on the stock exchange, and companies that use the banking systems as a major source of finance. The code indicates that its rules should be considered an addition to the corporate related provisions stated under various laws and the executive regulations and decrees regarding their implementation. What makes the ECCG unique and different from all other rules stated under the abovementioned laws, is that the rules on corporate governance are neither mandatory nor legally binding; rather, they promote and regulate responsible and transparent behaviour in managing corporations according to international best practices and means that strike equilibrium between various party interests.⁹

In 2006, the Ministry of Investment issued the Code of Corporate Governance for State Owned Companies based on the report of the OECD working group on Privatization and corporate governance of State Owned Assets, and the Egyptian Code of Corporate Governance issued in 2005. The code introduces the principles of governing state owned companies by presenting an organizational and legal framework for state owned companies. It focuses on the actions of the state as a regulator versus its role as an owner. It also presents the principles for equitable treatment of all shareholders including the state as a shareholder, conflict of interest issues, disclosure and transparency, and responsibilities of the board of directors.

Several non-profit organizations have also begun to recognize the importance of corporate governance in developing the Egyptian business environment. The Egyptian Junior Businessmen association (EJB) has focused on creating an awareness campaign comprised of several events including workshops and roundtables. In addition, the association issued the *Corporate Governance Manual for Family Businesses* in October 2006, which is considered the first guide in Egypt and the MENA region for family companies seeking growth, continuity and sustainability for their business.

Methodology

This study is based on a checklist developed by the United Nations to assess the level of corporate governance disclosure practices in different countries. The checklist consists of fifty-three disclosure items divided into five broad subject categories: (1) Financial transparency; (2) Ownership structure and exercise of control rights; (3) Board and management structure and process; (4) Corporate Responsibility and compliance; and (5) Auditing.

The study examines 30 companies which make up the CASE 30. The CASE 30 companies were selected because these companies are considered the leading and most active in the Egyptian market. CASE 30 is the most commonly used index to measure the performance of

⁹ The code is divided into 9 related chapters that introduce the rules and procedures related to the following subjects: (1) Scope, (2) General Assembly, (3) Board of Directors (BOD), (4) Internal Audit Department, (5) External Auditor, (6) Audit Committee, (7) Disclosure of Social Policies, (8) Avoiding Conflict of Interest, and (9) Corporate Governance Rules for Other Corporations

the Egyptian Capital Market. It is a price index that includes the top thirty companies with respect to their liquidity and activity. This index is measured by market capitalization and adjusted by the free float that must be at least 15 per cent for a company to be listed on CASE. Companies constituting the CASE 30 for 2005 represent a range of industries, as indicated in Table 1 below.

Table 1: CASE 30 Industrial Classification

Sector	# of Companies
Financial services	6
Textiles and clothing	6
Housing and real estate	4
Building materials and construction	3
Communication	3
Entertainment	2
Holding companies	2
Mining and gas	2
Information technology	1
Media	1
Total	30

The first listed among the CASE 30 is Housing & Development Bank that was listed in 1983, while the latest listed is Elswedy cables that was listed in 2006. Descriptive data regarding CASE 30 are shown in the following table 2.

Table 2: CASE 30 Financial Overview¹⁰

Description	Average	Maximum	Minimum
Sales	1,299,127,195	18,730,653,475	163,506
Assets	6,018,092,334	38,274,231,487	1,145,770
Liabilities	7,210,896,977	87,619,977,251	122,409
Equity	1,143,858,505	9,628,309,993	1,023,361
Net income	316,783,917	3,900,011,434	-31,419,324

Results and Analysis

This section presents the results of the application of the 53 factors in the UN checklist to the 30 companies in the CASE 30 that are studied. The results are divided into two main sections. The first section describes the number of companies and their relative level of implementation of the disclosure requirements. The second section is divided into five subsections each introduces the results of one of the sections in the checklist.

1. Overall results

This section shows the level of disclosure of each company in setting it in a group. Table 3 focuses on the total number of disclosure items reported by the enterprises in the study. This is intended to provide a general overview of the disclosure rates for individual companies.

