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Corporate Governance and Accountability in Arabian Gulf Countries
The Case of Saudi Arabia, Oman and Bahrain

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School of Business
Accounting and Finance

Corporate Governance and Accountability in Arabian Gulf Countries: The Case of Saudi Arabia, Oman and Bahrain

Ahmed Abdullah Almoneef

A Thesis Submitted to the University of Dundee in Fulfillment of the Requirements for the Degree of Doctor of Philosophy

School of Business, Accounting and Finance Department,
University of Dundee

September 2014

بسم الله الرحمن الرحيم

In The Name of Allah
The Most Gracious, The Most Merciful

Dedication

This thesis is dedicated to my loving parents, Dr. Abdullah and Mrs. Heilah, to whom I am forever grateful. I have no doubt in my mind that without their support, their prayer, their inspiration and their value for education, I could not have made it this far.

This thesis is also dedicated to my beloved wife Atheer, thank you for providing me strength, courage, support, inspiration, and love that urge me to strive to achieve my goals in life.

This thesis is also dedicated to my lovely children Abdullah, Alanood and Khalid: there were many times when this thesis took me away from precious moments with them. They teach me about unconditional love.

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List of Abbreviations

Annual General Meeting	AGM
Bahrain Bourse	BHB
Board Member	BM
Capital Market Authority	CMA
Central Bank of Oman	CBO
Chief Executive Officer	CEO
Corporate Social Responsibility	CSR
Gross Domestic product	GDP
Gulf Cooperation Council	GCC
Independent Non-Executive Directors	INEDs
International Finance Corporation	IFC
International Monetary Fund	IMF
Kruskal-Wallis Test	KW
Mann-Whitney Test	MW
Muscat Depository and Securities Registration Company	MDSRC
Muscat Securities Market	MSM
Non-Executive Directors	NEDs
Organization for Economic Co-Operative And Development	OECD
Organization of Petroleum Exporting Countries	OPEC
Sarbanes-Oxley Act	SOX
Saudi Arabian Monetary Agency	SAMA
Statistical Analyses in Social Science	SPSS
The Central Bank of Bahrain	CBB
The Middle East and North Africa	MENA
The Saudi Stock Exchange Market	TADAWUL
The UK's Financial Reporting Council	FRC
United Kingdom	UK
United States	US
US Secretary and Exchange Commission	SEC

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Declaration

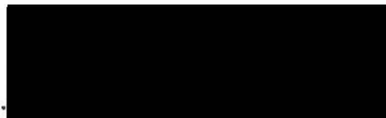
I hereby declare that I am the author of this thesis: that the work of which this thesis is a record has been done by myself, and that it has not previously been accepted for a higher degree.

Signed.............................. Date..............................

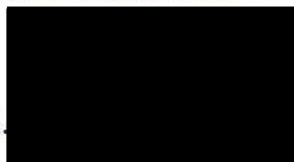
Ahmed A. Almoneef

Certificate

We certify that Mr. Ahmed Abdullah Almoneef has worked the equivalent of eight terms on this research, and that the conditions of the relevant ordinance and regulations have been fulfilled.

Signed..  Date.....9/9/14.....,

Professor Christine Helliar

Signed.  Date.....9/9/14..........

Dr. Alison Fox

Abstract

Corporate governance has recently attracted a great deal of attention from academic researchers and become an important topic around the world and within emerging markets especially with respect to the accountability of companies. Thus, this thesis investigates current corporate governance practices in three Arabian Gulf countries namely: Saudi Arabia, Oman and Bahrain to see whether there is any discharge of lateral and hierarchical accountability and Islamic accountability especially with regard to Shura (consultation and discussion) and Hisba (verification). The thesis also investigates other characteristics that may affect whether companies discharge hierarchical accountability. For this purpose, two pieces of empirical work are employed: (i) semi- structured interviews; and (ii) a corporate governance disclosure index. The interviews were held with 24 stakeholders across the three countries to elicit their views regarding corporate governance practices and whether they discharge lateral and hierarchical accountability as well as Shura and Hisba. The second empirical work uses a corporate governance disclosure index to examine whether any of the three countries discharge more hierarchical accountability than the others, and also examines the impact of certain characteristics on companies' corporate governance disclosure representing hierarchical accountability. The main findings indicate that Islam does not conflict with corporate governance practices but could instead be used to strengthen them. In addition, Bahraini companies discharge more lateral and hierarchical accountability as well as Shura and Hisba from adopting better corporate governance practices. Moreover, Bahraini companies discharge more hierarchical accountability by disclosing more corporate governance items in their annual reports compared to Saudi and Omani companies. In addition, companies with larger board and working in the Banking sector discharge more hierarchical accountability.

Chapter 1: Introduction

1.1 Preface

Currently, the notion of corporate governance has become a major issue in the practices of companies in developed and developing countries alike. The significance of corporate governance emerged after the failure and collapse of a number of a well-known companies in many countries around the globe over the last two decades (Dunne et al., 2003; Monks and Minow, 2008; Filatotchev and Boyd, 2009; Mallin, 2013). These corporate failures and collapses were the impetus for discussions regarding the best practices of corporate governance worldwide (Francis, 2000; Salacuse, 2002; Dunne et al., 2003; Clarke, 2004; the World Bank, 2009).

Consequently, in recent years, there has been a global attempt to issue and develop corporate governance principles to ensure that good practices are in place to enhance the protection of companies from possible crises and protect stakeholders' interests (Solomon, 2010; Zaqoub, 2011). As a result, a number of countries and agencies around the world have begun to introduce a series of legislations and guidelines (Lawal, 2012). For example, the Organization for Economic Co-operation and Development (OECD) introduced its principles of corporate governance in 1999, and which revised in 2004, to be compatible with financial and economic developments around the world.

Indeed, the OECD (2004) and Argüden (2010) note that good corporate governance may enhance productivity and promote economic growth for individual companies and economies as a whole. Furthermore, in emerging countries it may enhance investor confidence, attract foreign and local investors, promote competiveness, and improve economic growth (Claessens, 2003; Abhayawansa and Johnson, 2007). Thus, if developing countries establish codes of corporate governance, it may help companies avoid potential

crises (Bruner et al., 2002; Claessens and Yurtoglu, 2013).

Furthermore, Burton et al. (2004) and Mallin (2013) suggest that the development of corporate governance has resulted in more accountability and transparency and has assisted in permitting stability to economies as a whole. According to Dunne (2003), the focus on corporate governance in a worldwide context has initiated legitimate pressure for increased accountability. Additionally, governance discussions should focus on accountability (Boven, 2005; Chakrawal, 2006) and the Australian Stock Exchange (ASX) (2003) states that:

> "Good corporate governance structures encourage companies to create value (through entrepreneurism, innovation, development and exploration) and provide accountability" (p. 3).

The present study is concerned with corporate governance practices in Arabian Gulf Countries, particularly those in Saudi Arabia, Oman, and Bahrain, where Arabian Gulf Cooperation Council (GCC) countries represent an important area in the world for the stability of oil and gas supplies to the world at large. The GCC countries hold around 34% of the world's crude oil reserves and around 21% of the natural gas reserves (GCC: A Statistical Glance, 2014). All GCC stock markets were severely affected by the 2008 global financial crisis (Basher et al., 2014) but, during the period of 2001 until 2010, the market capitalisation of listed companies in the GCC countries increased from US$100bn to over US$700bn in nominal terms (Basher et al., 2014). "GCC economies are too large and too dynamic to ignore" (PWC, 2014), and it has been argued that "the GCC countries are playing an important stabilising role in the global oil and financial markets" (IMF, 2008). Recently, the GCC countries stock markets are working to attract foreign investors in coming years (Gulf Business, 2014). Moreover, the GCC countries are working to unify

their policies and regulations related to the financial markets in an effort to integrate them. Despite their significance, the Arabian Gulf Countries are considered to be emerging countries as well as being Muslim countries in which all practices should be consistent with Islamic teachings.

Numerous researchers have investigated corporate governance in developed countries, and in recent years, developing countries have also begun to receive some attention (Brennan and Solomon, 2008; Wanyama et al., 2009; Solomon, 2010; Soobaroyen and Mahadeo, 2012). A review of the academic literature raises concerns regarding the dearth of research on corporate governance in developing countries (Kang et al., 2007; Judge, 2012), specifically in Gulf countries, despite calls for further study in this area (Al-Harkan, 2005; Falgi, 2009). In addition, there is a call within the governance literature for multinational studies (Durisin and Puzone, 2009). In the same vein, a review of the literature raises concerns regarding the lack of research on corporate governance mechanisms in general, and suggests that more research should be focused on how corporate governance is actually practiced (McNulty et al., 2013). It has been suggested that the use of qualitative and quantitative methods that combine mixed-method research would provide a deeper and richer insight into governance practices (Zattoni et al., 2013). In addition, Smith (1997) suggests that there is a widespread awareness of the need for reform in the sphere of corporate governance. Further, research on corporate governance has raised the call to extend the analysis beyond agency theory (McNulty et al., 2013). According to Soobaroyen and Mahadeo (2012) there is a dearth of research on two forms of accountability (hierarchical and lateral) in the developing countries. Hierarchical accountability is usually "located within the social space of a hierarchy of superordinates to whom they are accountable for their

performance" (Willmot, 1996; p.33). In contrast, lateral accountability relationships are mainly between people positioned at a similar level within a hierarchy (Willmott, 1996). More detailed about these forms of accountability are illustrated in chapter 4.

The above gaps in existing research have motivated the researcher to carry out a study that investigates corporate governance from an accountability perspective in order to provide a general picture of how Saudi, Omani, and Bahraini stakeholders view current corporate governance practices of listed companies in the three countries, to see whether there is any discharge of hierarchical and lateral forms of accountability and Islamic accountability including Shura (consultation and discussion) and Hisba (verification), and whether it varies across these three countries. It also investigates other characteristics that may affect how companies discharge hierarchical accountability.

1.2 Research Questions

In order to accomplish the objectives of this study, the following three research questions are addressed:

Research Question 1: Do corporate governance practices in Saudi Arabia, Oman, and Bahrain reflect hierarchical and lateral forms of accountability, including the Islamic conception of accountability of Shura and Hisba?;

Research Question 2: Do any of these three countries listed companies discharge more hierarchical accountability than the others?; and

Research Question 3: Are there any characteristics that influence some companies to discharge more hierarchical accountability than the others?

1.3 Scope of the Research

The main aim of the research is to understand and explore current corporate governance practices adopted by listed companies in three GCC countries, using an accountability and Islamic accountability theoretical framework and to discover whether there is any discharge of hierarchical and lateral forms of accountability and Islamic accountability (Shura and Hisba) and whether discharging hierarchical accountability varies across the three countries. As part of this study, the thesis also examines the impact of certain characteristics on the three countries' listed companies' hierarchical accountability practices by analysing their corporate governance disclosures.

This thesis undertakes two empirical pieces of work in order to fulfill these objectives. The first empirical work is that of semi-structured interviews with 24 stakeholders across the three countries to elicit their views regarding corporate governance practices and the discharge of accountability mainly focusing on hierarchical and lateral forms of accountability and Islamic accountability including Shura and Hisba.

The second piece of empirical work utilises a corporate governance disclosure index as a measure of hierarchical accountability to examine in greater depth whether any countries discharge more hierarchical accountability than the others, as it will provide an indication of the disclosure of corporate governance practices. A sample of 107 companies listed on the stock exchanges of these three countries in December 2011 is used for this purpose. The study also investigates the influence of certain characteristics on the companies' corporate governance disclosure representing hierarchical accountability. The disclosure index itself consists of 135 items divided into seven main sections. A multiple regression is applied in this part of the study with two dependent variables representing total and voluntary

corporate governance disclosure, with seven independent variables representing board size, frequency of board meeting, proportion of independent non-executive directors, firm size, auditor type, industry sector and country.

1.4 Structure of the Thesis

This thesis is organised into eight chapters; following this introductory chapter, Chapter 2 provides an overview of the Arabian Gulf countries, particularly Saudi Arabia, Oman, and Bahrain, that informs the reader about the environment in which the listed companies operate. In the beginning, this chapter highlights general information about the Arabian Gulf Cooperation Council. Following this, the study presents a general background of the demography and geographic location and discusses the historical and political environment; the economic environment is also discussed. In addition, this chapter provides some background information about the legal and regulatory framework in the three countries under investigation, incorporating information about the main legislation governing business and corporate governance development, including the introduction of their corporate governance codes.

Chapter 3 reviews the extant literature on corporate governance in both developed and developing countries. The chapter highlights various definitions and provides a historical background of corporate governance with an emphasis on the UK's experience as the first country to introduce a corporate governance code. In addition, this chapter reviews particular corporate governance mechanisms, such as the board of directors, board sub-committees, ownership structure, shareholders' and stakeholders' rights, and disclosure and transparency. It then summarises the existing research related to corporate governance in

the three countries investigated in this thesis. Thus, this chapter discusses the literature that will be helpful to achieve the goal of this thesis.

The purpose of Chapter 4 is to discuss the theoretical framework that is used to conduct the analysis. This theoretical framework is based on an accountability theoretical framework and the Islamic accountability theoretical framework to interpret the results of the study. Robert's (1991, 1996) and Willmot's (1996) forms of accountability as well as Shura and Hisba representing accountability from an Islamic perspective are selected as being appropriate for the study.

Chapter 5 outlines the methodological assumptions underpinning the current research as well as the research methods used to achieve the study's objectives. This chapter discusses Burrell and Morgan's (1979) assumptions regarding the nature of social science and society and then proceeds to outline the four research paradigms they propose as well as the limitations related to this framework. Based on the research objectives of the present study, it is argued that the current study is located in both the interpretive and functionalist paradigms. Specifically, it is located in the interpretive paradigm but toward the functionalist end. This directs the researcher to adopt both qualitative and quantitative research methods, using interviews and a disclosure index; a summary of these two research methods is provided subsequently.

Chapter 6 is the first of the two empirical chapters; the results of 24 semi-structured interviews with a variety of stakeholder groups across the three countries are presented here. Interviews were performed in order to gain insights and perspectives on the views of stakeholders on current corporate governance practices of listed companies in the three

countries in the aftermath of them issuing their governance codes and the resulting accountability.

Chapter 7 presents the second empirical work and takes a different approach by applying a disclosure index. The chapter develops the hypotheses emanating from the second and third research questions in the current thesis. These hypotheses are derived from the accountability theoretical framework to examine the relationship between two dependent variables, (total corporate governance disclosure (TCGD) and voluntary corporate governance disclosure (VCGD)) and some possible explanatory variables that may affect listed companies' hierarchical accountability, including the country variable, to find out if any factors result in the discharge of more hierarchical accountability. This chapter includes a descriptive analysis of the dependent and independent variables used in the current thesis. Finally, the chapter ends with a discussion of the findings in light of the previous studies and based upon the theoretical framework adopted in the current study.

Chapter 8 concludes the thesis by summarising the research findings, providing some policy recommendations, highlighting the contributions made to knowledge, outlining some possible limitations that have emerged in the research process, providing possible opportunities for future research, and presenting some final thoughts. The next chapter now provides an overview of the three countries covered in this thesis.

Chapter 2: The Country Context

2.1 Introduction

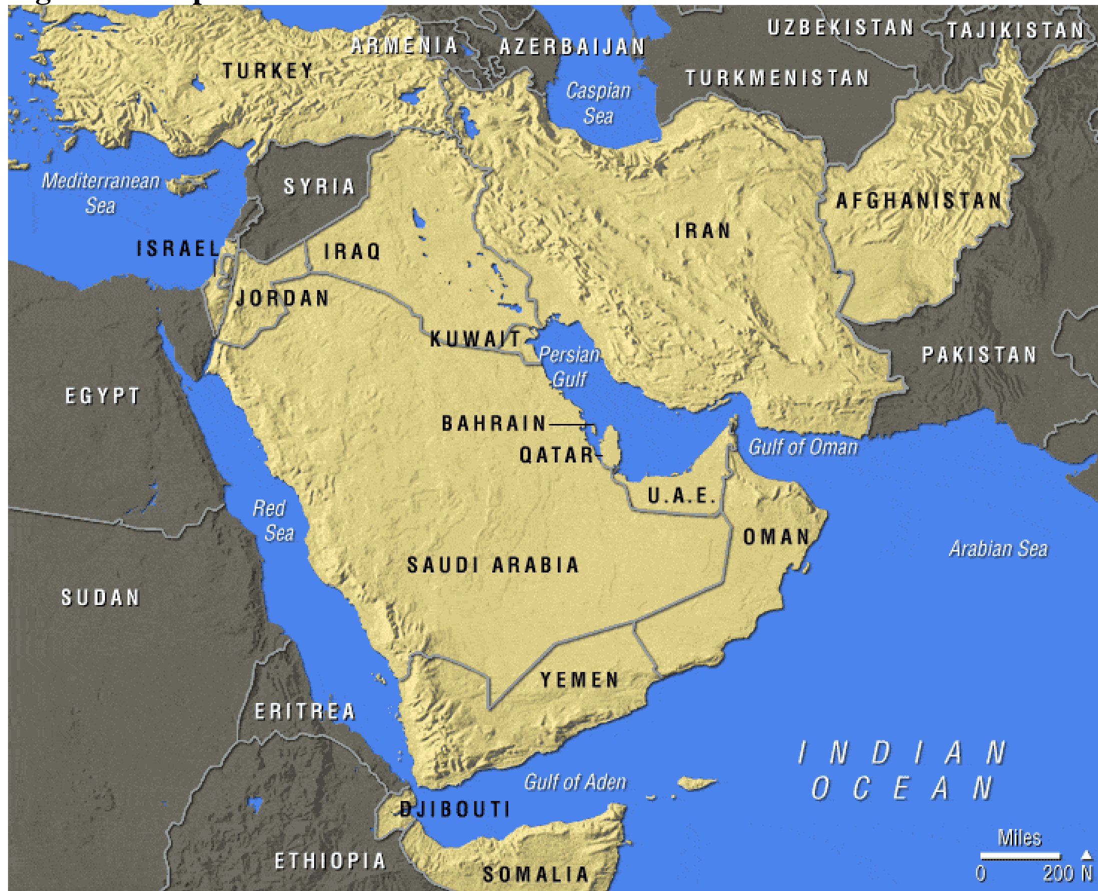
The previous chapter gave an introduction to this thesis. The main purpose of this chapter is to provide some background to the Arabian Gulf Cooperation Council and the three Arabian Gulf Countries under investigation namely Saudi Arabia, Oman and Bahrain. Considering each country individually this chapter provide a general background outline the political environment, the economic environment, the commercial legal system which includes the ministries and the regulatory authorities, and regulations that affect companies such as the Company's Acts and Corporate Governance Code as these may all impact on corporate governance in these countries.

2.2 Background of the Arabian Gulf Cooperation Council

In May 1981, a meeting was held in Abu Dhabi between the leaders of the Arab Gulf Countries which share a similar history, demographic composition, geographical proximity, common religion (Islam), language (Arabic), culture, political regime (Monarchy). The similarity of their regulations and economic and social conditions were also key factors that ameliorated the establishment of the GCC (Khalaf and Luciani, 2006; Reinert et al., 2009; Al-Khouri, 2010; Benbouziane and Benmar, 2010; Al-Janadi et al., 2013). In addition, all GCC members were highly dependent on oil revenue (IMF, 2008; Benbouziane and Benmar, 2010; Rahman, 2010; Al-Janadi et al., 2013). As a result of this meeting, the leaders made arrangements that led to the establishment of an Arab regional, political, and economic organization of co-operation comprising of: Saudi Arabia; United Arab Emirates; Kuwait; Qatar; Oman; and the Kingdom of Bahrain (the six Arab countries bordering the Arabian Gulf) (See Figure 2.1). This co-operation is called the Co-operation Council for the Arab States of the Gulf (CCASG) and is also known as the Gulf Co-operation Council

(GCC). The location of the Co-operation Council headquarters is in Riyadh, Saudi Arabia (GCC, 2014).

Figure 2.1 Map of the Arabian Gulf Countries



Article four in the Co-operation Council charter clarifies the main objectives and goals of the establishment of this council which are: (i) to undertake the coordination, integration and inter-connection between Member States in all fields in order to achieve unity between them; (ii) to deepen and strengthen relations, links and areas of cooperation now prevailing between their people in various fields; (iii) to formulate similar regulations in various fields including economic and financial affairs, commerce, customs and communications and educational and culture; and (iv) to stimulate scientific and technological progress in the fields of industry, mining, agriculture, water and animal resources; establish scientific

research; establish joint ventures and encourage cooperation by the private sector for the good of their people (GCC, 2014).

The area of the council consists of a few of the fastest growing countries in the world in terms of their economies. This is mainly due to the boom in natural gas and oil revenues (IMF, 2008; Hvidt, 2013). There are a number of organizations within the Gulf Cooperation council. The first one is the GCC patent office, and it was established in Riyadh in 1992. The second organization is the GCC Common market which was introduced in late 2007 and began work in early 2008. It grants the same treatment to all firms and citizens living in any of the GCC countries whereby citizens have the same rights in areas such as employment, healthcare, education, social security and residency, as well as in economic activities such as trading in stock markets, setting up companies, and buying and selling properties. In 2009, Saudi Arabia, Bahrain, Qatar and Kuwait developed a joint monetary council to introduce a shared currency and the central bank for monetary union will be located in Riyadh (GCC, 2014). In addition, the GCC countries are in discussion about forming a political, economic, and military union. This research focuses on the three GCC countries of Saudi Arabia, Oman and Bahrain[1]. Consequently, the following sections provide a general background related to each of these three countries.

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[1] The researcher chose these three countries because: (i) the researcher is from Saudi Arabia, and wanted to compare countries that had a corporate governance code before and after the Saudi code; (ii) the researcher had access in these three countries but not in UAE, Qatar or Kuwait; (iii) Kuwait has not issued a code yet; and (iv) there is a call to study corporate governance in the GCC countries (Al-Harkan, 2005; Falgi, 2009). Thus, these four reasons led the researcher to choose these three countries (Saudi Arabia, Oman and Bahrain) to investigate.

2.3 Saudi Arabia

This section highlights the factors related to Saudi Arabia such as general background, the political and economic environment, the commercial legal system and the regulations that affect companies which are important aspects to understanding corporate governance.