¹⁰ The figures in this table are in Egyptian Dollars. Currently \$1 = 5.50 Egyptian Pounds

The table is arranged in a descending order showing the company with the highest score of disclosure items first followed by the less scores.¹¹

Table 3: Corporate Governance Disclosure Score

Company	Score	%
OCI	35	66%
CIB	27	51%
Mobinil	27	51%
Telecom Egypt	27	51%
Orascom Telecom Holding	21	40%
Raya Holding	19	36%
Orascom Hotels & Development	15	28%
Oriental Weavers	14	26%
Egyptian Resorts	12	23%
Sidi Kerir Petrochemicals	11	21%
Credit Agricole Egypt	11	21%
NSGB	11	21%
El Ezz Steel Rebars	11	21%
Egyptian Media Production City	10	19%
Spinalex	9	17%
AMOC	9	17%
El Seweedy Cables	8	15%
SODIC	6	11%
Housing & Development Bank	6	11%
Madinet Nasr Housing	6	11%
El Ahli Investment & Development	6	11%
El Watany Bank of Egypt	6	11%
Kabo	6	11%
Arab Cotton Ginning	6	11%
Arab Polvara	6	11%
Nile Cotton Ginning	6	11%
South Valley Cement	4	8%
Hermes	4	8%
El Kahera Housing	4	8%
United Hosing	3	6%
Average	12	22%

The table above indicates some informative yet alarming results. The average corporate governance disclosure score was only 12 of the 53 expected by the UN checklist, which amounts to an implementation average of only 22%. This result is in line with the limited studies that assessed other developing nations and found low disclosure rate (e.g. Tsamenyi et al. 2007). Also, this low result is not surprising if we remember that the 53 items are “best practices” and not what is required.

The results indicate that only 4 companies score more than 50%, while 9 companies scored between 20 and 40%. Also, 9 companies scored between 10-20%. Finally, 16 companies

¹¹ It is worth noting that the measurement here was of quantity and not quality of disclosure. There was no attempt to measure the quality of each disclosure.

were below 10%. These findings should not be surprising especially that the idea of corporate governance is novel to the Egyptian business environment as a whole. The low degree of disclosure should not be seen as defiance to the requirements. Low disclosure can be seen as a result of lack of knowledge. As noted earlier corporate governance is new to the business environment in Egypt. Its practices and advantages have not yet been fully digested in the Egyptian market. Therefore, the importance is to note the gradual improvement/development.

The following section contain some detailed results aiming at exploring the different items that are disclosed depending on the five sections that are reported by the UN checklist: (1) Financial transparency; (2) Ownership structure and exercise of control rights; (3) Board and management structure and process; (4) Corporate Responsibility and compliance; and (5) Auditing. Sections are reported in a descending order with the highest section first. Then within each section items are reported in descending order to highlight the items that are disclosed versus the ones that are not.

2. Detailed Results

a. Financial Transparency

Disclosure items from this category were the most prevalent within the reports of CASE 30 enterprises. All thirty companies disclosed the company objectives, financial and operating results. Five of the nine items in this group were disclosed by two thirds or more. Table 4 depicts the results of the financial transparency section. It is worth noting that in items like impact of alternative accounting decisions some further interviews indicated that the managers of the companies did not believe that they should include these disclosures as they are not required by the Egyptian Accounting Standards.

Table 4: Financial Transparency Disclosure¹²

Financial and operating results	30
Company objectives	30
Critical accounting estimates	29
Nature, type and elements of related-party transactions	26
Disclosure practices on related party transactions where control exists	20
Board`s responsibilities regarding financial communications	4
Rules and procedure governing extraordinary transactions	1
The decision making process for approving transactions with related parties	0
Impact of alternative accounting decisions	0

It is worth noting that the first group of items that are implemented by the companies that are studied are also required by the Egyptian Accounting Standards. These requirements are further examined by the CMA. Companies that do not fulfil 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 the CMA. This finding is not

¹² The numbers indicate the number of companies out of 30 that disclosed the required item

surprising because financial items are mostly required and followed by the CMA more than the non financial items.

b. Ownership structure and exercise of control rights

The second group of disclosure items were related to ownership structure and exercise of control rights. Table 5 shows the degree of implementation of the companies studied with the items required in the UN checklist.