2.3.1 General Background

The Kingdom of Saudi Arabia was empowered by King Abdulaziz bin Abdulrahman Al-Saud on September 23, 1932 and was the result of years of effort by King Abdulaziz Al-Saud to unify different parts of the Arabian Peninsula under one flag (Al-Angari, 1999; Al-Turaiqi, 2008; Saudi Ministry of Foreign Affairs, 2013). Jordan and Iraq lie to the north and northeast of Saudi Arabia; Kuwait, Qatar, Bahrain and the United Arab Emirates fall in the eastern part; Oman is located in the southeast part and Yemen is located in the southern direction. Saudi Arabia is guarded by the Red Sea and the Arabian Gulf in the west and the east respectively (See Figure 2.1) (CIA, 2014a). It has a total area of 2,150 million sq km with a population of 29.2 million (includes 31% non-nationals) and is the biggest Arabic nation by area. The national language, as well as the main spoken language, is Arabic and Islam is the main religion (Oxford Business Group, 2013a).

2.3.2 Political Environment

The system of government in Saudi Arabia is based on a monarchy which is limited to the male descendants of King Abdulaziz. The system is centralized, where power is focused and endowed on the King who has influence on every political act which is undertaken in the country. In addition, the King is considered to be the head of the Council of Ministers giving him the power to manage both the internal and external affairs which are of concern for the Kingdom (EIU, 2013a; Royal Embassy of Saudi Arabia in USA, 2013). The Fundamental Governance System (1992) was established by King Fahd Bin Abdulaziz Al-

Saud and states that it is the responsibility of the King to organize and coordinate the various branches of the government. Thus, the three fundamental powers, executive, legislative and judicial, are vested in the King. There are three legislative groups that endorse all policies and regulations: (i) the Council of Ministers; (ii) the Consultative Council (alshura); and (iii) various individual Ministries (Khalaf and Luciani, 2006).

In addition, being an Islamic country, the Saudi constitution is based on Islam. Thus, the sources of legislation in Saudi Arabia are subject to Islamic law which are based on the Quran and the Sunnah (Asherman, 1982; Al-Amari, 1989). Consequently, Islam has a major effect on all aspects of life in Saudi Arabia as all existing laws and regulations are highly influenced by Islamic Law (Royal Embassy of Saudi Arabia in USA, 2013).

2.3.3 Economic Environment

The success of the economic environment of Saudi Arabia is dependent upon oil-based industries which are the main source of income in the country; Saudi Arabia holds approximately one-fifth of the proven oil reserves in the world; thus, the country is likely to continue to be the largest producer of oil for years to come, with a growing economy as it continues to harness the oil industry (Pierce, 2012). Because of its abundance of oil resources, the country also plays and assumes a major role in the Organization of Petroleum Exporting Countries (OPEC). Saudi Arabia produces 16% of the world's petroleum reserves and the petroleum sector accounts for approximately 80% of the kingdom's revenue, 45% of GDP, and 90% of export earnings. Saudi Arabia has a very fast rate of growth with a GDP of $927.8 billion. The per capita income is extremely high at

$31.300 (CIA, 2014a). However, Saudi Arabia is ranked as one of the most corrupt countries in the gulf region, in 2012 equal to Kuwait (See Table 2.1)[2].

Table 2.1 Gulf Cooperation Council Ranking on Corruption

GCC Ranking	
Countries	Corruption Index
Bahrain	3(53)
Kuwait	5(66)
Oman	4(61)
Saudi Arabia	5(66)
Qatar	1(27)
UAE	1(27)

Note: the corruption index shows the GCC Ranking and the world ranking in brackets. Sources: (Transparency International, 2012).

2.3.4 Commercial Legal System

In order to gain a better understanding of the context in which listed companies operate, this section provides an overview of the related organisations that have a direct influence on business in Saudi Arabia. Thus, the next sub-sections discuss the monitoring bodies in Saudi Arabia of: (i) the Ministry of Commerce and Industry (MCI); (ii) the Saudi Arabian Monetary Agency (SAMA); (iii) the Capital Market Authority (CMA); and (iv) Saudi Stock Market (Tadawul).

2.3.4.1 Ministry of Commerce and Industry

The Ministry of Commerce and Industry in Saudi Arabia was established in 1954. This particular ministry in Saudi Arabia is the main body to manage the commercial policies and laws and is the main government body that regulates companies in Saudi Arabia. The Ministry is responsible for developing local trade, foreign trade relations and helping

[2] The corruption index, issued by Transparency International, annually ranks countries according to the extent to which corruption is perceived.

expand and export non-oil products. The Companies General department at the MCI authorizes and issues the licenses for setting up new joint stock companies and also reviews the Articles of Incorporation for new businesses in Saudi Arabia. Furthermore, it is responsible for registering and monitoring companies' businesses and it also has to ensure that the activities initiated by these companies are in accordance with the existing laws. It is responsible for issuing the licenses necessary to set up commercial industrial chambers and its branches (Ministry of Commerce and Industry, 2013).

2.3.4.2 The Saudi Arabian Monetary Agency

The Saudi Arabian Monetary Agency is considered to be the central bank of Saudi Arabia and it was established in 1952. Its roles comprise of regulating and monitoring economic affairs and are the regulator of the financial sectors. There are a number of functions of the SAMA including issuing the national currency (Saudi Riyal) and the supervision of the commercial banks. It also manages the foreign exchange reserves, promotes exchange rate and price stability as well as ensuring the growth and soundness of the financial system of Saudi Arabia (SAMA, 2014). SAMA was given the authority to regulate the stock market in 1984 and established several regulations and developed automated trading systems in the capital market (Awwad, 2000; Hussainey and Al-Nodel, 2009).

2.3.4.3 Capital Market Authority

The Saudi Capital Market Authority was established by royal decree in 2003[3], and is a government authority, although it is financially, administratively and legally independent and reports directly the King of Saudi Arabia (as Prime Minister). Its main purpose is

[3] Was promulgated by Royal Decree No. (M/30).

developing the Saudi Capital Market by establishing rules and instructions in order to implement the provisions of Capital Market Law and includes: (i) regulating and developing the capital market; (ii) protecting investors and the general public from unfair practices such as fraud, deceit, cheating, manipulation and insider trading; (iii) achieving justice, efficiency and transparency in securities transactions; (iv) developing rules to reduce the risks related to securities transactions; (v) developing, regulating and monitoring the issuance and trading securities; (vi) regulating and monitoring the activities of entities subject to the control of the CMA; (vii) regulating and monitoring full disclosure of information related to securities and their issuers; and (viii) regulating proxy and purchase requests and public share offerings (CMA, 2014). The Capital Market Authority issued Saudi's Corporate Governance Code in 2006 to restore investor confidence after the market crashed in 2005 (Al-khtani, 2010)[4].

2.3.4.4 Saudi Stock Market

In 1935 the first joint stock company was established and by 1975 there were about 17 companies, but at this time there were no regulations (Basheikh, 2002). However, the Saudi stock market remained unofficial until the early 1980s when the Saudi government embarked on forming a regulated market for trading together with the required systems. In 1984, the Saudi Arabian Monetary Agency (SAMA) was given the responsibility of overseeing and regulating the trading of the Saudi stock market and monitoring all

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[4] The Saudi stock market index dropped from approximately 21,000 to around 6,000 in February 2006 (Falqi. 2009) and millions of Saudis lost significant amounts in this crash (Samba Report, 2009). This rapid crash in the Saudi stock market directly supported the need to establish corporate governance legislation as, according to Alsherhri and Solomon (2012), as there was an urgent need to issue a corporate governance code that could help to improve Saudi listed companies' corporate governance practices. Falgi (2009) stated that before the market crash, there was a lack of understanding about the importance of corporate governance and people believed that Saudi companies were managed properly and that the collapse and corruption that affected companies in other countries would not arise in Saudi Arabia.

securities activities until the Capital Market Authority was established in July 2003 under the Capital Market Law (Hussainey and Al-Nodel, 2009). The Saudi Stock Exchange (Tadawul) became as a joint stock company after a Royal decree issued by the King in 2007 (Pierce, 2012). The main roles and responsibilities of Tadawul are: (i) to operate the market effectively and efficiently; (ii) to ensure market integrity, quality, and fairness; (iii) to support investor education and awareness efforts; (iv) to develop service excellence for customers (brokers, issuers, investors, vendors, etc); and (v) to develop the exchange's capabilities and competencies (Tadawul, 2013).

According to the S&P (2013) the Saudi stock market is regarded as the largest in regard to the market capitalisation in the region and ranked 11 in the world for having the largest average company size[5]. The market capitalization of listed companies in Saudi Arabia increased from US$ 157bn in 2003 to US$ 373bn in 2012 (S&P 2013)[6] and there were 150 joint stock companies listed in the Saudi Stock Market in 2011 (CMA, 2012). The following section now presents the background of the regulations that affect companies in Saudi Arabia.

2.3.5 Regulations that Affect Companies

Saudi Companies are governed and regulated by the Company's Act (1965) and the Corporate Governance Code (2006). This section briefly highlights these two regulations that affect how companies operate in Saudi Arabia.

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[5] The world rankings of average company size consists of 98 countries and the average company size was calculated by dividing end-2012 total market capitalisation of listed companies by end-2012 number of listed companies excluding listed investment funds.
[6] The Market capitalisation of listed companies in Saudi Arabia was US$ 646 bn in 2005 (S&P, 2013).

2.3.5.1 Company's Act

Saudi Company law was established in 1965 and is known as the Company's Act of 1965. It provides rules and regulations related to the operation of companies in Saudi Arabia, and are regarded as the legal reference for Saudi companies. The Company's Act of 1965 provides eight types through which business companies can be structured, such as general partnership, joint venture, joint-stock company, limited liability Company, and cooperative company. It also regulates some aspects of corporate governance such as the number of directors on the board, CEO duality, board composition, remuneration, internal control and shareholders rights.

The law comprises of 15 chapters, which contain 234 articles (Saudi Ministry of Commerce and Industry, 2013). The Company's Act has seen several amendments, and recently a new Company's Act has been drafted, after approval by the Consultative Council (Majlis Ash-Shura)[7] and is waiting for approval by the Council of Ministers. The changes are major and will amend many of the concepts found in the previous law with 43 articles deleted, and 24 new articles to be added (Pharaon and partners, 2014).

2.3.5.2 Saudi Corporate Governance Code

The Corporate Governance Code in Saudi Arabia was issued and developed in November 2006 by the Capital Market Authority (CMA) which is responsible for the stock market regulations (GCC Corporate Legislation, 2013). The Code of Corporate Governance provides recommendations on the criteria for corporate governance

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[7] It is an advisory body to the council of minster. In relation to Consultative Council decisions, Article No. 17 of Shura Council Law (1992) states that: "Majlis Ash-Shura's resolutions shall be forwarded to the Prime Minister for consideration by the Council of Ministers. If the views of both councils are concordant, the resolutions shall come into force following the King's approval. If the views are contradictory, the King may decide what he deems appropriate (Royal Embassy of Saudi Arabia in USA, 2013).

practices that listed companies should adopt (Lessambo, 2013). The Saudi Code of Corporate Governance aims to ensure that all Saudi listed companies comply with corporate governance practices that will protect shareholders and stakeholders' rights. Hussainey and Al-Nodel (2009) state that the Saudi code covers the main five principles of the OECD. The code is based on a "comply or explain"[8] basis. However, a number of articles of the code are mandatory for listed companies (OECD Survey, 2011). For example, the CMA mandates section I and J of Article 5 whereby companies must make available to all shareholders the minutes of AGMs and inform the stock exchange of decisions made in AGMs. Also, Article 9, which covers disclosure in the board of directors' report, is a mandatory requirement. In addition, some aspects of Article 10, which deal with the main functions of the board of directors, such as the internal control systems and their supervision, drafting an internal corporate governance code consistent with the Saudi corporate governance code and also issuing explicit policies and procedures for board membership. Moreover, the CMA also mandates section C, E and G of Article 12 related to the formation of the board: (i) the majority of the members of the Board of Directors shall be non executive members; (ii) the independent members of the Board of Directors shall not be less than two members, or one-third of the members, whichever is greater; and (iii) on termination of membership of a board member in any of the ways of termination, the company shall promptly notify the Authority and the Exchange and shall specify the reasons for such termination. In addition, Article 14, which is responsible for Audit Committees, and Article 15, which relates to Nomination and Remuneration Committees, are now mandatory by law.

[8] The code is a 'comply or explain' practice in which companies are required to disclose in the board's report that all the requirements have been applied and those not complied and explanation of the reasons for non-compliance need to stated.

The code comprises of five parts, including 19 articles: Part (i) is the introduction; part (ii) deals with the rights of shareholders and the general assembly; Part (iii) sets out disclosure and transparency practice; part (iv) discusses the functions of the board of directors; and part (v) concludes with the closing provisions (See Appendix 2.1 for the Saudi Corporate Governance Code in English). The main aspects of this code will be discussed in Chapter 3.

2.4 Oman

The second country in this study is Oman, and this section provides an overview of the background, politics, economic environment, the commercial legal system and the regulations that affect companies to explain the context of corporate governance in Oman.

2.4.1 General Background

The Sultanate of Oman is also an Arabic state, located in southwest Asia. It is bordered by Saudi Arabia and the United Arab Emirates to the west; Yemen to the south; the Strait (Maḍīq) of Hormuz to the north; and the Arabian Sea to the east (See Figure 2.1) (Pierce, 2012). In 1891, Oman became a British protectorate until 1971 (Al-jabri, 2008). It occupies a land area of approximately 309,500 square kilometers which makes it the third largest country in the Arabian Peninsula, after Saudi Arabia and Yemen (Oxford Business Group, 2012; Omani Ministry of Tourism, 2013; CIA, 2014b). Its population is about 3.1 million (including 20% non-nationals).The official language of Oman is Arabic although English is widely used in both commercial and government communications and it is the only foreign language taught in schools. Islam is the main religion of Oman (Darke, 2013).

2.4.2 Political Environment

The Sultanate of Oman became independent from the UK in 1971. The system of government is known as a Royal Sultanate and is limited to the male descendants of Sayyid Turki bin Said bin Sultan. Sultan Qaboos Al Said became the first head of Oman in 1971 (Khalaf and Luciani, 2006). The Council of Ministers, or cabinet, is the country's highest executive authority. The Council derives its powers from, and is responsible, to the Sultan of Oman. In addition, Oman is governed through two bodies which consists of the Council of State (Majlis al-Dawla) with 71 seats where members are appointed by the Sultan and only have advisory powers, and Majlis al-Shura (a consultative body) with 84 seats where members are elected by public vote to serve four-year terms. In 2011, Sultan Qaboos granted legislative and regulatory powers to the Majlis al-Shura[9]. In addition, Islamic Sharia Law is the main basis for Legislation in Oman (CIA, 2014b; EIU, 2013b; Omani Ministry of Foreign Affairs, 2013).

2.4.3 Economic Environment

The Sultanate of Oman is considered to be a middle-income economy which depends on oil and gas natural resources. Thus, Oman's economy, like that of other oil-producing countries in the region, is largely reliant on oil revenues as a major source of income (Al-jabri, 2008, Darke, 2013). Oman has 0.4% of the world's proven petroleum reserves. The petroleum sector accounts for approximately 45% of Oman's revenue, 50% of GDP, and 64% of export earnings (Gulf Base, 2013b). The GDP of this State is US$94.86 billion and the per capita income is US$28,800 (CIA, 2014b). Oman has

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[9] This happened in response to protester demands (as part of the revolutionary wave in some of Arabic Countries popularly known as the Arab Spring). Sultan Qaboos in 2011 pledged to implement economic and political changes in response to this movement (Darke, 2013).

started investing and exporting non-oil products after recognising that its oil reserves are expected to deplete in 2020 (MEEPAS, 2013). However, the corruption index ranks Oman fourth among the Gulf countries (See Table 2.1).

2.4.4 Commercial Legal System

The related institutions that have a direct power on business in Oman are the Ministry of Commerce and Industry (MCI), the Central Bank of Oman (CBO), The Capital Market Authority (CMA) and Muscat Securities Market (MSM).

2.4.4.1 Ministry of Commerce and Industry

The Ministry of Commerce and Industry was established by Sultani Decree in 1974 and is the main government body responsible for regulating all commerce and industry. Its main task is preparing rules and regulations to control commercial companies in accordance with the applicable laws, decrees, and regulations. It also develops rules and regulations to build up and enhance relations between Oman and the World Trade Organization and other Arabic, regional, and international commercial organizations. Its tasks also include recommending policies and plans that are necessary to enhance the industrial, commercial and mineral sectors of Oman for the development of the economy of Oman as a whole. It is responsible for granting commercial, industrial, and mining permits, and technical licenses pertaining to the Ministry's specializations; registering establishments, agencies, and commercial and industrial brands. Regulating imports and exports is another important function of the Ministry of Commerce and Industry as it ensures the availability of the main products and goods of Oman and stability and quality of the prices of the goods in the local market (Omani Ministry of Commerce and Industry, 2013).

2.4.4.2 Central Bank of Oman

The Central Bank of Oman was established in 1974 and is responsible for: (i) maintaining financial stability in Oman; (ii) maintaining the stability of the national currency of Oman; (iii) issuing the national currency; (iv) regulating Oman's commercial banks, specialised banks and finance, leasing companies, and money exchange houses; and (v) advising the government in economic and financial matters (CBO, 2013).

2.4.4.3 Muscat Securities Market

The Muscat Securities Market was established by Royal Decree, published on 21 June 1988. The decree sets the legal framework for the establishment of the Market as an independent organisation to regulate and control the Omani securities market. The Muscat Securities Market was a single entity and comprised the regulator (the supervisory body) and the stock exchange where securities (selling and buying) took place (Oyelere and Al-Jifri, 2011).

However, the Omani government recognised that incorporating the supervisory body and the stock exchange into one body weakened the supervisory role over the market. Thus, in November 1998, the Muscat Securities Market was restructured and the decision was made to split the supervisory body from the stock exchange, which made Oman the first GCC country to have a separate regulatory body. The Capital Market Law came into effect in 1999, which split the former Muscat Securities Market into three independent entities: (i) the exchange itself (Muscat Securities Market); (ii) a central depository (Muscat Depository and Securities Registration Company); and (iii) a regulatory authority (Capital Market Authority) (Oyelere and Al-Jifri, 2011).

The Capital Market Authority was established according to Royal Decree in 1998, and is a government body with financial and administrative independence. Its chairman is the Minister of Commerce and Industry and the authority is responsible for regulating the stock exchange, the central depository and the capital markets and their participants. The Capital Market Authority was established as a supervisory body for organizing and overseeing the issue of securities and trading in Oman as well as supervising all dealers in the securities market and the Muscat Depository and Registration Company (Oyelere and Al-Jifri, 2011).

The Muscat Securities Market (MSM) was established to be a market for securities exchange where all listed companies' securities should be traded. Its main purpose is to encourage saving and improve investment awareness as well as protecting investors by regulating the operations of selling and buying securities. The MSM is working under the CMA's supervision (Oyelere and Al-Jifri, 2011). In November 1998, the Muscat Depository and Securities Registration Company (MDSRC) was established as a closed joint stock company to provide registration services, the transfer of securities ownership and the safe keeping of documents. The market capitalization of listed companies in Oman was increased from US$ 5bn in 2003 to US$ 20bn in 2012 (S&P 2013b)[10] and there were 116 joint stock companies listed in MSM by 2011.

2.4.5 Regulations that Affect Companies in Oman

Omani Companies are governed and regulated by the Commercial Companies Law and the Corporate Governance Code and will be discussed briefly in the next sub-sections.

[10] The Market capitalisation of listed companies in Oman was US$ 23bn in 2007 (S&P, 2013b).

2.4.5.1 Omani Commercial Companies Law

In Oman, the Commercial Companies Law was published in 1974 and has been subject to several amendments. It provides and covers the rules and regulations related to the operation and the transactions of companies in Oman. The Commercial Companies Law regulates the transactions of different Omani companies and structures including partnerships; limited liability companies; joint stock Company; and joint ventures. It also comprises of a number of articles that lay down requirements regarding the board of directors, directors' compensation, internal control and shareholders rights which is at the core of corporate governance framework. The revised Commercial Companies Law, of 2001, includes eight chapters comprising 176 articles (Omani Ministry of Commerce and Industry, 2013).

2.4.5.2 Omani Corporate Governance Code

The Code of Corporate Governance in Oman was issued in June 2002 and was the first code launched in the GCC country and in the MENA region (Sourial, 2004; Oyelere and Al-Jifri, 2011; GCC Corporate Legislation, 2013). The Capital Market Authority possibly issued this because of the influence of foreign investors, as Oman has offered an open market to foreign investors since 1998 (Sourial, 2004) and is applicable to the companies listed on the Muscat Securities Market. The Code is based on comply or explain approach (OECD Survey, 2011)[11]. In addition, the CMA mandates that companies are required to issue a separate section on corporate governance in their annual reports highlighting their non-compliance with any requirement and how the principles of corporate governance have been applied. The company should also obtain certification from the external auditors that

[11] In 2005, the Capital Market Authority also prescribed a Code of Corporate Governance for all insurance companies which come under its regulatory responsibility.

the report on corporate governance is free from any material misrepresentation and be annexed with the report. The code comprised of 28 different articles categorised into five sections under: (i) composition of the board of directors (Articles 1 to 8); (ii) external auditor and internal control systems (Articles 9 and 10); (iii) management (Articles 11 to 18); (iv) rules for related party transactions (Articles 19 to 25); and (v) report on corporate governance (Articles 26 to 28) (See Appendix 2.2 for the Omani Corporate Governance Code in English).

2.5 Bahrain

The final country inverstgated in this study is Bahrain. Thus, this section provides an overview of the background, political and economic environment, the commercial legal system, and the regulations that affect companies to understand the context of Corporate Governance in the country.

2.5.1 General Background

The Kingdom of Bahrain is an Arabian Gulf country situated between Saudi Arabia and Qatar (See Figure 2.1) and has been connected to Saudi Arabia by a 25 km long causeway since 1986 (the King Fahd Causeway). Furthermore, there is a plan to connect Bahrain to Qatar through the world's longest fixed link causeway expected to be around 45 km long. The Kingdom of Bahrain is an archipelago of 33 islands with a total area of land of approximately 760 sq km with a population of 1.3 million (including 235,108 non-nationals). The national language is Arabic, but English is commonly used. Islam is the main religion with the majority of the Bahraini population following Islam (CIA, 2014c; EIU, 2013c).

2.5.2 Political Environment

Bahrain became a British protectorate in 1820, which lasted until 1971. Bahrain was an emirate and it became a constitutional monarchy in February 2002, ruled and headed by King Hamad bin Isa Al Khalifa. The head of government is Prime Minister Sheikh Khalifa bin Salman Al-Khalifa who has been in this position since 1971 (Oxford Business Group, 2013b). Bahrain's bicameral legislature, the National Assembly (Majlis al-Watani), consists of the Consultative Council (Alshura) and the Council of Representatives (or Chamber of Deputies). The Consultative Council (Alshura) consists of 40 members appointed by the King. The Council of Representatives (Chamber of Deputies) comprises of 40 seats and all members are directly elected by the people to serve four year terms. The parliament is the central element of the new constitution introduced by the King in 2002. The elected chamber can comment on and alter legislation, and can suggest new laws to the government. However it cannot draft new legislation. New laws need to be approved by both chambers, and then by the King. Article 2 of the constitution affirms Islam as the official religion and identifies Shariah Law as a main source of legislation (CIA, 2014c; EIU, 2013c; Bahrain Ministry of Foreign Affairs, 2013).

2.5.3 Economic Environment

Bahrain's economy, like that of other oil-producing countries in the region, is largely reliant on oil revenues as a major source of income (Al-Ajmi, 2009) and has 0.03% of the GCC reserves and 0.01% of the world’s crude oil reserves, which is low compared to Saudi Arabia and Oman. Petroleum production and refining account for more than 60% of Bahrain's export receipts, 70% of government revenues, and 11% of GDP (Gulf Base, 2013b). Because oil in Bahrain is limited, it has taken steps to diversify its economy and it now has highly developed communication and transport facilities that make Bahrain home

to many multinational companies dealing with GCC countries (CIA, 2014c). In addition, Bahrain is one of the world's leading international financial centers (Joshi et al., 2008; Sturm et al., 2008; Desoky and Mousa, 2012). Furthermore, Bahrain competes with Malaysia as a worldwide center for Islamic banking (CIA, 2014c). The corruption index ranks Bahrain third among the Arabian Gulf countries (See Table 2.1).

2.5.4 Commercial Legal System

To gain a better understanding of the context in which Bahraini listed companies operate this section outlines the institutions that have a direct power on Bahraini business. Consequently, the next sub-sections summarises the monitoring bodies in Bahrain, such as the Ministry of Industry and Commerce (MOIC), the Central Bank (CBB), Bahrain Bourse (BHB).

2.5.4.1 The Ministry of Industry and Commerce

The Ministry of Industry and Commerce is the government body responsible for a range of activities to build the business environment in Bahrain, including the registration and supervision of all businesses operating in Bahrain, foreign trade, and administrating company law (Bahraini Ministry of Industry and Commerce, 2013) which is similar to Saudi Arabia and Oman.

2.5.4.2 The Central Bank

The Central Bank of Bahrain was created in 2006 and was previously known as the Bahrain Monetary Agency which was established 1973. The Central Bank of Bahrain implements monetary and foreign exchange rate policies, issues the national currency (Bahraini Dinar)

and regulates Bahrain's financial sectors, including banking, insurance, investment business and capital markets activities (CBB, 2013).

2.5.4.3 Bahrain Bourse

The Bahrain Stock Market originated in 1957 when the National Bank of Bahrain became the first Bahraini Joint Stock Company. With the establishment of other companies, the “Al Jawahara Stock Exchange” began to emerge as an unofficial stock exchange, which continued until 1987. The Bahrain Stock exchange was created in 1987 by a Legislative Decree and it started its operations officially in 1989. However, in 2010, the Bahrain Bourse (BHB) was established as a shareholding company by Law to replace the Bahrain Stock Exchange. In 2002, the legislative and regulatory authority and the supervision of the Bahrain Stock Exchange was transferred from the Ministry of Commerce to the Central Bank of Bahrain (CBB, 2013, BHB, 2013; Eltkhtash, 2013). The BHB has the following objectives: developing the securities market, protecting investors, overseeing the organisation and regulation of securities trading, raising investment awareness in society, encouraging savings and providing the necessary finances for supporting the requirements of economic and social development (BHB, 2013). The market capitalization of listed companies in Bahrain has increased from US$ 9bn in 2003 to US$ 16bn in 2012 (S&P 2013)[12] with 44 joint stock companies listed in BHB in 2011.

2.5.5 Regulations that Affect Companies in Bahrain

Bahraini Companies are governed and regulated by the Commercial Companies Law and the Corporate Governance Code.

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[12] The market capitalisation of listed companies in Bahrain was US$ 28bn in 2007 (S&P, 2013c).

2.5.5.1 The Commercial Companies Law

The Commercial Companies Law (1975) has been subject to several amendments with the latest one in 2001 (Al-Qahtani, 2005). Similar to Saudi Arabia and Oman, the Bahraini Commercial Companies Law regulates the transactions of different Bahraini companies and structures such as General Partnership company, Limited Partnership Company, Joint Stock Company and Holding Company. It also regulates some corporate governance aspects including the requirement for a board of directors, their overall duties, the structure of the board of directors and voting rights (Hussain and Mallin, 2002). The amendment of Bahraini Commercial Companies Law in 2001 includes 16 chapters comprising of 363 articles (Bahraini Ministry of Industry and Commerce, 2013).

2.5.5.2 Corporate Governance Code

The first draft of the Bahrain Corporate Governance Code was issued in May 2008 at a public conference to enhance investor confidence and foster economic development by the Ministry of Industry and Commerce in cooperation with the Central Bank of Bahrain (CBB, 2013). Following a discussion period of more than a year and considering other countries' governance codes, it came into force on 1 January 2011 (GCC Corporate Legislation, 2013). All joint stock companies must adhere to the Code or explain to their shareholders why they do not comply with it. The Code consists of nine principles of corporate governance and each followed by one or more broad directives for employing the principle covering a range of issues including the board's role and responsibilities, directors and officer's duties, internal compliance and audit procedures, management structure, remuneration, communication with shareholders, governance reporting and additional governance requirements and disclosures for "Islamic" companies. In addition, the

directives are supplemented by a number of recommendations. However, while compliance with the recommendations is not mandatory, if a company decides not to comply with a specific recommendation (or other aspects of the Code), it must explain its non-compliance in a "comply or explain" report disclosed under principle eight of the Code (CBB, 2013). (See Appendix 2.3 for the Bahraini code of corporate governance in English).

2.6 Summary

This chapter has provided a brief summary of the Gulf Co-operation council and a brief background about Saudi Arabia, Oman and Bahrain covering the political and economic environment. It also highlights the legal system of the countries under investigation and the main regulatory bodies that govern and regulate business, including the stock market. In addition, this chapter discussed briefly the regulations that affect companies. This chapter noted that these three countries share similar characteristics including religion, culture, the same political regime (Monarchy), and the similarity of their regulations and economies. However, it also notes that Saudi Arabia is the largest country and has the greatest population. It is also the only country that was not a protectorate of any other country, while the other two countries were British protectorates and gained independence from the United Kingdom in 1971. In addition, Bahrain is considered a less corrupt country compared to Saudi Arabia and Oman. Regarding establishing the codes of corporate governance, as mentioned above through this chapter, the first code in GCC countries was issued in 2002 by Oman, followed by Saudi Arabia in 2006 and in 2010 Bahrain became the latest country to draft a code. Moreover, market capitalisation varies from US$ 16bn in Bahrain to US$ 373bn in Saudi in 2012, which makes the Saudi Stock Market the largest market in a GCC country as showen in Table 2.3 below.

Table 2.2 Country Comparison

Country	Saudi Arabia	Oman	Bahrain
Area/Km (sq)	2.150.000	309,500	760
Population	29.2 million	3.1 million	1.3 million
Religion	Islam	Islam	Islam
Language	Arabic	Arabic	Arabic
National Total Income	$ 927.8 bn	$ 94.86 bn	$ 34.96 bn
GDP-Per Capita	$ 31,300	$ 28,800	$ 29.800
Market Capitalisation (Stock Market) (2012)	$373bn	$20 bn	$16 bn
Year Code issued	2006	2002	2010

The next chapter reviews the literature related to corporate governance that relates to the research in this thesis.

Chapter 3: Literature Review

3.1 Introduction

The previous chapter gave a background to the Saudi, Omani and Bahraini context. This chapter reviews the academic literature on corporate governance by discussing various issues that are most relevant to this study. Corporate governance has recently appeared as a popular topic and is now one of the famous buzzwords in global business (Hussain, 2009). In the same context, Mallin (2013) argues that: "corporate governance and its everyday usage in the financial press is a new phenomenon of the last twenty years or so" (p. 15). Thus, although corporate governance is not a new concept, interests in it have been growing and are more frequently researched from different approaches by scholars from a variety of disciplines including: accounting, finance, economics and management (Bebchuk and Weisbach 2010). However, there is a large amount of research in corporate governance and the vast majority is from a positivist perspective based on agency theory. Most studies look at corporate governance mechanisms and their relationship to performance as measured using different factors such as Tobins q, Return on Assets (ROA), Return On Equity (ROE), Dividend Per Share (DPS) and the like (see for example, Yermack, 1996; Bhagat and Black, 2002; Haniffa and Hudaib, 2006; Ntim, 2009; Ibrahim and AbdulSamad, 2014). This approach is influenced by the Anglo-Saxon approach to corporate governance and mainly takes account of the interests of shareholders (Clarke, 2004; Brennan and Solomon, 2008). These performance studies on governance adopt a narrow shareholder perspective focusing on the relationship between corporate governance mechanisms and financial performance (Shleifer and Vishny, 1997).

Other streams of the literature review how corporate governance developments can lead to more, and/or better, publicly available information (see for example, Haniffa and Cooke, 2002; Cheng and Courtenay, 2006; Barako et al., 2006; Akhtaruddin et al., 2009; Ghazali,

2010; Al-Janadi et al.,2013; Allegrini and Greco,2013). The current thesis draws from this wider base of literature to review articles which focuses on corporate governance mechanisms. It first considers the UK and OECD recommendations on corporate governance mechanisms which allows a comparison between these international best practices and the empirical findings which summaries current corporate governance practices in the three Arabic countries investigated in this thesis. It then looks to the literature that investigates corporate governance practices in developed and developing countries since this is also relevant to the current thesis. Thus, the main purpose of this chapter is to present a review of the literature on corporate governance and to provide a general picture of current practices.

Therefore, this chapter is organised as follows: Section 3.2 identifies the most common definitions of corporate governance. Section 3.3 highlights the developments of corporate governance starting with UK experience because it was the first country to address corporate governance. Section 3.4 addresses different aspects of corporate governance. Section 3.5 reviews corporate governance literature related to the Arabian Gulf countries, and finally section 3.6 concludes the chapter.

3.2 Definition of Corporate governance

Consideration of the meaning of corporate governance is necessary to interpret the empirical work in this thesis. There is no generally accepted meaning of the term corporate governance (Solomon, 2010; Mulili and Wong, 2011). Plessis et al. (2011) argue that, despite the attempts by many academics around the world, no specific coherent definition has been found as it differs from one interested party to the other, which may lead to confusion. Thus, various definitions of corporate governance have been provided

depending upon the perspective of the regulator, practitioner, researcher or theorist (Solomon, 2010). While Lee (2006) argues that: “corporate governance appears to have as many meanings as it has its users” (p. 21), Solomon (2010) states that:

> “It seems that existing definitions of corporate governance fall along a spectrum, with 'narrow' views at one end and more inclusive, 'broad' views placed at the other” (p.5).

The first corporate governance report in the world was the Cadbury Report (1992) which defined corporate governance as “the system by which companies are directed and controlled” (p.15). This might be argued to be a narrow point of view which considers corporate governance as an internal task of a company, as Chambers (2002) argues that the Cadbury definition focused excessive attention on the control side of governance at the expense of formulation of policy and strategy development.

In addition, Parkinson (1993) defines corporate governance similarly, focusing on accountability to shareholders and claims that corporate governance is:

> “The process of supervision and control intended to ensure that the company's management acts in accordance with the interests of shareholders” (p.159).

Shleifer and Vishny (1997) however, define corporate governance from the perspective of finance, as follows:

> “Corporate governance deals with the way in which suppliers of finance to corporations assure themselves of getting a return on their investment” (p.737).

These narrow perspectives of corporate governance stress the relationship between a company and its shareholders and the procedures used to run the company in accordance with the interests of shareholders. This point of view is based upon agency theory where governance mechanisms concentrate on protecting the interests of shareholders and ensuring the accountability of managers towards the shareholders of a company (Solomon, 2010). This narrow perspective has been criticised because it fails to include the wider role of other stakeholders and their responsibilities to help attain corporate objectives and ensure the accountability of a company to stakeholders (Brennan and Solomon, 2008; Solomon, 2010; Plessis et al., 2011).

Alternatively, broader definitions provide a wider insight to corporate governance and extend it to comprise the relationships between a company and its stakeholders; this perspective has attracted more attention in recent years (Solomon, 2010). As an early example, Tricker (1984) defined corporate governance as:

> "The governance role is concerned with the running of the business of the company per se, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations for accountability and regulation by interests beyond the corporate boundaries" (p.6).

Likewise, the Organization for Economic Co-operation and Development (OECD, 2004) has descripes corporate governance as including relationships with other stakeholders by stating that:

> "Corporate governance involves 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. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring" (p.11).

In the same context, Dahya et al. (1996) define corporate governance as:

> "The manner in which companies are controlled and in which those responsible for the direction of companies are accountable to the stakeholders of these companies" (p.72).

Solomon (2010) takes it further and views it from a wider perspective as accountability to all stakeholders:

> "The system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity" (p.6).

The above definitions show that corporate governance is concerned with factors that are internal to the company as well factors that are external to the company, ensuring that the interests of all stakeholders are served and that there is accountability to all of them, not just limited to the interests of shareholders only. Based on these wider definitions of corporate governance, accountability should be discharged to all stakeholders (Elkelish, 2007), which is the focus of this thesis.

3.3 Development of Corporate Governance

This section examines the development of corporate governance in the UK, USA and by the OECD as they have been important on the international stage and provide a context for the reminder of the chapter. Corporate governance began in the UK as the Cadbury Report was the first code to establish the foundations for corporate governance (Mallin, 2013) and this section starts with a summary of its development.

3.3.1 Corporate Governance in the UK

The development of the UK's corporate governance code was primarily driven by corporate collapses and financial scandals (Mallin, 2013). In the early 1990s, a number of big corporate failures led to a lack of confidence in companies' activities (West, 2010) which attracted the attention of the UK government (Dulewicz and Herbert, 2004). The UK began to develop its corporate governance practices with several committees being established to investigate and provide recommendations. The main aim of these committees was to restore investor confidence in the system (Arcot and Bruns, 2006). Over the past 20 years, several corporate governance codes have been issued, starting with the Cadbury Committee (1992) and ending with the Combined Code on Corporate Governance (last revised 2012).

The Cadbury Committee was established in 1991 by the UK government after a number of corporate failures such as Coloroll and Polly Peck (Arcot and Brun, 2006; Solomon, 2010) and was published in 1992 with a particular focus on financial reporting and accountability (Dragomir, 2008). The Cadbury Report covers three aspects of corporate governance, namely, (i) the board of directors; (ii) the role of shareholders; and (iii) auditing (Solomon, 2010). Subsequently, the Greenbury Report was issued in 1995 in response to shareholders' concerns on the setting and disclosure of directors’ remuneration. Its main recommendation was the creation of remuneration committees and the disclosure of directors’ remuneration in corporate annual reports (Mallin, 2013). Mallin (2013) indicates that the core recommendations of the Greenbury report were to enhance accountability and strengthen the performance of directors, by linking pay to the performance of individual directors and disclosing it to shareholders annually.

The Hampel Committee was established in 1998 to review the implementation of the Cadbury and Greenbury committees' recommendations (Mailln, 2013; Dragomir, 2008) and the Combined Code was issued in the same year. This consisted of 18 principles and 48 code provisions related to the recommendations of Cadbury, Greenbury and Hampel reports (Mailln, 2013). Shortly, this was followed by the Turnbull Report which was issued in 1999 to provide guidelines for companies on the implementation of effective internal control systems (Mailln, 2013; Anomah and Agyabeng, 2013).

The Enron scandal (2001) in the USA spurred the UK and the rest of the world to reassess issues related to corporate governance, in particular the role of non-executive directors. In the UK, the Higgs Committee Report was issued in 2003 with a focus on the effectiveness of non-executive directors (Solomon, 2010). In addition, the Smith Report in 2003 evaluated the audit committee's role and effectiveness (Mallin, 2013). In 2003, the UK revised its 1998 Combined Code to incorporate several of the key recommendations of the Higgs and Smith reports (Mallin, 2013). In 2006, the Combined Code was again revised making changes to the 2003 code. For instance, it allowed the chairman of the board to serve on the remuneration committee (but not to be the chair) and engage in proxy voting (Mallin, 2013). A further revision was made to the Code in 2008 to allow the Chairman to serve on the audit committee and to remove the restrictions related to the chairman of a FTSE 100 company being unable to be chairman of another FTSE 100 company (Mallin, 2013). In the same year, the Smith Report (2008) was revised (Avison and Cowton, 2012) and in 2009, after the global financial crisis, the Walker review was issued by the Financial Reporting Council (FRC) regarding corporate governance in financial institutions. In 2010, the UK Corporate Governance Combined Code was revised, yet again, to incorporate the role of institutional investors (Mallin and Ow-Yong, 2013).

However, in 2011, Lord Davies conducted a review of the barriers to board diversity and the lack of women directors on the board (Mallin, 2013). The FRC revised the UK Corporate Governance Combined Code again in 2012, whereby the nomination committee had to include a separate section in the annual report regarding the appointment of directors, policies related to boardroom diversity and greater disclosure around audit committee activities. In addition, companies are encouraged to provide full explanations to shareholders as to why, if applicable, they choose not to follow any Code provisions. After reviewing the development of the UK Corporate Governance code, the corporate governance in the USA will be discussed in the following section.

3.3.2 Corporate Governance in the USA

In 2002, US Congress issued the Sarbanes-Oxley Act (SOX, 2002)[13], which sets out corporate governance standards for US public companies (Mallin, 2013). This act was issued in response to a number of corporate scandals that affected large US corporations; for example, Enron, Tyco International, Adelphia, Global Crossing and WorldCom (Coates, 2007), to restore the investors' confidence in public accounting and publically traded securities and raising corporate governance systems deliberately to enhance the accuracy and reliability of corporate disclosures (Dragomir, 2008). The Sarbanes Oxley Act contains 11 sections relating to a variety of issues such as: (i) the description of corporate board duties; (ii) external auditors' independence; (iii) corporate responsibility; (iv) the internal control evaluation; (v) the enhancement of financial disclosure; and (vi) corporate fraud accountability Act (SOX, 2002).

[13] The official title of the Act was the Accounting Industry Reform Act 2002 (Mallin, 2013).

Cornelius and Kogut (2003) argue that the SOX (2002) was intended to strengthen the penalties for top executives who falsified financial statements and engaged in other types of unethical behaviour. Thus, SOX (2002) instructs chief executive officers and chief financial officers to verify the accuracy of their corporate quarterly and annual reports, making them accountable for the reliability of the reports. It also strengthened the powers of audit committees and the regulatory oversight of audit firms (Solomon, 2010; Mallin, 2013).

3.3.3 The OECD Corporate Governance Principles

The OECD published its first principles of corporate governance in 1999, which was the first international corporate governance code (Dragomir, 2008; Mallin, 2013), providing guidelines to countries around the world to use its principles as a benchmark for developing their own codes, especially OECD countries and emerging economies (OECD, 1999; Enrione et al,. 2006; Barker, 2010). The OECD framework of principles was approved and authorised by the World Bank (Mallin, 2013). The OECD's principles of corporate governance aim to strengthen global corporate governance and to enhance the efficiency of the stock market and the stability of economies as a whole (OECD, 2004).

In April 2004, the OECD revised its 1999 principles, and encompassed six sections: (i) ensuring the basis for an effective corporate governance framework; (ii) the rights of shareholders and key ownership functions; (iii) the equitable treatment of shareholders; (iv) the role of stakeholders in corporate governance; (v) disclosure and transparency; and (vi) the responsibilities of the board (OECD, 2004). The next section discusses various corporate governance mechanisms.

3.4 Corporate Governance Mechanisms

As noted above, a number of corporate governance improvements have occurred over the past twenty years (Mallin, 2013) which have established several different practices across countries. However, different researchers consider some practices to be crucial and have become characteristics of good corporate governance practices, such as those related to boards of directors including: their roles, composition of the board, separation of the CEO and chairman, board meetings, board multiple directorship, directors' term of office, board evaluation and training, board sub-committees, ownership structure, shareholders and stakeholders' rights and disclosure and transparency (Bahgat and Bolton, 2008; Maharaj, 2009; Hassan, 2009; Solomon, 2010; Mallin, 2013; Alexandrina, 2013). The next sections discuss these in more detail.

3.4.1 Board of Directors

The board of directors is one of the most significant mechanisms that promotes good corporate governance practices (The Cadbury Report, 1992; Pettigrew and McNulty, 1995; Argüden, 2010; Alexandrina, 2013) and one of the main focuses in this thesis. Cadbury (2002) defines the board of directors as:

> "The bridge between those to whom the board is accountable and those who are accountable to the board" (p.31).

In addition, Solomon (2010) states that:

> "For a company to be successful it must be well governed. A well-functioning and effective board of directors is the Holy Grail sought by every ambitious company" (P.78).

Indeed, Abdel-Shahid, (2001), described it as one of the various interrelated factors that contributes to the proper functioning of the corporate governance system. The following

sub-sections highlight different mechanisms of corporate governance associated with boards of directors, such as unitary and two-tier boards, board roles, board composition, board size, non-executives and independent directors, separation of the CEO and chairman, board meetings, board multiple directorship, directors' term of office, board evaluation and training.

3.4.1.1 Unitary and Two-Tier Boards of Directors

Mallin (2013) states that board structure is one of the main differences between corporate governance in different countries, which generally fall into one of two main categories: (i) a unitary board system; and (ii) a two-tier board system. A unitary board of directors is common in Anglo-Saxon countries such as in the UK and the US (Belot et al., 2014). This system includes both executive and non-executive directors sitting in one single board elected by the shareholders at the company's annual general meeting (Solomon 2010; Mallin 2013) whereby the board of directors is usually responsible for all of the company's activities (Mallin, 2013). Alternatively, there is the two-tier board system (or dual board) which is common in countries such as Austria, Germany, Denmark, the Netherlands and Japan. In this system there are two boards, the management (executive) board and the supervisory board. The management board is responsible for the day-to-day running of the firm, and only includes executive directors who are elected by the supervisory board. The supervisory board is responsible for supervising the management board, and is elected by the shareholders. The supervisory board consists of members representing the shareholders and employees, and only consists of non-executive directors (Solomon, 2010; Mallin, 2013).

Both types of board structure have their advantages and disadvantages. In the one-tier system, there is a close relationship and a flow of information between directors but there is a lack of a separation between the functions of monitoring and management on a unitary board (Maassen and Van Den Bosch, 1999; Mallin, 2013). However, under the two-tier system there is a clear separation of duties and there is a role for the stakeholders (such as employees) to have and appoint their representatives to sit on the board to protect their interests (Maassen and Van Den Bosch, 1999; Solomon, 2010; Mallin, 2013).