Table 5: Ownership Structure and Exercise of Control Rights	
Ownership structure	13
Control structure	13
Control and corresponding equity stake	13
Control rights	13
Availability and accessibility of meeting agenda	5
Process for holding annual general meetings	4
Changes in shareholdings	3
Rules and procedures governing the acquisition of corporate control in capital markets.	2
Anti-Takeover measures	0

The main items that were reported were related to ownership and control structures, controlling equity stake and control rights. However, it is important to note that these items were only reported by 13 companies out of the 30 that were studied which amounts to less than 45% implementation rate.

The second two items in the checklist that were implemented were "Availability and accessibility of meeting agenda" implemented by 5 companies and the "Process for holding Annual General Meetings" implemented by 4 companies. At first glance these items low implementation would seem puzzling as they are required by the Egyptian Laws. Further investigation indicates a different and interesting story. The Egyptian listing rules require that companies publish their meeting invitation and agenda in two widely read newspapers. Based on this, the company's management did not feel that they needed to repeat the meeting agenda in the annual report. As for the second item "Process for holding Annual General Meetings" it is noted that the Egyptian company's law provides a detailed generic description the process of holding an annual general meeting. As a result, managers do not feel that they have to repeat this in the annual report. A major issue that needs to be explained is that the managers are unable to distinguish between the generic description that is in the law which indicates what should happen, and the actual process that occurs in the actual meeting, which represents what really happens.

The last and least implemented item “Antitakeover Measures” was not reported by any company of the ones in the study. When most managers were asked about it, they stated that there is NO Antitakeover in Egypt so why go through the process of developing defensive measures for it.

c. Board and management structure and process

The third group of disclosures is related to the board and management structure and process. Disclosure of items in this category is reported in Table 6. The champion of disclosures was the item, "Risk management objectives, system and activities" which was found to be reported on by twenty-four of the thirty enterprises. This could be due to the fact that the Egyptian Accounting Standards required the companies to report the different risks that they expect.

Other items were on the low end of disclosure between 10 companies (33%) and zero. Most managers 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 6. Board and management structure and process

Board and Management Structure and Process	
Risk management objectives, system and activities	24
Composition of board of directors (executives and non-executives)	10
Qualifications and biographical information on board members	7
Types and duties of outside board and management positions	7
Number of outside board and management position directorships held by the directors	7
“Checks and balances” mechanisms	6
Existence of plan of succession	6
Governance structures, such as committees and other mechanisms to prevent conflict of interest	5
Composition and function of governance committee structures	4
Role and functions of the board of directors	4
Duration of director's contracts	4
Determination and composition of directors` remuneration	4
Independence of the board of directors	4
Professional development and training activities	4
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	1
Existence of procedure(s) for addressing conflicts of interest among board members	1
Availability and use of advisorship facility during reporting period	1
Performance evaluation process	1
Material interests of members of the board and management	0

d. Corporate responsibility and compliance.

Table 7 indicates the result of disclosures that relate to items of corporate responsibility and compliance. The reporting of items in this category was very low. The relative novelty of many of the disclosure items in this category may explain the low disclosure rate. However, some items were reported more than others. In particular, reporting in connection to a firm's environmental and social responsibility was found among several enterprises. It was noted that the companies that disclosed these items aimed to use them in their marketing campaigns.

Table 7: Corporate Responsibility and Compliance

Policy and performance in connection with environmental and social responsibility	8
Impact of environmental and social responsibility policies on the firm's sustainability	8
Mechanisms protecting the rights of other stakeholders in business	2
A Code of Ethics for the Board and waivers to the ethics code	1
A Code of Ethics for all company employees	1
The role of employees in corporate governance	1
Policy on "whistle blower" protection for all employees	0

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.

e. Auditing

The category of Auditing was the subject of the least amount of disclosure among the CASE 30 enterprises (Table 8). Only small number of companies in the sample reported on issues related to relationship between the auditor and the companies.

Table 8: Auditing	
Process for interaction with external auditors	2
Process for appointment of internal auditors / Scope of work and responsibilities	2
Board confidence in independence and integrity of external auditors	2
Process for interaction with internal auditors	1
Process for appointment of external auditors	1
Internal control systems	1
Duration of current auditors	1
Rotation of audit partners	1
Auditors` involvement in non-audit work and the fees paid to the auditors	0

There can be several reasons for this low occurrence of audit and auditor related disclosures.