In MENA countries, most boards have a one-tier system, with executives and non-executive directors (IFC and Hawkamah, 2008)[14]. Particularly, this is the case in Saudi Arabia, Oman and Bahrain; as in the UK and the USA, such boards are characterised by a single board comprising of both executive and non-executive directors (Pierce, 2012).

3.4.1.2 Role of the Board of Directors

It is important for every company to have a well-functioning and effective board of directors to succeed (Solomon, 2010), and it is crucial that the directors' roles, responsibilities, and duties are defined clearly (Mallin, 2013). Thus, Monks and Minow (2008) suggest that the duty of care and the duty of loyalty are the main roles to be exercised by the board of directors. Regarding the duty of care, they claim that directors should exercise due diligence in making decisions. For instance, a director should be aware and consider all reasonable alternatives before making a decision. The duty of loyalty

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[14] The survey targeted countries with operational stock exchanges in three MENA regions specifically the Maghreb (Morocco, Tunisia), Mashrek (Egypt, Jordan, Lebanon, and West Bank & Gaza) and the Gulf. Cooperation Council or GCC (Bahrain, Kuwait, Oman, Saudi Arabia, and the United Arab Emirates). Within these countries, the survey targeted banks, both listed and non-listed, and publicly listed companies.

means that the directors should display complete and undivided loyalty to the company's shareholders. For example, if a member of a board sits on the boards of two companies that may constitute a conflict of interest, and so the member should resign from one board.

Furthermore, Ponnu (2008) highlights the important role that the boards of directors play in corporate governance, stating that:

> "Their main responsibility is to endorse the organisation's strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organisation to its shareholders, authorities and other stakeholders" (p.217).

In addition, Zahra and Pearce (1989) identify three board roles: (i) strategy, such as the formulation of objects and the allocation of resources; (ii) service, involving increasing the company's reputation, establishing contact with the external environment and providing high-level advice to the top management; and (iii) control, such as monitoring and evaluating top management.

Boards of directors oversee top management and are delegated with the duties of monitoring and supervising the company's resources and activities (Ponnu, 2008; Argüden, 2010), and providing guidance to the corporation with value-creating strategies (Argüden, 2010). As Maharaj (2009) argues, boards of directors have the legal power to oversee management actions. He also notes that the board should be responsible for the overall interests of the company and is also expected to act honestly, and in good faith regarding the interests of the company and its stakeholders. Vafeas (1999a) states that: "the monitoring role of corporate boards in public corporations has become a central issue in both the financial and the academic press" (p.113). Similarly, Bernnan (2006) states that the roles and responsibilities of boards of directors are determined by a range of regulatory

sources such as law, regulations and codes of practices. For instance, the UK Corporate Governance Code (2012), states that:

> "The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met" (p.8).

The OECD (2004) identified the duties of the board under six headings; the key functions of the board are: selecting, compensating, monitoring, replacing key executives and reviewing executives' remuneration and performance.

In MENA countries, the IFC and Hawkamah (2008) found that the role of the board is similar except that providing strategic support to, and the oversight of, management is not usually recognised and performed in practice. They found that the majority of the boards in MENA listed companies are responsible for setting strategy by calling and letting the management to develop this strategy, opposite to good practice. Furthermore, most boards in MENA countries may not be independent enough to perform their oversight role effectively. Thus, IFC and Hawkamah (2008) suggest that listed companies should evaluate, explian, and develop the role of the board in a code of corporate governance or board charter. The next section highlights board composition as another feature of the board.

3.4.1.3 Board Composition

As mentioned above, boards of directors have different responsibilities. Therefore, the board should ensure that the directors have a sufficient level of education and skills to

perform their duties, understand their responsibilities towards the company and exercise their roles with independent judgment (Zahra and Pearce, 1989; IFC and Hawkamah, 2008). Minichili et al. (2009) argue that having a range of members with different backgrounds and perceptions sitting on the board may enhance the board decision making process. The UK Corporate Governance Code (2012) indicates that the chairman should confirm that the directors frequently ensure that their skills and knowledge are up-to-date and they have a familiarity with the company that allows them to satisfy their role in the board and on board committees.

Therefore, Solomon (2010) suggests that, to enhance and promote the efficiency of the board of directors, matters to be considered are: (i) separating the roles of the chairman and the CEO; (ii) having a combination of executive, non-executive, and independent non-executive directors; (iii) determining board size; and (iv) making sure the mix of directors have different educational backgrounds and experience. Thus, different corporate governance codes recognise the importance of having appropriate board composition. The UK Corporate Governance Code (2012), for instance, suggests that:

> "The board should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking" (p.11).

The OECD principle (2004) mentions that:

> "Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgment to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are ensuring the integrity of financial and non-financial reporting, the review of related party transactions, nomination of board members and key executives, and board remuneration" (p.65).

The next section focuses on the board size.

3.4.1.4 Board Size

The number of board members is an important factor that has an impact on boards of directors (Babic et al., 2011). Solomon (2010) claims that boards of directors that have either too few or too many directors can hinder their efficiency in discharging their responsibilities. According to Monks and Minow (2008), the size of the board can affect the monitoring, control and decision-making of an organisation, and can be important for future strategy and its successful implementation. Thus, it is important to have an appropriate combination of board of directors in terms of executive and non-executive and in terms of the skills and experience that members bring to the board (Mallin, 2013; Akhtaruddin et al., 2009). This is because board size affects the quality of discussions among board members and the ability of boards to arrive at optimal company decisions (Lawal, 2012).

Hemalin and Weisbach (2001) find that board size affects companies' decisions regarding CEO replacement, executive compensation and acquisitions. In addition, Nam and Nam (2004) claim that the size of the board should be large enough to ensure a wide range of expertise from many members, but they note that the board should not be so large as to make free discussion difficult among board members. A larger board size enhances a company's ability to understand and address the diversity of various stakeholder's interests (Pearce and Zahra, 1992). In addition, a greater representation of experienced independent directors are more likely on larger boards (Xie et al., 2003; Hassan, 2013), as they may enhance the quality of advice given to corporate management (Haniffa and Hudaib, 2006). Lawal (2012) argues that:

> "The larger the board size the more expansive are the experiences that can be tapped which helps in the corporate decision making especially with presence of more independent outside directors seating on the board" (p.25.)

However, other studies state that a larger number of directors on the board increases the problems of communication and coordination (Jensen, 1993; Bonn et al., 2004; Cheng, 2008) and Denis (2001) suggests that smaller boards of directors may operate more effectively as they can have more time for open discussions and make decisions more quickly. According to Jensen (1993), the efficiency and effectiveness of an organisation can be improved if it has a smaller board.

Nevertheless, board size is often determined and imposed by law and regulation in different countries, and therefore, choosing an appropriate board size should reflect the right balance within the legal framework for an individual country (IFC and Hawkamah, 2008). For instance, the UK Corporate Governance Code (2012) recomends that:

> "The board should be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption, and should not be so large as to be unwieldy" (p11).

Lipton and Lorsch (1992) recommend a board size of eight or nine with a limit of ten members. In addition, Salomn (2000) recommends that a size between eight and 15 members would constitute the right board size for large companies. He indicates that fewer than eight members may mean that the board is more exposed to difficulties when establishing audit, nomination, compensation and other committees with enough outsider directors. Heidrick and Struggles (2011) find that on average there are 12.1 directors on European boards.

In the MENA countries, the IFC and Hawkamah (2008) find that board size in general is eight to ten members. The number of directors on Saudi boards must be between three and

11 as specified in its code of corporate governance. In Oman, although the code of corporate governance does not specify the number of directors on the board, the commercial companies law requires that the number of board directors should be between five and 12. In Bahrain, the code of corporate governance just provides that the board should not have more than 15 members, while the Bahraini Commercial Law (2001) indicates the minimum board members should be at least five members; hence in Bahrain, board size can be between five and 15. Thus, it could be said that Saudi boards are the smallest, and Bahraini the biggest, while Omani boards fall between them. The next section discusses Non-Executive Directors.

3.4.1.5 Non-Executive Directors

Most corporate governance codes recommend a combination of executive directors, non-executive directors (NEDs), and independent non-executive directors (INEDs) sitting on the board. This section discusses issues related to NEDs. NEDs are one of the key tools for an effective board (Mallin, 2013). The role and the effectiveness of NEDs in companies became a concern after many corporate scandals and, in the UK for instance, the Higgs Committee was established to review the role and effectiveness of non-executive directors. The Higgs review (2003) made several recommendations on the role of NEDs, which are now included in the UK Corporate Governance Code (2012) which states that:

> "Non-executive directors should constructively challenge and help develop proposals on strategy. Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, executive directors, and in succession planning" (p.10).

NEDs have two main functions: (i) to exercise control over executive directors and ensure that they do not overly influence board decisions; and (ii) to contribute to the strategic decision making of the company (Mallin, 2013). For NEDs to exercise their role effectively, the Higgs review (2003) states that:

> ".... non-executive directors need to be well-informed about the company and the external environment in which it operates, with a strong command of issues relevant to the business. A non-executive director should insist on a comprehensive, formal and tailored induction. An effective induction need not be restricted to the boardroom, so consideration should be given to visiting sites and meeting senior and middle management. Once in post, an effective non-executive director should seek continually to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant" (p.63).

Therefore, most corporate governance codes state that NEDs should allocate adequate time to fulfill their roles effectively, as NEDs are outside board members who have some relationship with non-board members, but do not hold an executive position in the company. They are, for example, relatives of management, consultants to the firm or involved in related party transactions, which may impair their real and perceived independence (Beasley, 1996; Carcello and Neal, 2000).

In the MENA countries, the IFC and Hawkamah (2008) find that boards in some MENA countries in the Eastern region are controled by executives, whilst boards in other countries in the GCC region are dominated by non-executive directors. The codes of corporate governance in Saudi Arabia, Oman and Bahrain state that non-executive members should make up a large proportion of the board.

3.4.1.6 Independent Non-Executive Directors

To ensure objectivity in board decisions, there also needs to be a balance of independent non-executive directors (INEDs) sitting on the board, acting in the best interests of the company (Mallin, 2013). Board independence is emphasised in the majority of corporate governance codes by suggesting that the majority of board members should be independent as good governance practice. For instance, the UK Corporate Governance Code (2012) which requires companies to have at least half of the board- excluding the chairman- as INEDs, so that one director does not control a board's decision making. In addition, the OECD (2004) asserts that:

> "Independent board members can contribute significantly to the decision-making of the board. They can bring an objective view to the evaluation of the performance of the board and management. In addition, they can play an important role in areas where the interests of management, the company and its shareholders may diverge such as executive remuneration, succession planning, changes of corporate control, take-over defenses, large acquisitions and the audit function. In order for them to play this key role, it is desirable that boards declare who they consider to be independent and the criterion for this judgment" (p.64).

Thus, in order to understand the role of INEDs, it is useful to provide the definition of INEDs. Spira (1999) defines it as:

> "Freedom from any company connection or relationship which might interfere with the exercise of independent judgment" (p. 263).

The UK Combined Code (2012) provides guidelines for the characteristics to make sure that the board member is independent and states that:

> "The board should identify in the annual report each non-executive director it considers to be independent. The board should determine whether the director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment. The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director: has been an employee of the company or group within the last five years; has, or

> has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company; has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme; has close family ties with any of the company's advisers, directors or senior employees; holds cross-directorships or has significant links with other directors through involvement in other companies or bodies; represents a significant shareholder; or has served on the board for more than nine years from the date of their first election" (p. 11-12).

According to Aguilera (2005), there is a strong view that INEDs lead to enhanced governance as the appointment of an adequate number of INEDs to the boards reduces the control and power of the major shareholders and enhances transparency. A high percentage of INEDs provides more transparent information to a wider range of stakeholders and helps to achieve the strategic goals of a company. Rupley et al., (2011) and Leung et al. (2014) indicate that having independent company boards enables them to perform their decision function effectively. In the same context, Andres and Valleado (2008) find that larger, and not excessively independent boards, may perhaps be more efficient in their monitoring role and in advising task. INEDs appointed to the board are viewed as an important element of the system of accountability, and contribute to the greater protection of minority shareholders' interests from the major shareholders and management, leading to better monitoring (Page and Spira, 2005; Xie et al, 2003). In addition, Beasley (1996) and Dechow et al. (1996) find that the larger proportion of INEDs on the board reduced fraud. Heidrick and Struggles (2011) find that 61% and 62% of UK and Swiss boards were respectively INEDs.

In MENA countries, the IFC and Hawkamah (2008) state that half of listed companies have a single, or no INEDs, on their boards. However, the Saudi and Omani codes of corporate

governance require a minimum of one third INEDs or at least two INEDs, whichever is greater, while the Bahraini code emphasises that there should be at least three non-executive directors who are independent. The next section focuses on CEO duality, as a particular feature of boards of directors.

3.4.1.7 Separation of the CEO and Chairman

As a result of the recent corporate scandals, regulators and reformers are increasingly calling for the role of the CEO be separated from that of the chair (Lorsch and Zelleke, 2005; Wilson, 2008). Separating these two positions and having an independent chair is said to enhance the monitoring role played by the board (Rechner and Dalton, 1991; Wilson, 2008; Ntim, 2009) as it allows them to focus on the company's operations while empowering the board (Wilson 2008). In this context, Cadbury (2002) emphasises the key differences between the responsibilities:

> "Is that chairmen carry the authority of the board, while chief executives carry the authority delegated to them by the board. Chairmen exercise their authority on behalf of the board; chief executives have personal authority in line with the terms of their appointment" (p. 99).

Good governance practices usually separate the positions of the chairman and CEO so that no one person has power to control all the company's decision-making processes (Van den Berghe and Levrau, 2004; Solomon, 2010; Mallin, 2013). Monks and Minow (2008) and Shivdasani and Zenner (2004) believe that, in the case of non-performing CEOs, it is easier to remove them; indeed one of the main responsibilities of the chairman is to lead board meetings and oversee the procedure of hiring, firing, evaluating and compensating the CEO (Jensen, 1993).

Many regulations call for this separation of these two roles as a sign of good corporate governance (IFC and Hawkamah, 2008). For instance, the UK Corporate Governance Code (2012) recommends the separation of the roles of these two positions as stated below:

> "There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision" (p.6).

In addition, the OECD (2004) states that the chairman and the CEO should be separated to achieve an appropriate balance of power and enhance corporate accountability by stating that:

> "Separation of the two posts may be regarded as good practice, as it can help to achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management" (p.63).

However, Solomon, (2010) states that there is a difference between the UK code and OECD principles, both of which recommend the separation of the two roles, and the USA where there are no regulations or recommendations related to separating the two roles. Hence why many CEO's in the USA are also the company's chairmen. In this context, Roberts (2002) finds that the two positions are combined in 66% of the top US listed companies.

However, other studies exist which do not find strong evidence for the separation of these two positions. For instance, Weir et al. (2002) suggest that, by doing both roles at the same time, it will be easier for one person to take advantage of organizational challenges and opportunities. Moreover, communication and decision-making is uninterrupted due to clear and unambiguous leadership (Haniffa and Hudaib, 2006).

In MENA countries, the IFC and Hawkamah (2008) find that a significant majority of listed companies in the region have these positions held by two different individuals; this is in-line with the practice in the UK and as recommended by the OECD. The code of corporate governance in Saudi Arabia, Oman and Bahrain prevents the combination of these two positions and they should be separated.

3.4.1.8 Board Meetings

The frequency of board meetings is also considered to be one of the most important measures of corporate monitoring power and effectiveness (Lipton and Lorsch, 1992; Jensen, 1993; Conger et al., 1998) and plays an important role in governance. Regular board meetings give the directors more time to discuss, set strategies and evaluate management performance (Vafeas,1999a), as frequent board meetings allow better communication and discussions between directors (Shivdasani and Zenner, 2004). More frequent board meetings will assist board members in solving and addressing emerging problems in a timely manner (Mangena and Tauringana, 2006). Therefore, a higher frequency of board meetings may reflect stronger corporate governance. Xie et al. (2003) state that board activity, as represented by meeting frequency, effects the board's ability to act as a monitoring mechanism. While the UK's Corporate Governance Combined Code (2012) provides important guidance for the activities and actions of board members, such as what they do at board meetings, it does not give guidelines regarding how often boards should meet and states that: "the board should meet sufficiently regularly to discharge its duties effectively" (p.8). However, the IFC and Hawkamah (2008) indicate that "as a rule of thumb and in-line with best practice, six to ten meetings are likely to constitute an appropriate number of board meetings in a year" (p.35).

Heidrick and Struggles (2011) find that the average number of board meetings was 9.4 per year in UK companies. In addition, Vefeas (1999) finds that the mean US board meetings are held7.45 times a year. Moreover, Mangena and Tauringana (2006) find that the average number of board meetings for Zimbabwean listed companies is 3.30 times per year. Hence, there is large variation in the number of board meetings.

In MENA countries, the IFC and Hawkamah (2008) indicate that 60% of listed companies hold their board meetings on a quarterly basis, which means that they meet four times a year. In addition, El Mehdi (2007) finds that the average annual number of board meetings for 24 Tunisian listed firms is 3.98, which is fairly low and may result in a reduction of their accountability. However, the Omani and Bahraini codes of corporate governance assert that boards of directors should meet at least four times per year. In Saudi, the code does not specify the frequency of board meetings, which may weaken the board's monitoring role. This could lead to board executive members having too much power in the corporation, and thus a possibility of management behavior that is unacceptable and less accountability.

3.4.1.9 Board Multiple Directorship

As mentioned above, boards of directors have different duties and they should discharge them and according to Lipton and Lorsch (1992) "the most widely shared problem directors have is lack of time to carry out their duties" (P.64). Thus, the board becomes busy when many directors hold multiple seats on the board (Fich and Shivdasani, 2006; Cashman et al. 2012) as they are less able to monitor and advise management (Fich and Shivdasani, 2006). Furthermore, holding multiple directorships is likely to reduce the preparation time for board meetings (Harris and Shimizu, 2004), which may

reduce their accountability, as they will be unable to contribute in the board meeting. In the same context, Jiraporn et al. (2009) find that busier directors are more likely to miss board meetings. Moreover, Beasely (1996) find that fraud is more likely to occur when directors hold multiple directorships. Shivdasani and Yermack (1999) provide evidence that questions the independence of directors who hold multiple directorships as Mace (1986) and Lorsch and MacIver (1989) argue that holding multiple directorships may increase conflict of interest. In addition, Core et al. (1999) report that CEO compensation has a positive relationship when outside directors hold multiple board memberships, as well, they are less likely to fire a CEO for poor performance (Fich and Shivdasani, 2006).

A survey done by Corporate Board Member magazine and PricewaterhouseCoopers (2004) on 1279 directors in the USA find that a majority of directors believe that there should be a restriction on the number of other boards on which board members may sit. The National Association of Corporate Directors (1996) recommends that directors with full-time jobs should not serve on more than three or four other boards. However, the Saudi code of corporate governance requires that a member of the board of directors should not hold directorships of more than five joint stock companies at the same time. Similarly, the Omani Commercial Law required that the directors should not be a member of more than five companies, or be Chairman of more than three companies. In contrast, the Bahraini code of corporate governance states that one person should not hold more than three directorships.

3.4.1.10 Directors' Term of Office

The board of directors' term of office can be viewed as an important sign of effective corporate governance (Yocam and Choi, 2010). Vafeas (2003) finds that directors appointed for long terms are less effective in monitoring management. In addition, increased familiarity between the board and company management might weaken independence (Hwang and Kim, 2009; Fracassi and Tate, 2012). Thus, The UK Companied Code (2012) does not consider a director who has been on the board for longer than nine years to be independent. Consequently, regulators recommend term limits for board of directors (Sahgal, 2013). For instance, the UK Companied Code (2012) states that:

> "Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a nonexecutive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board"(p.13).

Director term limits are important for allowing fresh thinking and ideas into the boardroom and removes stagnation in strategic decision making as well as ensuring that boards remain sufficiently standing away from management (Young, 2011; Sahgal, 2013). It has been suggested that the average term of office of directors is three terms or approximately nine years (Yocam and Choi, 2010). The Australian Institute of Company Directors (2012) find that the average board time of office for ASX 200 sample was 5.41 years in 2011. Heidrick and Struggles (2011) find that the European average time on the board was 5.7 years. However, Article 66 of the Saudi Company Law states that: "Directors, however, shall always be eligible for re-appointment, unless the company by laws provide otherwise". Similarly, Article 95 of the Omani Commercial Law indicates that the member's term

of office shall not exceed three years subject to re-election more than once. In contrast, the Bahraini code of corporate governance indicates that:

> "Any term beyond six years (e.g. two three-year terms) for a director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board. Serving more than six years is relevant to the determination of a non-executive director's independence" (P.29).

3.4.1.11 Board Evaluation and Training

Board evaluation is also considered as an effective tool to help in enhancing board performance (Daly, 2005). Though, Minichilli et al. (2007) state that there is no single method that is best to evaluate a board's performance, thus, Kiel and Nicholson (2005) and Mallin (2013) suggest that boards of directors can either be evaluated as a whole or as individuals. According to Kiel and Nicholson (2005), board evaluations provide an opportunity for boards to recognise causes of collapse and permits boards to detect areas of concern before the company collapses. In this context, IFC and Hawkamah (2008) claim that:

> "Board evaluations can play an important role in improving the effectiveness and efficiency of the board's work. Moreover, it demonstrates that the board itself is not above evaluation and sets the appropriate "tone at the top". And in the same manner that executives benefit from an annual evaluation against performance objectives, boards too can benefit from an evaluation process"(p.39).

In addition, Kiel and Nicholson (2005) state that there are several advantages of conducting board evaluation such as:

> "improved leadership, greater clarity of roles and responsibilities, improved teamwork, greater accountability, better decision making, improved communication and more efficient board operations" (P.615).

Therefore, different corporate governance codes suggest that boards of directors should carry out annual evaluations of performance. For example, the UK Corporate Governance Code (2012) states that:

> "Evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness. The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors. Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties)." (p.15).

The OECD (2004) states that:

> "In order to improve board practices and the performance of its members, an increasing number of jurisdictions are now encouraging companies to engage in board training and voluntary self-evaluation that meets the needs of the individual company" (p. 66).

In practice, Heidrick and Struggles (2011) find that only 75% of European companies had conducted an evaluation of their boards in the last three years. In MENA countries, the IFC and Hawkamah (2008) identify that only 15% of listed companies indicated that their boards had conducted board evaluations of their performance, reducing the accountability of these boards. In Saudi Arabia and Oman, the codes of corporate governance do not provide any information about board evaluation. In contrast, in Bahrain, the code indicates that the board should carry out an evaluation of its own performance, the performance of its committees and its individual directors.

Regarding board training, the IFC and Hawkamah (2008) state that it is crucial to provide induction and training to new board members and to provide an opportunity for them to update their skills and knowledge through continual professional education. Furthermore,

the Cadbury Report (1992) suggests that it is very important that all directors get inducted into the company's activities and receive some training about the important topic, especially when an individual first joins the board with no prior board experience (McNulty et al., 2002). Long (2008) reveals that the orientation process should be deliberate to encourage new members to get enough understanding about the company and the business environment in which it is operating, to ensure that the directors contribute effectively in the boardroom. Solomon (2010) indicates that board training has recently also been the focus of regulators; on this issue, the UK Corporate Governance Code (2012) suggests that:

> "All directors should receive an induction on joining the board and should regularly update and refresh their skills and knowledge. The chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfill their role both on the board and on board committees. The company should provide the necessary resources for developing and updating its directors' knowledge and capabilities. The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. The chairman should regularly review and agree with each director their training and development needs" (p.6).

Thus, Leblanc and Gillies (2005) find that large numbers of boards members interviewed in Canada are in favour of more training programmes to enhance their skills and knowledge. In MENA countries, IFC and Hawkamah (2008) find that a low number of MENA listed companies provide induction and training programmes to their directors, which may reduce their accountability and that of the company, as they will be unable to contribute well in the boardroom. However, all three countries under investigation indicate in their code that the board shall put in place an induction programme for newly appointed board members. However, the Bahraini code of corporate governance provides more specific information such that inductions should include meetings with senior management, visits to company facilities, presentations regarding strategic plans, significant financial, accounting, and risk

management issues, compliance programmes, internal and independent auditors and legal counsel.

3.4.2 Board of Director's Sub-Committees

Boards of directors have the power to appoint different sub-committees and may delegate various activities to these committees that should be reported regularly to the board (Vafeas, 1999a; Mallin, 2013). According to Harrison (1987) the importance of board sub-committees is to help and increase board accountability and keep independent oversight over board actions.

The prior literature suggests that board sub-committees can help improve the effectiveness and efficiency of corporate boards (Jiraporn et al., 2009). In addition, Charkham (2005) states that board sub-committees have different purposes such as assisting the directors of the board by looking at the issues in more depth and by giving recommendations to save time when the board meets to discuss these issues. In addition, Mallin (2013) states that, although the assignment of specific duties is given to board sub-committees, this does not mean that the board is no longer responsible for these issues. According to IFC and Hawkamah (2008) the board retains the final decision-making authority, and responsible for the duties assigned to its sub-committees, holding full responsibility for all board decisions.

Most corporate governance codes require the construction of board sub-committees; for instance, the UK's Corporate Governance Code (2012) recommends establishing an audit committee, a remuneration committee, and nomination committee. In addition, the Saudi and Bahraini codes of corporate governance require the establishment of these

committees[15]. However, the Omani code merely requires companies to establish an audit committee. The next section discusses issues related to these three committees.

3.4.2.1 Audit Committee

The audit committee has become a common mechanism of corporate governance and is one of the main board sub-committees (Mallin, 2013). Recent failures of companies in the US, Europe, and globally has made regulators and academics focus on the importance of the audit committee as an effective mechanism of corporate governance (Spira, 1999; Solomon, 2010). For example, The Smith Report (2003) emphasises the role of the audit committee by stating:

> "While all directors have a duty to act in the interests of the company, the audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control"(p.3).

According to Mallin (2013), the audit committee: (i) reviews the scope and outcome of the external audit such as review and setting the audit fee, agreeing non-audit work, and the general independence of the auditors; (ii) ensures that the board of directors is aware of any relevant issues related to the external audit by providing a bridge between both internal and external auditors and the board; and (iii) reviews arrangements for whistle-blowers. In addition, Pickett (2005) notes an audit committee's function is:

> "To review the external audit process and make recommendations to the board where appropriate; to consider the annual accounts and the external audit report that attaches to these accounts; to consider the adequacy of systems of internal controls; involvement in the appointment of the internal auditors and ensuring that the internal audit function operates to professional standards; the audit committee will ensure that there is an effective system of risk management within the organisation; an oversight of systems and procedures is in place to

[15] In the Saudi code the Remuneration and Nomination Committee is referred to as one committee and not as two separate committees as that in the Bahraini code and codes in other counties.

> ensure compliance with regulations, policies, laws and procedures and the organisation's code of conduct; to consider the finance and expenditure of the organisation and ensure that there is a good financial reporting and budgeting system in place" (p.39).

Anandarajah (2001) claims that the duties of an audit committee are to ensure that the board of directors oversees the adequate function of the internal control mechanisms and to monitor and focus on the review of financial risk and other elements of risk management. In most countries, the roles and responsibilities of the audit committee are clearly defined by the regulatory bodies and codes of corporate governance. For instance, the UK Corporate Governance Code (2012) recommends:

> "The board should establish an audit committee of at least three, or in the case of smaller companies, two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience" (p.18).

Thus, the audit committee should be comprised entirely of independent directors, with at least one member having financial expertise (Xie et al., 2003; Agrawal and Chadha, 2005; Abbott et al., 2007). Indeed, Menon and Williams (1994) claim that, when an audit committee only consists of executive directors, it cannot discharge its monitoring responsibility because its members are not independent. Furthermore, Spira (1999) states that the independent members on the audit committee should be away from any obligation to the interests of the company's management or the major shareholders. Heidrick and Struggles (2011) find that the audit committee is present in 98% of European companies. However, Solomon et al. (2003) find that few companies in Taiwan have established an audit committee.

In MENA countries, IFC and Hawkamah (2008) find that the majority of MENA listed companies have established audit committees, but they find that only a minority of audit committees are comprised of a majority of independent directors, which is contrary to best practice and may reduce their accountability. Regarding the audit committee, the three countries' codes required boards of directors to establish audit committees, with at least three members and with at least one specialist in financial and accounting. This is not the case in Bahrain, as the code asked that the majority of members should be financial experts. In addition, the Omani and Bahraini code requires that the majority of the committee should be independent which is different compared to the Saudi code.

3.4.2.2 Nomination Committee

As mentioned previously, to have an effective board it is crucial to have different experts with a mix between the directors (both executive and non-executive). Directors may be appointed and serve on board of directors on the basis of their personal relationships and connections, but this may not provide relevant expertise. A failure to ensure the independency of board members may result in unqualified directors being appointed onto the board (Mallin, 2013). Therefore, to underpin the effectiveness of the board and to release the pressure on the CEO, a nomination committee encompassing INEDs should be established (Vafeas, 1999b; OECD, 2004). Without a nomination committee, firms tend to appoint fewer independent directors and more gray[16] directors, who are not truly independent (Vafeas, 1999b; Shivdasani and Yermack, 1999). Therefore, the existence of a nomination committee results in increased accountability to stakeholders (Aburaya, 2012).

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[16] Gray directors "are those who have substantial business relationships with the company, either personally or through their main employers, and also relatives of corporate officers" (Yermack, 1996; p.191).

Hence, the main duty of the nomination committee is to recommend candidates for selection to the board of directors and to evaluate and assess board effectiveness and performance on a regular basis. Furthermore, the nomination committee should review and evaluate the candidate's profile to be a new director to the board and to recommend the right person in the right place. Moreover, the nomination committee should ensure that there is a balance of skills, knowledge, and experience (Alarussi and Selamat, 2009; Eminet and Guedri, 2010; Mallin, 2013).

Therefore, most corporate governance codes suggest that the board establishes a nomination committee. Indeed, the UK Corporate Governance Code (2012) recommends that:

> "There should be a nomination committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors" (p.7).

Moreover, the Higgs Report (2003) recommends that the nomination committee should be chaired by a senior independent director and not the chairman to enhance independence. Heidrick and Struggles (2011) find that 71% of European companies have a nomination committee, which is lower in occurrence compared to the audit and remuneration committees. Ruigrok et al. (2006) claim that there is an increase of the appearance of INEDs on Swiss boards when the company has established a nomination committee.

In MENA countries, IFC and Hawkamah (2008) find that the majority of listed companies have not established a nomination committee, which goes against good corporate governance practice, so that may reduce the accountability of the board.

3.4.2.3 Remuneration Committee

Executive remuneration has attracted a lot of attention, such as by investors, the media and governments because it is always a 'hot issue' (Mallin, 2013, p.175). Salim and Wan-Hussin (2009) notes that the remuneration committee could solve issues related to directors pay, such as share options, bonuses and retirement benefits. Therefore, the board of directors should establish a committee called the compensation or remuneration committee to be responsible for setting and authorising top management's remuneration within the company. A remuneration committee is also responsible to the board for evaluating management's performance and suggesting remuneration packages of directors (Uzun et al. 2004; Nelson et al. 2010). In addition, Bruce and Buck (2005) argue that if no such committee exists, directors will grant themselves excessive remuneration. Furthermore, a requirement of the remuneration committee is to design policy guiding firm-specific executive compensation (Rowe and Liu, 2010).

Mallin (2013) asserts that countries that are conscious of ongoing issues relating to directors' remuneration try to deal with these issues in their corporate governance codes. For instance, the UK Corporate Governance Code (2012) recommends that:

> "The remuneration committee should consult the chairman and/or chief executive about their proposals relating to the remuneration of other executive directors. The remuneration committee should also be responsible for appointing any consultants in respect of executive director remuneration....The board should establish a remuneration committee of at least three, or in the case of smaller companies, two independent non-executive directors" (p.22).

At an international level, the OECD principles (2004) state that a remuneration committee should exclude executives to avoid any conflicts of interest. Heidrick and Struggles (2011) find that 91% of European companies have a committee in charge of remuneration.

However, Solomon et al. (2003) find that few companies in Taiwan set up a remuneration committee.

In MENA countries, the IFC and Hawkamah (2008) find that the majority of MENA listed companies have not established remuneration committees, which may be against good practice of corporate governance and may reduce the accountability of the board.

3.4.3 Whistle-Blowing

Whistle-blowing regulation and enforcement standards differ across countries (Lewis, 2008; Schmidt, 2005), as according to OECD (2012), in many countries, whistle-blowing is still related and associated with treachery or spying. However, the SOX (2002) encourages whistle-blowing and provides protection for employees of publicly traded companies who blow the whistle (Schmidt, 2005; Almoneef, 2006). This is because the increase of corporate scandals across the world elicited the concern of the role of employees when wrongdoing occurs and for the protection of whistle-blowers (Lewis, 2008). The definition of whistle-blowing currently used by Transparency International is:

> "The disclosure of information related to corrupt, illegal, fraudulent or hazardous activities being committed in or by public or private sector organizations (including perceived or potential wrongdoing) – which are of concern to or threaten the public interest – to individuals or entities believed to be able to effect action" (Transparency International, 2013, p. 4).

In the same context, Near and Miceli (1985) define whistle-blowing as:

> "The disclosure by organization members (former or current) of illegal, immoral, or illegitimate practices under the control of their employers, to persons or organizations that may be able to effect action" (P.4)

The OECD (2012) indicates that the possibility of corruption is significantly increased in environments where the reporting of wrongdoing is not supported or protected. Thus,

whistle-blower protection is therefore essential to encourage the reporting of misconduct, fraud and corruption, enhancing the discharge of accountability. Seifert et al. (2010) examined whistle-blowing among a sample of 447 internal auditors and management accountants in the US. They find that fair and clear polices for whistle blowing, may increase the possibility of whistle blowing exercised by the employee. However, the establishment of formal procedure for reporting wrongdoing does not guarantee an environment that encourages whistle-blowing. In Bahrain, the board should adopt a whistleblower programme under which employees can confidentially raise concerns about possible misconduct in financial or legal matters. In contrast, there are no laws protecting whistleblowers in Saudi and Omani business environments. The next section discusses the issues relevant to ownership structure.

3.4.4 Ownership Structure

Denis and McConnell (2003) state that ownership structure is important in corporate governance practices. Shleifer and Vishny (1997) define ownership structure as the characteristics of equity shareholders and their shareholding sizes in any firms. Ownership structures vary across countries around the world. For instance, in Anglo-Saxon countries such as the UK and the US, corporate ownership and governance has long been dispersed. In contrast, in most other countries, corporate ownership and governance is still controlled by a few families or the government (Mallin, 2013).

It has also been argued that the legal system of any country has an impact on the ownership structure of firms in that country (Mallin, 2013). In this context, La Porta et al. (2000) categorises countries into four groups with regard to their legal system: (i) common law such as in the UK, US and the British Commonwealth; (ii) French civil law; (iii) German

civil law; and (iv) Scandinavian civil law. They find that weak investor protection is discovered in countries adopting French civil law, while countries that have adopted common law (such as the UK and US) provide stronger investor protection; Germany and the Scandinavian countries lay between these two extremes.

La Porta et al. (1999) investigate the ownership structure of a number of large listed companies in 27 countries and they discover that five different forms of ownership structure exist: (i) family controlled; (ii) state-controlled; (iii) widely held by financial institutions (for example, banks, pension funds and insurance companies); (iv) widely held by corporations; and (v) miscellaneous groupings. However, they conclude that the ownership structures in the UK, the US and Japan are controlled by dispersed shareholders. In addition, they find that the most common ownership structure among companies are: concentrated by family-controlled were most common; companies with widely held shares, state controlled and a widely held financial institutions were less common.

Shelfier and Vishny (1997) note that concentrated ownership might be an important mechanism to monitor managers' actions and decisions. However, concentrated ownership might lead the majority shareholder to control the management and they might only want to serve their own personal interests at the expense of minority shareholders' interest (Kim, 2006; Setia-Atmaja et al., 2009). In this context, La Porta et al. (1999) state that:

> "These firms are run not by professional managers without equity ownership who are unaccountable to shareholders, but by controlling shareholders. These controlling shareholders are ideally placed to monitor the management, and in fact the top management is usually part of the controlling family, but at the same time they have the power to expropriate the minority shareholders as well as the interest in so doing" (p.511).

In addition, Hussain and Mallin (2002) argue that a company owned by a major shareholder, a family or a government lacks any motivation to comply with corporate governance practices. Moreover, Solomon (2010) indicates that high levels of concentration of ownership might have negative influnce such as having an access to privileged information which may cause a rise of information asymmetry between themselves and the minority shareholders.

Corporate governance models are thus, mainly categorised into two models based on the ownership type: (i) the outsider model; and (ii) the insider model (Solomon, 2010). Solomon explains that the main characteristics of the outsider model are: a diversified ownership structure; more separation of ownership and control; large firms owned predominantly by outside shareholders; and a strong legal protection of shareholders such as is used in Anglo-American countries (e.g. US, UK, Canada, Australia, New Zealand). The insider model is characterised by: a concentrated ownership structure in a small group of shareholders (family ownership or state ownership) with weak legal protection of shareholders and companies owned predominantly by insider shareholders who also control management. Table 3.1 summarises the main differences for both models of corporate governance.

Table 3.1 Main Characteristics of Insider and Outsider Models of Corporate Governance

Characteristic	Insider	Outsider
Owners	Insider shareholders	Outsider shareholders
Ownership structure	Concentrated	Dispersed
Separation of ownership and control	Little	Separated
Control over management	Insider shareholders	By Managers
Agency Problem	Rare	Exist
Hostile takeover activity	Rare	Frequent
Legal Protection of investor	Weak	Strong

Source: Solomon (2010, p.191)

Note: This Table summarises the differences between insider and outsider models of corporate governance.

Sourial (2004) states that ownership structures in the MENA countries are concentrated by families or government ownerships. In addition, Omran et al. (2008) conducted a study of 304 firms from four Arab countries (Egypt, Jordan, Oman and Tunisia) and found that ownership structure in these four countries is concentrated and seems to be negatively associated with legal protection, which is consistent with the views of La Porta et al. (2000). Saudi Arabia, Oman and Bahrain have adopted civil law (Cotran and Mallat, 1996; Koraytem, 2000; Sourial, 2004; Olwan, 2013). In the same context, OECD (2013) states that Bahraini Commercial Law follows civil law with some influence from the common law. Thus, Bahraini companies might discharge more accountability compared to Saudi and Omani companies. The next section discusses the issues relevant to shareholders and stakeholders rights.

3.4.5 Shareholders and Stakeholders Rights

Ensuring and protecting shareholders' rights is important to good corporate governance, such as the right to choose and change directors; promote minority interests so that they are represented on the board and giving shareholders information on company matters (OECD,

2004). The legal system thus may need to include provisions to protect the rights of minority shareholders from the control of managers and major shareholders (Mallin, 2013).

The OECD principles (2004) recommend a number of shareholders' rights such as: (i) the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes; (ii) shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and the right to be informed of the rules, including voting procedures, that govern general shareholder meetings; and (iii) capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed amongst others (p.18-19).

Monks and Minow (2008) categorise shareholders' rights as: (i) the right to sell the stock; (ii) the right to vote by proxy; (iii) the right to take suits for damage if the directors or managers fail to meet their responsibilities; (iv) the right to receive information from the company; (v) and certain residual rights subsequent to the firm's liquidation after paying off the creditors and other claimants.

Furthermore, corporate governance deals with the rights and responsibilities of a company's management, its board, shareholders and various types of stakeholders. Thus, the rights of other stakeholders[17] are not often distinguished in law or in corporate governance codes, and Harabi (2007) indicates that stakeholders are rarely represented on the board of companies in Arab countries and worldwide. According to

[17] Stakeholders groups include investors, managers, employees, customers, suppliers, local communities and any other individuals who are directly or indirectly affected by activities of the companies (Mallin, 2013).

Mallin (2013), the UK Corporate Governance Code does not make any provisions for employees and other stakeholders to be represented on the board. Thus, the corporate governance code should take into account the interests of other stakeholders which should not be ignored. For example, the Hampel Report (1998) states that: "good governance ensures that constituencies (stakeholders) with a relevant interest in the company's business are fully taken into account" (p. 7).

The OECD principles (2004) state that the success of a company is the result of contributions from a range of sources comprising investors, employees, creditors, and suppliers. Moreover, the OECD (2004) recommends that:

> "(i) the rights of stakeholders that are established by law or through mutual agreements are to be respected; (ii) where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights; (iii) performance-enhancing mechanisms for employee participation should be permitted to develop; (iv) where stakeholders participate in the corporate governance process, they should have access to relevant, sufficient and reliable information on a timely and regular basis; (v) stakeholders, including individual employees and their representative bodies, should be able to freely communicate their concerns about illegal or unethical practices to the board and their rights should not be compromised for doing this; and (iiv) the corporate governance framework should be complemented by an effective, efficient insolvency framework and by effective enforcement of creditor rights"(p.21).

Nam and Nam (2004) surveyed directors and executive managers of 307 listed companies from four Asian countries (Indonesia, Korea, Malaysia and Thailand) and find that shareholders' rights in these four countries were well protected as they were permitted to contribute in decision-making. In MENA Countries, a minority of listed companies protect their minority shareholders (IFC and Hawkamah, 2008). In addition, Sourial (2004; p.18) states that the "lack of equity culture and ignorance of investors' rights" are the common characteristics in all regional markets and are the main reason why shareholders do not

maintain their rights. Thus, the circumstances of this behavior attract a culture for the abuse of the shareholders' rights. According to Miteva (2007) very few rules and regulations recognise stakeholders' rights; Harabi (2007) states that employees in Egyptian companies have the right to choose representatives on the board. Stakeholders are an essential element of a company's activities and their role must be considered to enhance the practice of corporate governance in companies.

Regarding Shareholders' rights, the Company Act and commercial company law in the three countries clarified similar rights including: the right to receive dividends; the right to file lawsuits against the boards of directors for any wrong action made by them; the right to discuss issues on the agenda of the general assembly and raise questions to the board members and auditors; alongside voting rights and right to access to company information. However, the Saudi Company Act indicates that shareholders who hold more than 20 shares have the right to attend the company's general assembly, which is different compared to the Omani and Bahraini law, as each shareholder, regardless of the number of the shares he owns, has the right to attend the general assembly. The next section highlights the issue regarding disclosure and transparency.

3.4.6 Disclosure and Transparency

Disclosure and transparency are very important to corporate governance (AbdelFattah, 2008) because they ensure that there is appropriate accountability, responsibility, oversight and guidance (IFC and Hawkamah, 2008). The lack of transparency and disclosure was considered as one of the main causes of the latest corporate scandals and governance failures (Alexandrina, 2013). Thus, disclosure and transparency are key elements of accountability and are significant indicators of the standard of corporate governance in an

economy (Ho and Wong, 2001; Cerbioni and Parbonetti, 2007; Alexandrina, 2013). According to Gul and Leung (2004), corporate transparency is directly related to strong corporate governance which is considered to protect all stakeholders' interests. IFC and Hawkamah (2008) argue that, if there is a lack of disclosure and transparency, then it might be difficult for shareholders and other stakeholders to monitor and hold the board and management to account. In this context, Solomon (2010) indicates that:

> "Transparency is an essential element of a well-functioning system of corporate governance... corporate disclosure to stakeholders is the principle means by which companies can become transparent" (p. 151-152).

In this context, the OECD Principles on disclosure and transparency (2004) state that the disclosure of information should include the financial and operating results of the company; company objectives; major share ownership and voting rights; remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board; related party transactions; foreseeable risk factors; issues regarding employees and other stakeholders; governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented. Furthermore, the Cadbury report (1992) suggests that boards should disclose in their annual report their compliance with corporate governance code provisions and provide reasons for any non-compliance.

Bushman et al. (2004) divide transparency into financial transparency and governance transparency. They indicate that financial transparency focuses on features of corporate financial disclosure and its diffusion and interpretation; governance transparency deals with

corporate governance disclosure to be used by investors in decision-making and to help investors and other stakeholder groups hold directors and executives to account.

Thus, Nam and Nam (2004) give two reasons that are important for the timely and accurate disclosure of information on important matters: (i) shareholder and other stakeholders need to have access to information related to essential company matters to ensure a fundamental decisions that are meant to protect their interests and rights; and (ii) to prevent managers making sub-optimal decisions and dominant shareholders and stakeholders engaging in activities precarious to their rights. Moreover, the OECD principles (2004) state that disclosure and transparency might help prevents corruption, not only for a company but also for the whole economy. In addition, Saidi (2004) states that disclosure is an important tool for controlling company directors and protecting investors.

In MENA countries, the IFC and Hawkamah (2008) find that the majority of listed companies usually comply with the regulations for financial disclosure consistent with good practice. However, there is weak disclosure regarding non-financial information such as corporate governance information, management's discussion and analysis and a company's polices towards corporate social responsibility and corporate governance. This mechanism will be investigated in more detail in chapter 7 to find out which country disclose more corprate governance information, hence discharge more hierarchical accountability. After reviewing and discussing the main aspects and the best practice of corporate governance, the next section focuses on the studies that have been carried out in the Arabian Gulf countries and especially in the three countries under investigation.