First, 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 emphasise, 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.

In addition, 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. Therefore, managers do not feel inclined to report these types of contracts.

f. General Findings

In general the previous results indicate that the strongest group of disclosure items is *Financial transparency*, and the weakest group is *Auditing*. The categories *Ownership structure and exercise of control rights*, along with the category *Board and management structure and process* show mixed results, with a number of disclosure items being reported by a majority of CASE 30 firms, while other items are reported only by a few, or even none. Six disclosure items are reported by twenty or more enterprises in the CASE 30. Of these six; five are in the category of *Financial transparency* and one is in the category of *Board and management structure and process*.

Forty-seven of the fifty-three items in the benchmark are disclosed by less than half of the CASE 30 enterprises. Five disclosure items in the benchmark were not found at all among the corporate reporting of the CASE 30. These five included relatively new disclosure practices such as the item "Auditor involvement in non-audit work and the fees paid to the auditors" (an item that became more common only after the 2001 Enron / Arthur Anderson scandal), as well as more traditional corporate governance disclosures such as the item "Material interests of the members of the Board of Directors" or the item "Anti-takeover measures".

To put these findings in context, it is worth noting that the idea of corporate disclosure in general is a relatively new requirement for Egyptian enterprises that was not introduced until the 1990s with the revitalization of the CASE. It is also important to note that some disclosure items refer to practices that are not very common in Egypt, like takeovers, whistle blowing...etc. As a result, measures and procedures related to these items are not commonly disclosed. In addition, it is important to note that Egyptian laws explain 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. Therefore, many companies believe that there is no need to disclose any information about these things because they are described in the law. This logic, although prevalent, is flawed: while the laws indicate in a general way what should happen, the purpose of corporate disclosure is to report specifically what actually happened. The disclosure of actual practices is more relevant for an enterprise's stakeholders, as it assures, among other things, that the enterprise (at a minimum) meets the relevant rules and regulations.

CONCLUSION

We are unaware of any previous study that has attempted to assess the level of corporate governance disclosure in Egypt. This study is exploratory in its nature. Its main aim is to examine the level of implementation of the best practice items of corporate governance in an emerging country: Egypt.

The first part of the paper indicates that Egypt has started to appreciate the importance of corporate governance in its required economic restructure. Egypt has taken long strides aimed at implementing the concept of corporate governance. These advances included changes in the legal framework, governance bodies, and published several educational materials. The creation of the EIoD which aims at increasing awareness about corporate governance is another positive move. However, the results of these developments can only be seen by assessing the degree of improvement in implementing corporate governance in Egypt.

The main findings suggest low rates of corporate governance disclosure among the CASE 30 enterprises when compared to the UN checklist, with an average of 22% compliance rate. It is also noted that that disclosure level increase dramatically with items that are required by the Egyptian Accounting Standards and are examined by the CMA.

The low level of corporate governance disclosure in Egypt can be explained by the novelty of the concept, let alone its practice. It may be more important to take the results of this study as a starting point and compare it with future studies rather than use it to measure implementation and/or defiance of corporate government disclosures. The companies are not avoiding the disclosures they might simply not be aware of them, and more importantly not aware of their benefits. As a result, there is an urgent need to educate and train Egyptian stakeholders of about corporate governance focusing mainly on the benefits of corporate governance.

Egypt is a country of many laws that aim to describe details as much as possible. This has led many company executives to believe that the generic description of corporate procedures and processes in the laws of Egypt is sufficient to explaining their own company's specific procedures and processes. Therefore, companies are under the impression that they do not need to disclose information on these subjects as it would be a repetition. This perception fails to recognize that the specific processes of an enterprise, while well within the generic requirements of the law, can be and often are, far more complex. This is especially true for leading large enterprises which often display best practices that exceed legal requirements.

The main recommendation of this study is for the Egyptian government to keep the fast pace of change and to focus mainly on training and education to explain to all stakeholders the means and benefits of disclosures in general, and disclosures related to corporate governance in particular.

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