3.5 Corporate Governance Studies in the Three Arabian Gulf Countries

A review of the literature shows that the number of studies dealing with issues related to corporate governance and its mechanisms are very limited in these three Arabian Gulf countries under investigation. One of the main and earliest studies to have considered corporate governance in Saudi Arabia was Al-Harkan (2005) who examined the perceptions of four stakeholder groups namely: (i) financial managers and internal auditors; (ii) academics; (iii) external auditors; and (iv) government officials about corporate governance in Saudi Arabia. At the time of the study no corporate governance code existed, and the results show that most large Saudi companies, especially the banking sector, had adopted some corporate governance practices that are beneficial for them, such as separating the role of the CEO and the Chairman and having at least three NEDs, two of whom should be independent of the management on the board which is the main recommendation made by the Cadbury Report. Al-Harkan (2005) also finds that Saudi companies were influenced by relevant business skills and qualifications in nomniating NEDs. In addition, the audit committee is considered as an importance mechanism to ensure and monitor the work of a company's management. Al-Harkan concludes that the introduction of a corporate governance code would improve the disclosure and transparency system related to corporate governance information. However, Al-Harkan find two factors that hindered the practice and development of corporate governance; the lack of systems and procedures that govern a company and the lack of emphasis on values and key principles.

Al-Ajlan (2005) investigates the roles and responsibilities of the boards of directors in Saudi banks. Interviews and surveys of banks' directors revealed that boards of banks play a significant role in setting strategic planning. The finding revealed that in relation to strategic

planning, the boards in Saudi banks appeared to fulfill the roles of setting the plans; guiding top management; approving strategy; defining the main goals and discussing the strategy submitted by the top management. This study also shows that the main role is played by the major shareholders in these banks, in terms of strategic formualtion and in terms of monitoring and controlling these banks as most of them were board members or had a representative on the board. The results of the study also reveal that Saudi banks have established three types of committee, namely, the executive committee, the audit committee, and the Shariah committee.

Falgi (2009) is the first study to investigate corporate governance in Saudi after the issuance of the corporate governance code, by examining the perceptions of different stakeholders groups about corporate governance using semi-structured interviews and questioners. Falgi finds that corporate governance and legal frameworks are weak in relation to protecting shareholders' rights. There is no real independence of directors due to the weak requirements for an independent member and the cultural influences within the appointment process. There is a lack of awareness about corporate governance within Saudi society, even at board level, boards of directors are dominated by major shareholders, and there was a lack of accountability and corporate governance in Saudi Arabia as it was in its early stages and facing many challenges.

Al-Motaz and Al-Husseny (2012) investigate the relationship between several characteristics and the level of corporate governance disclosure in Saudi listed companies in 2006 and 2007. They find that there is a negative relationship between board independence and corporate governance disclosure, suggesting that INEDs may not be truly independent.

They also find a significant positive association between audit committee size, liquidity and gearing with the level of corporate governance disclosure.

Al-Busaidi (2005) investigate the role of a corporate governance system in improving the functioning of company boards in Oman and finds that the Omani code of corporate governance covers the main aspects and mechanisms. He also finds that the ownership is held by a very high concentration of shareholdings, weak nature of public participation in Omani listed companies and large institutional investors are not sufficiently active shareowners. In addition, the presence of outside directors in boardrooms was very limited and the culture effect due to which most businesses are run in a family oriented fashion.

Hussain and Mallin (2002) investigate corporate governance in Bahrain and find that Bahraini companies followed some of the features of corporate governance's best practices such as: the boards were dominated by NEDs, and also the roles of chairman and CEO were separated. Another study in Bahrain by Hussain and Mallin (2003) examine the structure, responsibilities and operation of boards in Bahraini companies. They find that in board composition, NEDs dominate and that the process of appointing directors in Bahraini companies was influenced by having the relevant skills and business experience. However, Bahraini companies had not established nomination committees at that time. In addition, the NEDs appeared to be relatively independent. Moreover, they find that although Bahrain did not have a corporate governance code, their company law includes some of the provisions that contribute to a system of corporate governance.

An overview of the literature indicates that there are few studies of corporate governance in Saudi Arabia, Oman and Bahrain. In addition, most of these studies, especially in Saudi Arabia and Bahrain, were conducted before the issuance of their corporate governance codes. Hence, this thesis contributes to our knowledge by examining current corporate governance practices in these countries.

3.6 Summary

This chapter provides an overview of the literature related to corporate governance. Including the concepts and importance of corporate governance, the development of corporate governance, and matters related to boards of directors, ownership structure, shareholders and stakeholders rights and disclosure and transparency. In addition, the few corporate governance studies in the three Arabian Gulf countries were also presented. However, a review of the corporate governance literature shows that there is a dearth of empirical evidence on corporate governance related to Saudi Arabia, Oman and Bahrain. This thesis explores the current practices of corporate governance adopted by Saudi Arabia, Omani and Bahraini Listed companies to address the absence of any literature in this area of study. This thesis also examines corporate governance practices and the means by which accountability in general is discharged. The next chapter discusses the theoretical framework adopted in this study that focuses on accountability and Islamic accountability.

Chapter4: Theoretical Framework: Accountability

4.1 Introduction

The previous chapter provided a review of the corporate governance literature. This chapter reviews the theoretical framework that is adopted to interpret and understand the results of this study, since every piece of academic research should have a theoretical framework (Abdel-Khalik and Ajinkya, 1979). Indeed, Porwal (2008) states that: "no discipline can develop without a strong theoretical base" (p. 7). Thus, Stevenson (2010) describes theory as:

> "(i) A supposition or a system of ideas intended to explain something; (ii) a set of principles on which an activity is based; (iii) an idea used to account for a situation to justify a course of action that explains or justifies something" (p. 1844).

In addition, Remenyi et al. (1998) define theory as:

> "A scientifically acceptable general principle or set of principles offered to explain a phenomenon or group of phenomena" (p.290).

Thus, according to Sekaran (2003) a theoretical framework is essential to explain and understand the research findings. Indeed, Mallin (2013) suggests that corporate governance research has recently been the focus of academic debate in a number of disciplines, the most important of which are accounting, finance, law, economics, management and organisational behaviour. She also suggests that these have helped with the development of a theoretical foundation for the subjects. In addition to the research undertaken in these disciplines, corporate governance has been examined using various theoretical frameworks to explain and understand different corporate governance issues (Solomon, 2010). These theories include agency theory, resource dependency theory, signaling theory, transaction cost economics and stewardship theory; more specifically, agency theory is the most theory that has been used (Brenan

and Solomon, 2008; Mallin, 2013) and each of these theories has contributed to the development of corporate governance practices.

However, the majority of these studies are conducted in the USA and UK where the liquid capital markets are large; and this is not the case in the Arabian Gulf countries (Eltkhtash, 2013). Therefore, applying theoretical models in different contexts where cultural, legal, political and economic systems differ from the Anglo-Saxon world may generate different conclusions (Wanyama et al., 2009). Therefore, these theories are not appropriate for this study; so the current thesis adopts accountability as its theoretical framework as it because is increasingly an important topic in the governance literature (Erkkila, 2007). Moreover, Sinclair (1995) suggests that: "nobody argues with the need for accountability" (p.219), and Keasey and Wright (1993) claim that accountability strengthens good governance. In this context, Solomon (2010) also emphasises the importance of accountability in a corporate governance framework. Chakrawal (2006) states that it would be difficult for any company to perform the core concepts of corporate governance without being accountable to the shareholders and other stakeholders. Chakrawal argues that "it is interesting to note over here that the concept of corporate governance and accountability go hand in hand" (p.91). More importantly, accountability theory is relevant to this study as the researcher is investigating companies in Islamic countries, where Islam is a way of life; Islamic accountability is important in Muslim life and the day-to-day transactions of the people. Part of Islamic accountability is Shura and Hisba and it is useful to look at the Islamic context of accountability, where there is a close link between Islamic notions of accountability and lateral and hierarchical forms of accountability; this analysis contributes to knowledge as there is a dearth of research on these two forms of accountability in

developing countries (Soobaroyen and Mahadeo, 2012). As a result, both accountability and the Islamic concept of accountability are discussed in the following sections.

4.2 Accountability Framework

The concept of accountability has existed for many years (Gray and Jenkins, 1993). For instance, around 2000 BC, Hammurabi, King of Babylonia, circulated a legal code concerning the accountability of those people who worked with the resources of others (Bird, 1973). More recently, Mulgan (2002) mentions that accountability is viewed as an integral part of society and is addressed in most political and social contexts. There are however, different meanings of accountability (Dunne, 2003; Bovens, 2007; Fox, 2010). In addition, accountability is "a slippery, ambiguous term" (Levaggi, 1995, p.286), and has become a "vulgate word in that it appears to be progressive but in practice has taken on multiple meanings" (Cooper and Johnston, 2012, p.603). Sinclair (1995) also suggests that the meaning of accountability has changed over time, and highlights the significance of language as an ideological agent in shaping meaning and understanding. Likewise, Shaoul et al. (2012) confirm that "the definition and nature of accountability has [also] changed over time" (p.215). Therefore, it is helpful to start the discussion of accountability by offering some definitions of the term (Levaggi, 1995). Ebrahim (2003) suggests that the difficulty in providing a specific definition of accountability is due to its social nature and the idea that firms are subject to plural accountabilities. For example, Beattie and Pratt (2001) state that "companies have many accountabilities, because they have many stakeholders; investors; suppliers; employees; customers; the government; and society at large" (p.12). Consequently, Fox (2010) suggests that definitions of accountability can range from narrow (where the focus is on specific issues) to general (broad focus).

However, in the mid-nineteenth century, a more narrow meaning of accountability developed in the business world with a split of roles between management and owners being highlighted, and reflected in agency theory, whereby agents (managers) are accountable to the principals (shareholders). Similarly, this occurred in firms with a hierarchical structure where, the superior (principal) and subordinate (agent) have an accountability relationship (Berle and Means, 1932; Donaldson, 1963; Jensen and Meckling, 1976; Byrd et al., 1998; Vinten, 2001; Beattie and Pratt, 2001; Bushman and Smith, 2001; Dunne 2003; Brennan and Solomon, 2008). The Cadbury Report (1992) reflects this form of accountability relationship as:

> "The formal relationship between the shareholders and the board of directors is that the shareholders elect the directors, the directors' report on their stewardship to the shareholders and the shareholders appoint the auditors to provide an external check on directors' financial statements. Thus the shareholders as owners of the company elect the directors to run the business on their behalf and hold them accountable for its progress. The issue for corporate governance is how to strengthen the accountability of boards of directors to shareholders" (p. 47).

Thus, in a particular environment (such as the managerial model) accountability is the act of holding managers answerable for their performance or use of resources to attain particular outcomes (Sinclair, 1995). Moreover, Jackson (1982) indicates that accountability incorporates a narrows focus of accountability by suggesting that it is merely a giving of information. Thus, Brennan and Solomon (2008), argue that: "accountability to shareholders can no longer represent the sole aim and objective of corporate governance policy and reform" (p.25) as this approach does not represent the interests of non-investing parties and is considered too narrow a view of accountability (Dunne, 2003). In the same context, Beattie and Pratt (2001) state that: "the nineteenth century view of companies

being accountable purely to their shareholders has given way to an acceptance that there are wider corporate accountabilities" (p.13).

However, from the broader perspective, Munro and Hatherly (1993) define accountability as "the willingness and ability to explain and justify one's acts to self and others" (p369). Likewise, Willmot (1996) claims that even though accountability need not essentially be formal, it is common and exists in life. He suggests that it is "the sense of rendering intelligible some aspect of our lives" (p.23). Similarly, Munro (1996) defines the term accountability as "the capacity to give an account, explanation, or reason" (p.3). Roberts et al. (2005) claim that "accountability is in practice achieved through a wide variety of behaviours – challenging, questioning, probing, discussing, testing, informing, debating, exploring, encouraging" (p. S6).

Consequently, in the face of the developing complexity of the business world, it is important that all of those parties who are directly or indirectly involved in a company's activities are included in a discussion of accountability. Thus, other perceptions of accountability are from a wider perspective which include other stakeholders, where the company is accountable not only to the shareholders but also to a wide range of stakeholders such as employees, regulators, creditors, customers and others because these groups are affected directly or indirectly by the company's decisions and performance (Benston, 1982a; 1982b; Tricker, 1984; Gamble and Kelly, 2001; Beattie and Pratt, 2001; Dunne, 2003; Chakrawal, 2006; Bhuiyan and Biswas; 2007; Freeman et al., 2010; Solomon, 2010). However, this does not mean that the rights of shareholders are dismissed, but rather other stakeholders' rights and interests are also accounted for (Gamble and Kelly, 2001). In this context, Keasey and Wright (1993) define accountability as:

> "A subset of governance [which] involves the monitoring, evaluation and control of organisational agents to ensure that they behave in the interests of shareholders and other stakeholders" (p.291).

In addition, Gray et al. (1996) view accountability from a broader perspective as a social concept that is not limited to economic issues but which takes into consideration the interests of society at large (i.e. all stakeholders). These authors define accountability by stating that:

> "The duty to provide an account (by no means necessarily a financial account) or reckoning of the actions for which one is held responsible." (p. 38).

According to Ijiri (1983), relationships may exist outside or inside a firm and these are based on accountability. In an outside relationship, a firm may be accountable to "shareholders, creditors, government, labor unions, consumers, or to the public in general" (p.76), while in the inside relationship, "officers and employees are accountable to their respective supervisors based on the organisational hierarchy of authorities and responsibilities" (p.76). These stakeholders are identified as "any group or individual who can affect or is affected by the achievement of the organization's objectives of the company" (Freeman, 1984; p.5). Similarly, Gray et al. (1996) describe stakeholders as: "any human agency that can be influenced by, or can itself influence, the activities of the organisation in question" (p. 45). Thus, Goodpaster (1991) states that it is the responsibility of management to identify the groups which can legitimately demand accountability and suggests that:

> "…responsible management… includes careful attention not only to stockholders but to stakeholders generally in the decision-making process" (p. 53).

Therefore, from a stakeholder perspective, there are two parties in the accountability relationship. The first party is the accountee who represents the principal (e.g. the board of directors, shareholders, other stakeholders) and who delegates responsibility to a second party, the accountor. The accountor represents the person responsible for notifying the accountee of actions taken in order to discharge that accountability. A party's role may be an accountee and an accountor simultaneously, and the adoption of that role depends upon the nature of the relationship; for instance, management are accountable to employees for how successfully they provide a good and safe working environment, but on the other hand, employees are accountable to managers for the performance of their work-related obligations (Gray et al., 1996).

Wenar (2006) indicates that accountability involves the giving of an account which can be associated with transparency; this indicates that transparency is considered to be a crucial part for discharging accountability. In addition, Fox (2007) claims that transparency automatically creates accountability. Therefore, a company should disclose to interested parties (such as shareholders and other stakeholders) the company's situation, thereby satisfying the needs of the accountees. Baker and Wallage (2000) claim that disclosure should not be limited to the needs of shareholder decision-makers but should be viewed in relation to more general matters about governance and to the needs of different stakeholder groups. Thus, boards of directors (accountor) are responsible to report to both shareholders and other stakeholders (the accountees). To do so, different vehicles of accountability such as corporate social reports, financial statements, corporate governance disclosure and others may be used (Carnaghan et al., 1996; Solomon, 2010). The accountor discharges its accountability by providing annual reports (including a corporate governance disclosure) to

the accountee (Gray et al., 1996). In this context, Mina (2011) indicates that the annual report is an important source of information for stakeholders to discharge accountability.

From the disxussion above, it can be seen that accountors are accountable to accountees by providing them with annual reports about what they have done; this provision of information is usually termed the discharge of accountability. Such reports can play an important role in communicating with interested parties in any organisations. For example, Carnaghan et al. (1996) and Cole et al. (2011) claim that, although different stakeholder groups possibly monitor and shape the decisions of those charged with the duty of running and managing the organisation, they have different concerns and interests in an organisation, each based on their own rationales and objectives. For example, shareholders and investors may be interested in performance and to know that the company’s share price will increase and provide future returns; creditors and suppliers may be concerned about the financial position of the company and its ability to fulfill its obligations and adherence to a repayment schedule; employees may be concerned about the company's ability to provide them with safe working conditions and employment stability. In addition, the local community may be concerned about whether the company cares about the social aspects of its operations; and environmental organisations may be concerned about a clean environment regarding the environmental impact of production process and products (Carnaghan et al., 1996). In this case, if the stakeholders are not satisfied with what they discover about company matters via such reporting and disclosing, they have the right to disbelieve it and they can take action by selling their shares, complaining to the media or contacting the company directors directly (Carnaghan et al., 1996).

Stewart (1984) states that, for such accountability, there should be a recognition of power between the accountor and the accountee. This kind of association is referred to as the bond of accountability. Stewart (1984) states that:

> "A bond of accountability is for a field of accountability, that is, activities for which the account is given and which have bases that can be set out on a ladder of accountability according to the purposes for which the bond is constituted" (p.18).

In addition, Dunsire (1978) claims that the giving of information (such as corporate governance matters) should also be associated with an assessment of that information against some standard or expectation (such as a corporate governance code), so that an evaluation can be made regarding whether accountability has been discharged. Jones (1977) states that those who give the account have the responsibility to clarify their actions to someone else who has the authority to evaluate the account and allocate praise or censure. Indeed, Tricker (1983) argues that accountability only exists when the rights and responsibilities to account are enforceable. Similarly, Burritt and Welch (1997) argue that giving an account without the consequential reparations on the quality of an account is inadequate. They state that:

> "Giving of an account is not enough for an accountability relationship to exist; there has also to be a process for holding the accountor to account for actions taken and consequences incurred. Hence, enforcement mechanisms are crucial to accountability" (p. 533).

Tricker (1983) illustrates that if an accountor voluntarily chooses to disclose information (such as voluntary aspects of corporate governance code), where the accountee cannot

enforce that disclosure, then such a disclosure should be thought of as an ex-gratia disclosure. Perks (1993) acknowledges this problem by arguing that:

> "Those who are in a position of power are likely to be less keen to be made accountable and they are likely to struggle to retain their freedom of actions. Where others attempt to impose accountability systems upon them, they are likely, if they wish to remain powerful, to subvert, bypass and control any accountability systems that are imposed upon them" (p. 25).

Likewise, Smyth (2012) argues that "the essential core of an accountability relationship is that unless there is a form of control based on reward or sanction, then the relationship is not one of accountability" (p. 232). Consequently, Bovens (2005) observes accountability as comprising of three elements: (i) the obligation to give an account; (ii) the accountee's right to question the accountor; and (iii) the accountee's right to implicitly enforce sanctions. According to Ijiri (1975), the rights necessary for the accountability to exist may stem from a law, a constitution, a contract, and the rules of an organization or an informal obligation. These rights may be protected in semi-legal documents such as codes of conduct or mission statements, and the requirement from regulators and other documents is consider to be one way of the accountability that is enforced by the law itself (Gray et al. 1996).[18]

Nevertheless, Gray et al. (1996) argue that accountability can occur even if it cannot be enforced, as accountability reflects fairness and justice, which is important in Islamic countries as Shariah is based on social justice. In the same context, Tinker et al. (1991) and Stanton (1997) believe that stakeholders with no legal rights can claim the right to

[18] According to Monks and Minow (2008) there are two types of law that organise the association between the interested parties and the company: first is that imposed by legislations or public law and may provide minimum standards, permitting maximum flexibility to arrange relationships between the company and interested parties. Second is private law which comes from specific agreements between the company and other interested parties.

accountability based on their moral rights and natural obligations. Thus, Bhuiyan and Biswas (2007) maintain that good corporate governance systems ensure that directors and their companies are not only accountable to shareholders, but also to other stakeholders such as employees, creditors, major suppliers and customers. Consequently the implication for accountability is that its scope and limitations have also been extended to take in those who may not have a legal or direct stake in the company. The extension of the accountability is a moral obligation. For example, Stewart (1984) indicates that some accountability relationships might only comprise of a link, rather than a bond, of accountability. However, Monks and Minow (2008) note that accountability is an obligation for a company (including accountability to society). Monks and Minow note that, in order to maintain legitimacy, companies need an effective system of accountability to help discharge their responsibilities and duties, such as having corporate governance mechanisms.

Shaoul et al. (2012) note that the broad literature on accountability identifies several types and early on, Robinson (1971) categories three bases of accountability. First was programme accountability concerned with carrying out the work and whether or not it meet goals. Second was process accountability, concerned about whether the procedures undertaken were adequate, and whether the process that was obtained was as specified or not. Third was fiscal accountability, which concerned whether funds were expended in an appropriate manner.

Stewart (1984) later developed these arguments further and suggested that five types of accountability existed: (i) accountability for probity and legality; (ii) process accountability; (iii) performance accountability; (iv)programme accountability; and (v) policy

accountability which he called Stewart's ladder of accountability[19]. Stewart's model was related to the public accountability, but he acknowledged that his Ladder of Accountability is applicable in many different contexts. For example, he states that:

> "This framework has been constructed for the analysis of public accountability, but can be used for other forms of accountability, such as managerial accountability and commercial accountability" (Stewart, 1984, p. 18).

Roberts and Scapens (1985) claim that different forms of accountability can emerge in different contexts, and point out that both formal and informal accountability systems are complementary to each other and are what Roberts (1991;1996) refers to as hierarchical and socializing forms of accountability. Roberts (1991) argues that hierarchical accountability focuses on power and function and that hierarchical accountability promotes a sense of self as well as showing a lack of reliance on others. Individuals often take for granted that their importance and value depends upon their location inside the organisation's hierarchical system and upon the accomplishment of imposed objectives[20]. On the other hand, more socialising forms of accountability are facilitated in lateral accountability relationships where there are less inhibitions of power[21]. This form of accountability is based on the relationships between people who share a common interest and have the ability to have face-to-face discussions with each other. In addition, Roberts (2001) argues that:

> "Such socializing processes are a routine feature of work relationships at every level of the organisation, conducted in and around the interdependencies of day-to-day work and in the informal conversations of all the unsurveilled spaces of organizational life" (P. 1555).

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[19] Stewart's (1984) accountability were for probity and legality that is concerned with the avoidance of malfeasance and to make sure that resources are utilised properly and in the manner authorized; process accountability revolves around the appropriateness of the activities performed by the agent; performance accountability is related to ensuring that the performance of an organisation, whether the estimated goals of an organisation have been achieved or not yet, while programme accountability is concerned with the accomplishment of objectives set by the principal. Finally, policy accountability relates to the suitability of the policies implemented.

[20] This is similar to the contractual form of accountability identified by Laughlin (1990).

[21] This is referred to by Laughlin (1990) as a communal form of accountability.

In the same vein, Willmott, (1996) presents two types of accountability which also comprise both hierarchical and lateral accountability relationships[22]. According to Willmot (1996) hierarchical accountability is usually “located within the social space of a hierarchy of superordinates to whom they are accountable for their performance” (p.33). Thus, within a hierarchy “a superior calls to account a subordinate for the performance of delegated duties” (Sinclair, 1995; p. 227). In such cases, the superior gives the order to subordinates and subsequently assesses them in terms of their quality of work to enhance the service (Romzek and Dubnick, 1987, O'Loughlin, 1990). Romzek and Dubnick (1987) state that there are a variety of assessment tools for superiors to use to assess their subordinates such as close supervision, monitoring, rules and regulation. In a corporate governance context, hierarchical accountability relationships may exist between the board of directors and various stakeholders groups (such as regulators, shareholders, employees, auditors, society and the community) because of the formal nature of the relationship and the lack of open engagement between the parties because they are distant.

In contrast, lateral accountability relationships are mainly between people positioned at a similar level within a hierarchy (Willmott, 1996), such as board directors and members of board sub-committees. Lateral relationships usually involve cross-level relationships such as on a board of directors, whose work together as a team to help to solve problems and make decisions to discharge their accountability and as stated above may occur for examples between members of the board, and members of board sub-committees. If

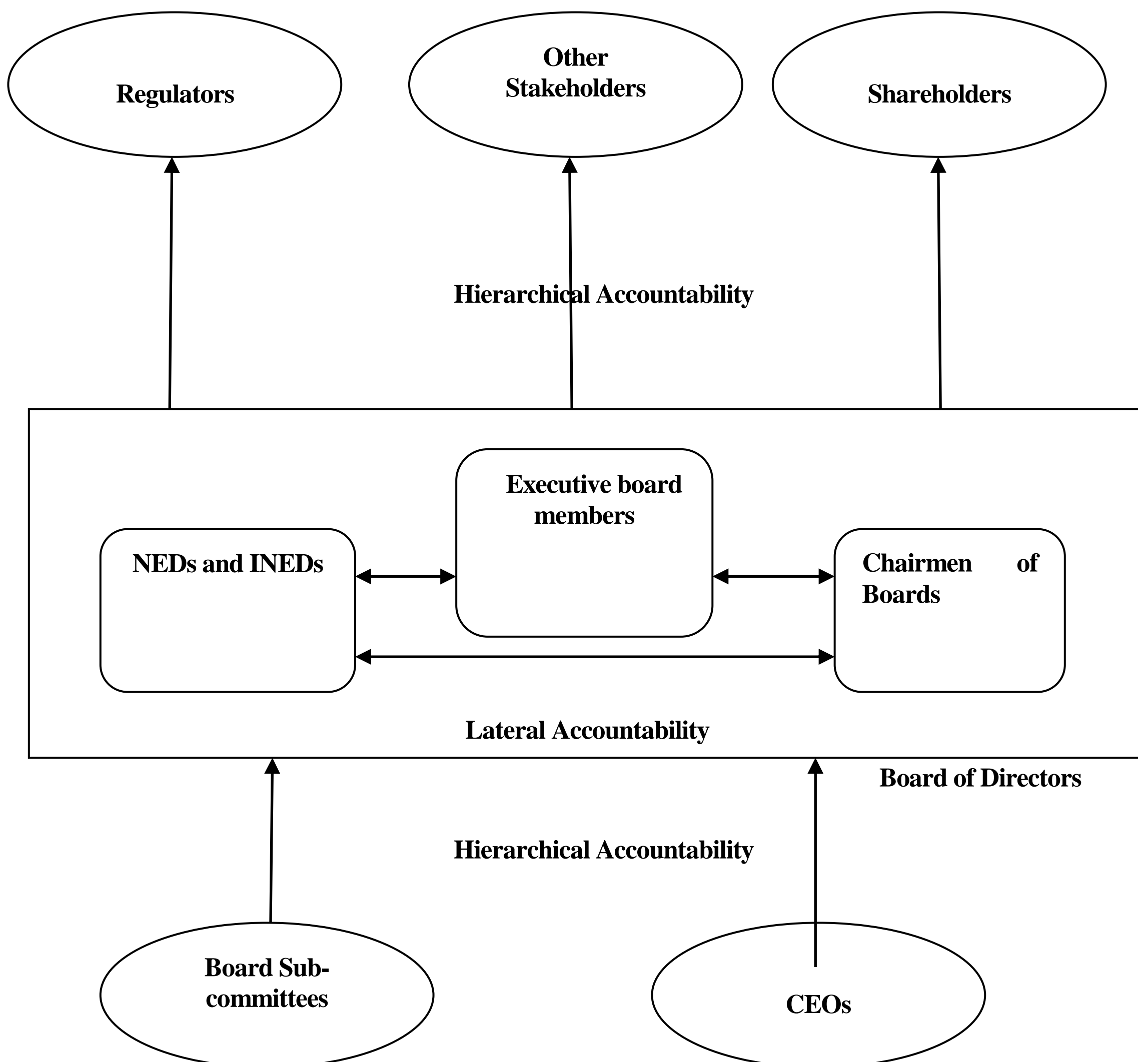
[22] Roberts' (1991) and Willmots' (1996) types of accountability, appear to similar, thus from here on they are referred to as hierarchical and lateral accountability relationships, and this study examines the accountability relationships that exist in the three Gulf countries listed companies from both a hierarchical and lateral perspective.

shareholders or other stakeholders are included on the board of directors or board sub-committees, their views can be expressed, and they can become engaged and contribute to companies' governance processes; consequently, the accountability relationship will become more lateral rather than hierarchical (Dahanini and Connolly, 2012).

For the purpose of this thesis, Figure 4.1 shows how these accountability relationships are related to the corporate governance practices examined in this study. Figure 4.1 shows that larger boards might be comprised of more experienced and qualified board members (see, for example, Forbes and Milliken, 1999; Xie et al., 2003; Akhtaruddin et al., 2009; Mallin, 2013; Hassan, 2013), reflecting a lateral form of accountability, as more discussions and consultations may occur before making any board decisions (Lawal, 2012). With regard to INEDs, their appointment is likely to enhance lateral accountability (Roberts, 2001; Soobaroyen and Mahadeo, 2012) as they will widen board discussions (Leung et al., 2014) if they have varied and different levels of expertise and professional backgrounds (see, for example Haniffa and Hudaib, 2006). Indeed, the main role of the INED is to defend the interests of the stakeholders; and they are perceived to be a tool for monitoring and controlling management (Rosenstein and Wyatt, 1990; Dixon et al., 2005; Chakrawal, 2006) which may relate to a hierarchical accountability relationship (Roberts, 2001; Soobaroyen and Mahadeo, 2012). In addition, the relationships may be either hierarchical, lateral, or both. For example, between the CEO and the Chairman. This is because the CEO reports to the board of directors and one of the tasks of the board of directors is to evaluate the CEO's performance, approve their remuneration and hire or remove them from their positions. In addition, the board's monitoring quality is enhanced as no one controls its decisions (see, for example, Zahra and Pearce, 1989; Shivdasani and Zenner, 2004; Monks and Minow, 2008; Ponnu, 2008; Maharaj, 2009; Argüden, 2010). This is an example of a

hierarchical form of accountability, especially as in GCC companies CEOs do not automatically sit on the board. However, if the CEO sits on the board the accountability relationship could be a lateral form of accountability.

Figure 4.1: The Hierarchical and Lateral Accountability of Corporate Governance Relationships



Note: This Figure demonstrates the relationships between boards of directors and other stakeholders.

With regard to board meetings, it could be assumed that there will be both hierarchical and lateral forms of accountability. A lateral form of accountability between board members comes when the directors meet frequently to have time to discuss company issues (see, for example, Vafeas, 1999a; Shivdasani and Zenner, 2004; Mangena and Tauringana, 2006; Laksmana, 2008). In addition, more frequent board meetings will help to discharge more hierarchical accountability because such meetings enhance a board's ability to act as a monitoring mechanism (see, for example, Xie et al., 2003; Persons, 2006). Moreover, there could be both hierarchical and lateral accountability relationships between the board and its sub-committees (Roberts, 2001; Soobaroyen and Mahadeo, 2012); for instance, hierarchical accountability may occur as board sub-committees report to boards of directors, acting as a control and approval mechanism. In addition, lateral accountability will take place if the board establishes more sub-committees and appoints qualified members who meet regularly to make effective discussions. As well as the composition of the board and its sub-committees, other governance mechanisms such as the disclosure and transparency of information represents a hierarchical discharge of accountability as it is a channel for giving an account for external scrutiny (Roberts, 2001; Soobaroyen and Mahadeo, 2012). Thus, corporate governance mechanisms may discharge both hierarchical and lateral forms of accountability. However, Figure 4.1 has simplified these relationships and in practice it may be more complex than at first sight. For example, lateral forms of accountability that is discharged between the chairmen of the board, INEDs and NEDs may take place differently; in some companies it might happen just a few times a year and in other companies it may occur more frequently. In addition, the number of directors on the board varies as in some companies there are only a few board members and in other companies there are many more. Additionally, some forms of communication may occur face to face, or over the phone, both inside and/or outside the boardroom. Moreover, inclusion of the

CEO as a board member impacts on the lateral as well as hierarchical forms of accountability. In the lateral forms, there are more discussions about the company situations inside the boardrooms, and more hierarchical forms of accountability by questioning the CEO more about the performance of the company. In addition, the accountability relationship between the chairman of the board and the CEO might be mostly in writing, but alternatively this could take place face to face to discuss issues that arise. Further, in practices cultural values may also have an influence on board's accountability and corporate governance practices in these three countries under investigation such as family ties, personal relationships, tribalism and favouritism and these factors are not incorporated in Figure 4.1. This is examined now in the context of Islamic accountability.

4.2 Islamic Accountability

In Islamic society, accountability acts as a fundamental basis in relationships between individuals and Allah (God) and between individuals (the self) and others (the community) through Shariah (Islamic law) (Alkhtani, 2010). In a broader sense it is central to Islam and is a dominant theme in a Muslim's faith (Lewis, 2006) because accountability to God and society is central to all individual actions. According to Shariah, Muslim responsibilities are divided into two main parts. The first is the responsibility to the creator (God), and part of worshiping Allah is called Ibadat. Within Ibadat, Islam has five pillars that are fundamental to any Muslim's life: (i) Faith/Tawheed (Faith in one God); (ii) Salah (Prayer); (iii) Zakat (Paying charity); (iv) Saum (Fasting in Ramadan); and (v) Hajj (Pilgrimage). The second part is the responsibility of Muslims to others and to their environment, which is known as Muamalat (Dealings/transactions with people), and represents the relationship between the self and others in all aspects of life, including rights and duties towards parents, children,

neighbours, non-Muslims, and the rest of society (Ibrahim, 1997; Lewis, 2001; Kettell, 2011; Iqbal and Mirakhor, 2011).

According to Shariah law, Muslims have to adopt Islamic law (regulations) as enforced by Allah (God) in all aspects of life and their acts should not be in contradiction with Islamic principles (Lewis, 2001; Haniffa et al., 2004; Abdulrahma, 2010; Alkhtani, 2010; Iqbal and Mirakhor, 2011). As Allah affirms in the Holy Quran:

> "This day have I perfected your religion for you, completed my favour upon you, and have chosen for you Islam as your religion" (Quran: 5:3).

Every law has a source and Islamic Law is derived from four main legislative sources that govern the Islamic community; the Quran; the Sunnah; Al-Ejma'a; and Al-Qiyas. However, these sources do not have equal strength (Al-Qaradawi, 1995; Ibrahim, 1997; Haniffa et al., 2004; Pollard and Samers, 2007; Kettell, 2011; Moustafa, 2012). According to Napier and Haniffa (2011), the Quran and the Sunnah are the main sources of Shariah**.** The Quran is the superior legislative source and is considered the direct word of God sent to the prophet Mohammad (PBUH)[23] and no other sources can contradict the Quran. However, Muslims can use other legislative sources if there are issues that are not dealt with in the Quran. The Sunah[24] is considered the second source of Islamic law, containing the sayings and practices of the Prophet Mohammad (PBUH). These sayings and practices have been preserved by Muslim Imams[25]. These practices and precedents were recorded after the death of the prophet Mohammad (PBUH) and compiled in collections of ahadiths[26]. Ijma (unanimity, consensus) is the third source of Islamic legislation which is only used when a

[23] Peace be upon him abbreviated (pbuh or PBUH), is a phrase that Muslims say after uttering or hearing the name of Prophet Mohammad.
[24] Al-hadith is the only way to know the Sunnah.
[25] Muslim Imams (Sheikh): is a term used for scholars at very high level of knowledge in Shariah.
[26] The plural of Al-hadith.

group of scholars or experts are allowed to legislate new rules or standards where there is no direct evidence from the Quran and Sunnah about a certain situation, on condition that there is no conflict with the above two sources. The last major source of Islamic law is Al-Qiyas (measurement or analogy) which is used when a clear law does not exist from all previous sources. A new regulation can be issued by a regulator appointed by the Muslim community and so all Imams and scholars should agree on it and, most importantly, it should agree with the Quran and Sunnah (Al-Qaradawi, 1995; Ibrahim, 1997; Haniffa et al., 2004; Pollard and Samers, 2007; Kettell, 2011; Moustafa, 2012).

Muslims believe that Allah will account for everything on the Day of Judgment and that human beings will be held accountable for what they did in their lives and whether it was in line with Shariah law (Abdulrahman, 2010). Allah notes that everyone will be questioned and be accountable for their actions and the word Hesab and its derivatives are repeated more than eighty times in different verses in the holy Quran (Askary and Clarke, 1997). Allah created humans on the earth under the Islamic perspective of Istekhlaf or Kahlifah (vice-regency), and as a form of trust, humans are considered to be the trustees for everything that they have from Allah and this requires them to act as a guardian and delegate of Allah in dealing with the earth and its environment (Abdul Rahman, 1998; Lewis, 2006; Abdulrahman, 2010; Ajija and Kurseni, 2012). As Allah says in the Holy Quran: “I will make upon the earth a successive authority” (Quran, 2:30).

These are the teachings of Shariah: that individuals are not the owners of anything but are vice regents appointed by Allah and must use all the things according to the will of Allah, without damaging society and the environment. Individuals are responsible for family, property, resources, business and relationships and are accountable for the things with

which they have been entrusted and they are answerable for what they have done (Al-Jirari, 1996). An individual is accountable for all that has been entrusted and delegated as illustrated in the Quran. “And stop them; indeed, they are to be questioned” (Quran, 37:24); and “So by your Lord, We will surely question them all, about what they used to do” (Quran, 15:92; 93).

Thus, all individuals will be held accountable for their actions by Allah (Lewis, 2006; Napier, 2009). According to Al-Jirari, (1996) and Rahman et al. (2010) accountability is a crucial framework of Islam and Muslims’ lives and their day to day transactions are related to Allah and, in any Islamic society, accountability must be considered. Thus, under Islamic principles, Muslims are not only liable for their acts towards human beings but are also subject to strict judgments for any wrong deeds at the final Day of Judgment (Abdul Rahman, 1998; Abdulrahman, 2010). The prophet Mohammed (PBUH) explained accountability as a basis for relationships conducted within the Islamic community by saying:

> “You are all custodians, and you all will be questioned about the things under your custody. The Imam (leader) is a custodian and he shall be questioned about his custody. The man is a custodian of his family and he shall be questioned about his custody. The woman is a custodian in her husband's home and she will be questioned about her custody. The employee is a custodian of the property of his employer and he shall be questioned about his custody.' (The Sahabi said) I think he also said, 'A person is custodian of his father's money and he shall be questioned about his custody. You are all custodians and you all shall be questioned about your custody” (Al- Bukhari, Hadith no. 844).

Based on the above, the managers and the boards of directors of companies, as stewards, should act in the public interest; they are obligated to utilise resources in a manner that is beneficial for both the shareholders and the whole of society. In addition, Kamla (2005) states that:

> "….just as every Muslim has a responsibility to carry out the duties described in the Quran, so too are the management and providers of capital in a business enterprise accountable for their actions both inside and outside the enterprise" (p.119).

According to the accountability framework in Islam, just as for other accountability relationships, there are two parties, the accountor and the accountee. In business, for example, the accountor may be the board directors who are accountable for their actions and should discharge their accountability to the accountees, who may be the community (Umma) or society (Lewis, 2006). In addition, investors, shareholders and other stakeholders represent accountees for the companies under the accountability concept (Alkhatani, 2010). Thus, according to the Islamic culture, Muslim directors (the accountors) are accountable and answerable to their stakeholders in addition to their accountability to Allah in the hereafter. In addition, directors have to report to their accountees about the activities that they have taken to discharge their accountability. However, Lewis (2006) argues that companies and their directors (the accountors) can use disclosure and transparency as mechanism to facilitate accountability to the community. Therefore, from the Islamic point of view, boards are required to make an adequate disclosure to discharge their accountability as Alkhatani (2010) states that under Islamic accountability companies and their boards of directors are accountable to their stakeholders, thus they must protect those interests and disclose everything that may assist them to discharge their accountability. In the same context, Baydoun and Willett (2000) state:

> "Private accountability and limited disclosure are insufficient criteria to reflect the ethical precepts of Islamic law. Consistency of disclosure practices with Islamic law requires application of the more all-embracing criteria of social accountability and full disclosure" (p.81).

In addition, the reporting of information should disclose fair, true and accurate information (Lewis, 2001). Moreover, Haniffa et al. (2004) indicate that:

> “to demonstrate transparency in business activities, Muslim managers must provide relevant and reliable information regarding all lawful and unlawful activities undertaken, the reasons for undertaking the latter activities and how they are dealt with, policies related to financing, investment and employees, relationships with communities, debtors and creditors, the use of resources and protection of the environment” (p.11).

Shariah Law also defines the characteristics that accountors should possess based on the Quranic verses and the sayings of Prophet Mohammad (PBUH), such as: Amana (Honesty); Nazaha (Integrity); Adil (Justice), Qudra (Capability) and Itqan (Proficiency) (Nahas, 2011). There are many Quranic verses stating these characteristics, of which these are examples:

> “The best of men for thee to employ is the (man) who is strong and trusty” (Quran, 28: 26).
>
> “O you who have believed, fulfil [all] contracts” (Quran, 5:1).
>
> “And do not argue on behalf of those who deceive themselves. Indeed, Allah loves not one who is a habitually sinful deceiver” (Quran, 4:107).
>
> “And do not give the weak-minded your property, which Allah has made a means of sustenance for you, but provide for them with it and clothe them and speak to them words of appropriate kindness” (Quran, 4:5).

The Prophet Mohammad (PBUH) said that:

> “Allah loves, when one of you does something, for him to do it well” (Al-Albaani, 1995, p. 106).

Shariah requires the accountors, such as boards of directors, to make sure that all of their actions take into account the needs of different groups who are influenced by their business decisions. Shura (consultation) and Hisba (verification) are mechanisms within Islamic society that can achieve this and enhance accountability (Al-Jirari, 1996; Iqbal and Lewis, 2009). In this context, Iqbal and Lewis (2009) State that:

> “In business life, also, the rules are clear. If Islamic principles were applied, business organizations would be marked by the concept of shura and the application of shuratic decision-making processes involving consultation and

> consensus-seeking, along with the institution of hisba providing a framework of social ethics and empowering individual Muslims to act as 'private prosecutors' in the cause of better governance and social action" (p.280).

The concept of Shura 'consultation' requires discussion or the hearing of differences of opinion before any decision is made (Abu-Tapanjeh, 2009). The Quran clearly states that any decision making that involves more than one party should be based on consensus in dealing with important matters. "…Who (conduct) their affairs by mutual Consultation…" (Quran, 42: 38) and "…and consult them in affairs" (Quran, 3: 159). This is known as the Shuratic system and Islam encourages interested parties to utilise the Shuratic system to take part in the decision making process because if any mistake is committed, then the responsibility is shared by all.

Thus, Shura is a governance practice to prevent a single individual or entity from controlling and ensuring that there is no solitary management and that decision making processes are participative and give all interested parties the opportunity to be part of the process. Shura explains how businesses can meet Islamic moral values (Abdul Rahman, 1998; Iqbal and Lewis, 2009). Abdul Rahman, (1998) claims that there are three reasons behind the shuratic decision-making process. First, if the decision affects two or more people, it has a greater possibility of not being accepted by participants. Therefore, on the basis of the Islamic law of justice, it is prohibited for people to look at only their benefits in making a decision that relates to, and affects, a group of people. Second, consultation and consensus-seeking prevents a single individual overriding others' rights and imposing their will on others for selfish motives or because they consider they carry more weight than others. In Islam, this kind of behaviour is unacceptable. Third, Islam considers it a great responsibility to make a decision that affects other groups of people because the making of

decisions is a trust from God. Thus, Islam emphasises truthfulness, justice, a spirit of consensus-seeking among those participating in group decision-making processes and requires the self to consider and be accountable to others.

Shuratic decision-making procedures provide a way to make sure that a firm's actions and strategies are completely discussed and that a consensus-seeking consultative procedure is applied, which could be linked to the lateral form of accountability. Hence Shura is an important aspect of Islam (Hariri, 2013). On the basis of Shura, boards of directors and CEOs in an organisation should enable others to contribute to the decision-making processes. Iqbal and Lewis (2009) indicate that:

> "Shuratic decision-making procedures provides a vehicle for ensuring that corporate activities and strategies are fully discussed and that a consensus-seeking consultative process is applied. Directors and senior managers would be expected to listen to the opinions of other executives before making a decision and shura members would include, as far as possible, representatives of shareholders, employees, suppliers, customers and other interested parties" (p.273).

Therefore, directors and managers would be expected to listen to the opinions and advice of other executives and employees before making any decisions. For instance, Baydoun et al. (1999) state that employees would be expected to contribute their knowledge to the formulation and implementation of the organisational vision, and consultative procedures should be employed to all those affected such as shareholders, suppliers, customers, employees and the local community. The purpose of Shura is to guarantee the rights of participation, choice and decision-making for the community, and supporting people to carry out their obligation to make sure that the accountability is practiced in an effective manner, as a social and ethical principle (Abdulkalik, 2012).

Shariah further defines the qualities to be demonstrated by individuals. They should be honest, capable, qualified and an expert, in addition to undertaking their responsibility to perform their functions in an appropriate way to discharge their duties. The Prophet Mohammed (PBUH) said: “the consultant is entrusted” (Mosnad Ahmed, 1995:21983).

Given these characteristics, boards of directors should be the vehicle for the practice of Shura in the business environment because boards of directors should comprise a mix of executives, NEDs and INEDs that allow stakeholders to have the opportunity to participate in decision making processes (see, for example, Zahra and Pearce, 1989; IFC and Hawkamah, 2008; Minichili et al., 2009).

However, Shura is mentioned in the Quran in a general form without giving much detail as to the mechanics of Shura. No particular information is given that explains how to apply, execute and implement Shura in society. So it is left open to individuals to choose and assess any situation, as to how best serve the public’s interest, society and the Ummah, as the requirements of each time and place change (Al-Jirari, 1996; Al-Qaradwai, 2001; Abdulkalik, 2012).

Hisba is another important part of the Islamic legal framework that has been practiced by the Muslim community since early Islam. Hisba is an accountability system in Islam and was established to make sure that there was compliance with the requirements of Shariah. Through the Hisba framework in society implements a comprehensive socioeconomic control on trade and economic practices, as accountability as a whole is incomplete without a check and balance system. Therefore, activities in Muslim society should be monitored

under this framework (Al-Jirari, 1996; (Abdul Rahman, 1998; Alsheah, 2001; Lewis, 2006). Allah says in the Holy Quran:

> "Let there arise out of you a band of people inviting to all that is good, enjoining what is right, and forbidding what is wrong: They are the ones to attain felicity" (Quran, 3: 104).

Hisba uses the method of enjoining good and forbidding evil to enforce Shariah Law. Therefore, Shariah disciplines those who commit shameful practices, or immoral activities. Moreover, Hisba people (the Muhtasib)[27] are appointed to monitor illegal practices, such as cheating, selling, promoting, and pushing illegal or banned items and goods (Abdul Rahman, 1998; Alsheha, 2001; Bin Humeed, 2013). In addition, Hisba reflects on oversight function (Bin Humeed, 2013) and can be classified into three categories related to: (i) Allah which covers religious activities such as prayers and fasting; (ii) the people (community) and behavior in the market such as accuracy and honesty of business dealings; and, (iii) public administration, such as public services like transport, road, and banning businesses that damage community interests. Thus, the traditional duties and responsibilities carried out by the Muhtasib in the Muslim business community are to correct weights and measures, ensure fair trading rules, check business fraud, audit illegal contracts and agreements, keep the market free, and prevent the monopolization of the basic needs of the people (Abdul Rahman,1998). All these activities are based on the verse in the Quran*:* "You are the best of Peoples, evolved for mankind, enjoining what is right, forbidding what is wrong, and believing in Allah" (3:110).

Iqbal and Lewis (2009), state that the Muhtasib are responsible for enforcing Islamic behaviour in terms of community affairs and encouraging ethical behaviour in business

[27] Its holder was given the title Muhtasib (and his office called Hisba).

dealings (such as accuracy and honesty in business dealings). Hisba covers the control and monitoring of activities to protect individuals, society, enterprises and the state from disfigurement and corruption. Therefore, Islam has made oversight and monitoring the responsibility of individuals as well as the community (Bin Humeed, 2013).

Therefore, in an Islamic framework, Hisba provides an accountability environment which allows all stakeholders to oversee their interests and subjugate those who hold power to be accountable for their actions. For instance, employees and citizens, based on their faith in God and religion, should work diligently to prevent malpractice, and disclose illegal acts to people who can prevent them (Bin Humeed, 2013). Based on the above, Hisba is discharged by boards of directors and could be enhanced by appointing INEDs, establishing audit committees, internal audit, and whistle-blowing systems to prevent corruption. Thus, corporate governance mechanisms have a key role in Shura and Hisba in corporations.

4.5 Summary

This chapter outlines the theoretical framework of accountability used in this thesis. Accountability requires accountors who do business on behalf of others (the accountees) to give an account of their activities in order to discharge their accountability which may be hierarchical or lateral in nature depending upon the closeness of contact and communication, as shown in Figure 4.1. The Islamic accountability framework extends the accountability relationship to Allah and to all accountees, such as society, investors and other stakeholders. This thesis adopts accountability and Islamic accountability as its theoretical framework to study and investigate corporate governance practices in three Arabian Gulf countries - Saudi Arabia, Oman and Bahrain - because the main concern of this thesis is to assess whether these practices reflect accountability (including the Islamic

concept of accountability). In particular, lateral and hierarchical accountability relationships and the Islamic accountability concepts of Shura and Hisba are used to discuss and interpret the findings. Having explored the theoretical underpinning of the thesis the next chapter outlines and discusses the methodology and methods adopted in this thesis.

Chapter 5: Research Design: Methodology and Methods

5.1 Introduction

Chapter 2 provided a context of the three countries analysed in the empirical work of this thesis, whilst Chapter 3 reviewed the literature related to this thesis. Chapter 4 developed the theoretical framework which will be employed to analyse the results. The current chapter addresses the basis for the methodological assumptions underpinning the current thesis and research methods that have been used to collect the primary data for this thesis. The chapter is organised as followed: section 5.2 reviews the assumptions about the nature of social science as well as the nature of society. Burrell and Morgan's (1979) four paradigms for the study of social science research are discussed in section 5.3, while section 5.4 highlights the limitations of Burrell and Morgan's (1979) framework. The chosen research paradigm for the current thesis is provided in section 5.5, while section 5.6 identifies the research method utilised for collecting and analysing data. Section 5.7 concludes the chapter.

5.2 Assumptions about the Nature of Social Science and Society

To understand assumptions made about the nature of social science and society, it is necessary to understand the differences that exist between research methodology and research methods because often they are considered to be the same. According to Ryan et al. (2002), research methodology is the process of conducting research whereas a research method is the technique that is used in conducting the research.

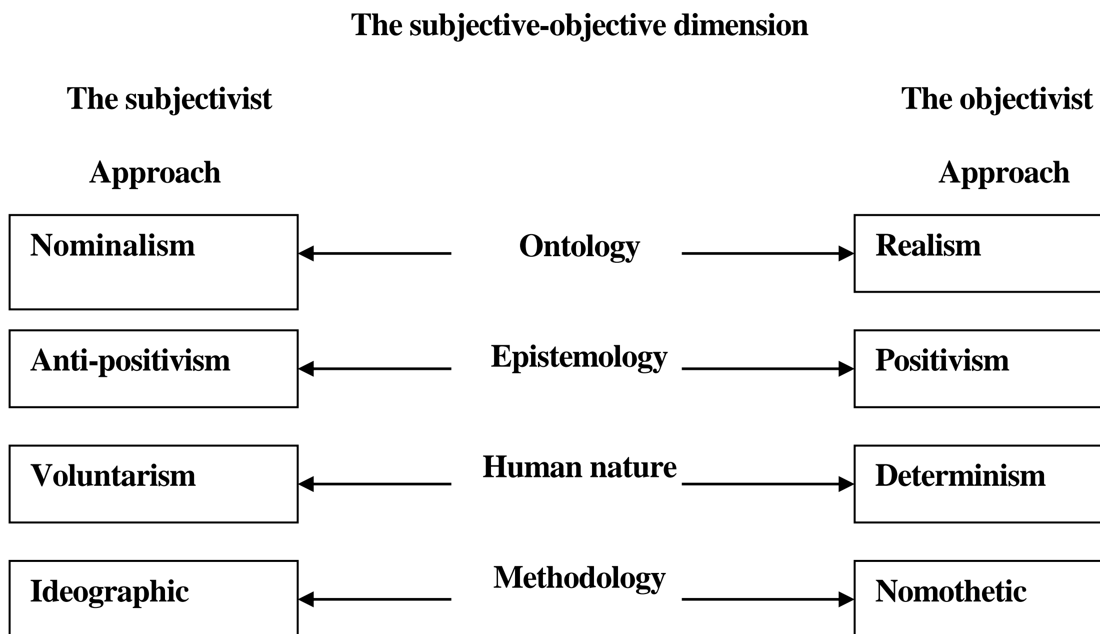
Burrell and Morgan (1979) classify assumptions about the nature of social science into four categories: (i) ontology; (ii) epistemology; (iii) human nature; and (iv) methodology. For each of these assumptions, there are two philosophical positions: subjectivity and

objectivity. Social entities exist in a reality external to social actors in the objectivist approach (Saunders et al, 2009). Bryman (2012) defined the objectivist approach as:

> "Objectivism is an ontological position that asserts that social phenomena and their meanings have an existence that is independent of social actors. It implies that social phenomena and the categories that we use in everyday discourse have an existence that is independent or separate from actors" (p.33).

By contrast, the subjectivist (also known as constructionist) approach is that social phenomena are created from the views and consequent actions of social actors. Subjectivism states that social phenomena and their meanings are usually accomplished by social actors (Bryman, 2012). The following Figure 5.1 which is presented by Burrell and Morgan (1979), illustrate these four assumptions and both dimensions.

Figure 5.1: Assumptions Regarding the Nature of Social Science



Source: Burrell and Morgan (1979, P. 3).

The first category, ontology is concerned with "the study of existence" (Ryan et al, 2002, P.13). In this point of view, the ontological assumptions are clearly concerned about the

nature of reality. Ontology is concerned with understanding the question “what is the form and nature of reality, and therefore what is there that can be known about it?” (Guba and Lincoln, 1994, p. 108). Saunders et al. (2009) state that ontology looks to researchers' assumptions about the world, their actions and the commitment leading to that observation. According to Burrell and Morgan (1979), ontology is divided between nominalism and realism and considers whether reality exists in the minds of individual (nominalism) or whether reality is an outcome of an objective nature which is called realism. In describing the nominalist, Burrell and Morgan (1979) claim that society does not exists outside the minds of individuals; it is comprised of names, concepts and labels which are used to structure reality and descries things; consequently reality is derived from individuals' thoughts and conscious mental processes. Alternatively, realism is where the social world exists externally to the individual consciousness and is made up of hard, tangible, physical and fixed structures (Burrell and Morgan, 1979). This suggests that reality is the truth and the human mind is independent (Saunders et al., 2009).

These ontological assumptions are linked to epistemological assumptions which attempt to explain the beliefs of the individual. Burrell and Morgan (1979) identify epistemology as being based on the question of how a person understands the world and transfers acquired knowledge to other people who live in society. Burrell and Morgan (1979) differentiate between two positions based on the question of whether knowledge is gained through observation (positivism) or whether it is a thing that needs to be experienced (anti-positivism). Thus, from the perspective of the objective-subjective dimension, epistemology is divided into two groups: (i) positivism; and (ii) anti-positivism. The positivist approach aims to identify the regularities and causal relationships that exist between component parts to understand and explain situations that take place in the social world. Burrell and Morgan

(1979) make the point that the positivist approach is a traditional method that governs the natural sciences. Alternatively, the anti-positivist approach identifies society as highly relativistic and, in order to study society, the view point of people who are directly engaged in the situation needs to be examined.

The third assumption relates to human nature. According to Burrell and Morgan, (1979), the human nature assumption is concerned with the relationship between human beings and their environment. In understanding this assumption, Burrell and Morgan (1979) recognise two approaches: (i) determinism; and (ii) voluntarism. In determinism, the objectivist approach, human nature and their reactions and experiences are viewed as outcomes of the environment that is affected by external situations. Alternatively, voluntarism (the subjectivist approach) views human nature to be fully independent from the happenings in the environment surrounding their lives, and so are responsible for their actions and environment (Burrell and Morgan, 1979).

Methodology is the last assumption regarding the nature of social science in Burrell and Morgan's (1979) framework and refers to "the theory of how research should be undertaken" (Saunders et al., 2009; p. 3). In considering the impact of the first three assumptions on research methodology, Ryan et al. (2002) stress that assumptions related to ontology, epistemology and human nature cannot be ignored in developing the research methodology as the fundamentals of these assumptions are included in the research question. Burrell and Morgan (1979) explain that when the assumptions about ontology, epistemology and human nature vary, researchers are likely to execute different methodologies to be in line with the requirements of these assumptions. Research methodology is concerned about how the researcher gains knowledge about the world.

Burrell and Morgan (1979), distinguish between ideographic (subjectivist) and nomothetic (objectivist) approaches. When using ideography as a methodology, the social world can be investigated and understood only by gaining first-hand knowledge of the research subjects under investigation, and that indicates that researchers are expected to become familiar with and learn the complexities of particular issues. Burrell and Morgan (1979) state that "the ideographic method stresses the importance of letting one's subject unfold its nature and characteristics during the process of investigation" (p. 6). Thus, in this approach, data can be collected by adopting qualitative research methods, such as interviews. Alternatively, nomothetic methodologies adopt quantitative analysis protocols, procedures and techniques to conduct a data analysis and obtain answers to the research questions (Burrell and Morgan, 1979). Researchers operating under this assumption focus on the formulation of scientific tests and use quantitative and experimental methods to achieve their goals (Burrell and Morgan, 1979). A second dimension of Burrell and Morgan's (1979) work, which may influence the research approach, concerns the assumptions about the nature of society. In order to understand the assumptions related to the nature of the society, Burrell and Morgan (1979) classify researchers' view of nature of society under two further dimensions order and conflict (as illustrated in Table 5.1).

Table5.1Two Theories of Society: Order and Conflict

The 'order' or 'integrationist' view	The 'conflict' or 'coercion' view
Stability	Change
Integration	Conflict
Functional co-ordination	Disintegration
Consensus	Coercion

Source: Burrell and Morgan (1979, p.13).

Table 5.1 demonstrates that the order view of society focuses upon explaining the nature of the social order and emphasises stability, integration, functional co-ordination and consensus (Burrell and Morgan, 1979). Researchers who employ this view believe that social structures depend upon logical processes and that human deeds do not impact on society. Those researchers are interested in explaining the consequences of deeds in social organisations. Alternatively, the conflict view of society places more importance on the dynamic nature of society and factors such as change, conflict, disintegration, and coercion (Burrell and Morgan, 1979). Researchers who employ this view consider that the structure of society reflects the consequences of individuals' conflicts and the control of particular groups within society. Researchers are often interested in investigating periods of organisational change and power relationships constructing the development of social organisations. In evaluating the order and conflict views, Cohen (1968) criticised the distinction between these views and raised the likelihood of combining them as they were two sides of the same coin. Thus, Burrell and Morgan (1979) develop the regulation and radical change dimension to overcome the weakness of the order and conflict views. The components of regulation and radical change dimensions are summarised in Table 5.2.

Table5.2The Regulation-Radical Change Dimension

The Sociology of Regulation is Concerned with:	The Sociology of Radical-Change is Concerned with:
(a) The status quo	(a) Radical change
(b) Social order	(b) Structural conflict
(c) Consensus	(c) Modes of domination
(d) Social integration and cohesion	(d) Contradiction
(e) Solidarity	(e) Emancipation
(f) Need satisfaction	(f) Deprivation
(g) Actuality	(g) Potentiality

Source: Burrell and Morgan (1979, p. 18)

Burrell and Morgan (1979) use the term the 'sociology of regulation' to refer to researchers who are concerned with providing explanations of a society that stresses its underlying unity and cohesiveness:

> “It is a sociology which is essentially concerned with the need for regulation in human affairs; the basic questions which it asks tend to focus upon the need to understand why society is maintained as an entity. It attempts to explain why society tends to hold together rather than fall apart” (p. 17).

On the other hand, the sociology of radical change is related with explanations for radical change, deep-seated structural conflict, modes of domination and structural contradictions which characterise modern society. Burrell and Morgan (1979) state that radical change is:

> “It is a sociology which is essentially concerned with man's emancipation from the structures which limit and stunt his potential for development. The basic questions which it asks focus upon the deprivation of man, both material and psychic” (p. 17).

5.3 Burrell and Morgan’s Research Paradigms

Before discussing Burrell and Morgan’s research paradigms it is helpful to define a paradigm. Saunders et al. (2009) define a research paradigm as:

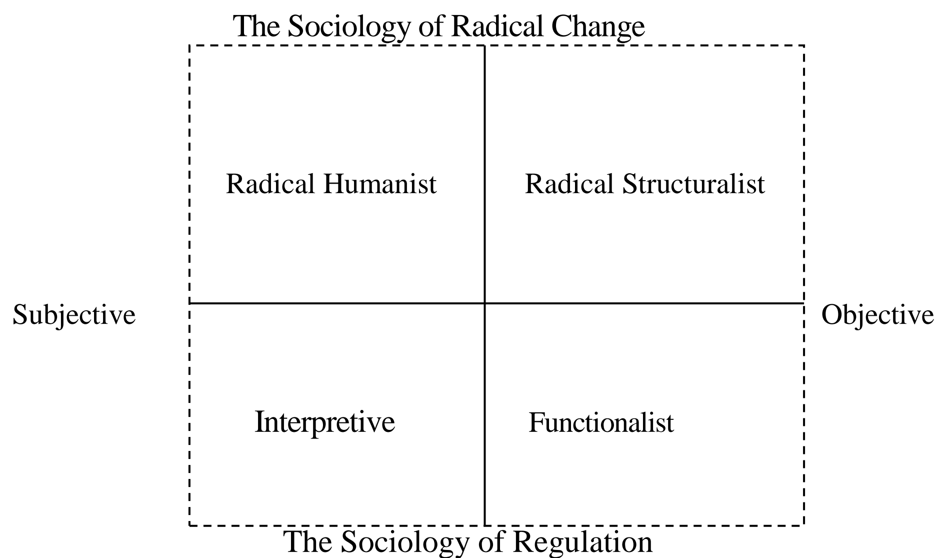
> “A way of examining social phenomena from which a particular understanding of these phenomena can be gained and explanations attempted” (p.112).

As explained earlier, Burrell and Morgan (1979) claim that the nature of social science can be understood from the view of a subjective-objective dimension and the assumptions related to the nature of society can be explained by the regulation and radical change dimension. Burrell and Morgan (1979) develop a matrix combining these two dimensions into four key sociological paradigms as illustrated in Figure 5.2 below. In Figure 5.2, the horizontal alignment indicates the regulation and radical change dimension while the vertical axis indicates the subjective-objective paradigm of social science. The four research

paradigms are: (i) functionalist; (ii) interpretive; (iii) radical humanist; and (iv) radical structuralist. Burrell and Morgan (1979) state that these four paradigms represent various components in society, and therefore they are appropriate to be adopted as a platform to study and analyse different types of social science theories. Jackson (2000) states that Burrell and Morgan's (1979) paradigms are popular because they:

> "enable us to relate systems approaches to different sociological paradigms and to learn much about what they take for granted about social science and society in the "frameworks of ideas" they employ" (p.23).

Figure 5.2 Four paradigms for the analysis of social theory



Source: Burrell and Morgan (1979, p. 22).

The functionalist paradigm reflects an objective approach to social science with the regulation dimension of the nature of the society. Those who operate and belong to the functionalist paradigm adopt a realist approach about ontology, have a positivist epistemology, a deterministic style when it comes to human nature and a nomotheic approach to their research methodology. They also seek to explain the status quo, social order, consensus, social integration, solidarity, need satisfaction and actuality. The

paradigm adopts the regulative perspective and uses natural science methods to confirm (or falsify) theories and to identify causal relations. Burrell and Morgan (1979) state that:

> "The functionalist approach to social science tends to assume that the social world is composed of relatively concrete empirical artefacts and relationships which can be identified, studied and measured through approaches derived from the natural sciences" (p. 26).

According to Dunne (2003), since the 1970s the functionalist paradigm has been the main focus in finance and accounting research.

The functionalist and interpretive paradigms both share assumptions based in the sociology of regulation, but unlike the functionalist paradigm, the interpretive paradigm adopts a subjective approach resulting in a nominalist approach in ontology, an anti-positivist view on epistemology and a voluntarist model of human nature where ideography is used as the methodology to conduct the research. Burrell and Morgan (1979) state:

> "The interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action" (p. 28).

Interpretivist researchers seek to understand human beings in the social world and the differences between individuals in their roles as social actors. This highlights the difference between studying individuals and objects. Researchers interpret their own social roles and the social roles of others in accordance with their own set of meanings (Saunders et al., 2009). In addition, Gioia and Pitre (1990) state that the interpretive paradigm identifies explanations of the researched subject as a way of understanding and developing a theory.

Alternatively, the radical humanist paradigm represents the subjective approach to social science with the radical change dimension of the nature of society. By comparing the

radical humanist paradigm with the other paradigms listed above, it has features similar to the interpretive paradigm as both are linked to the subjective approach, but it is the exact opposite to functionalism because they are opposite in relation to the nature of social science and society. This paradigm aims to "free organisation members from sources of domination, alienation, exploitation and repression by critiquing the existing social structure with intent of changing" (Gioia and Pitre, 1990; p. 588). Burrell and Morgan (1979) state that the radical humanist paradigm "views the social world from a perspective which tends to be nominalist, anti-positivist, voluntarist and ideographic" (p. 32).

The radical humanist paradigm is similar to the radical structuralist paradigm as they represent and share assumptions in the sociology of radical change dimension of the nature of society. However, the radical structuralist has an objective approach to social science. According to Saunders et al. (2009), the radical structuralist paradigm focuses on organisational structural relationships within the social world and investigates organisational phenomena such as power relationships and patterns of conflict. Therefore, the radical structuralist paradigm "is committed to radical change, emancipation, potentiality, structural conflict, modes of domination, contradiction, and deprivation" (Burrell and Morgan, 1979, p.34). Therefore, researchers who operate in the radical structuralist paradigm employ a realist, positivist, deterministic and nomotheic approach and explain that political and economic crises cause the need for continuous change.

5.4 The Chua Framework and Limitations of the Burrell and Morgan Framework

Although Burrell and Morgan's (1979) framework is an important tool to classify social research, a variety of researchers have criticised and presented arguments that challenge the Burrell and Morgan (1979) framework. For example, Chua (1986) criticizes several aspects

of Burrell and Morgan's (1979) framework of social sciences. She expresses the views that the mutual by exclusive nature of Burrell and Morgan's (1979) four paradigms are "unsatisfactory dichotomies" (p.626). She argues that the assumptions behind the Burrell and Morgan framework are based on a range and do not form mutually exclusive dichotomous paradigms. In addition, Chua (1986) argues that Burrell and Morgan's framework misinterpreted the original work of Kuhn (1970) and argues that traditional notions of what constitutes rational scientific choice are inadequate. Furthermore, Chua (1986) attacked the separation between the radical humanist and radical structuralist paradigm of Burrell and Morgan's framework, arguing that such a separation is not properly supported in sociology literature.

Thus, Chua (1986) identifies three paradigms of accounting research: (i) mainstream; (ii) interpretive; and (iii) critical. Chua's (1986) framework has three set beliefs: (i) beliefs about knowledge; (ii) beliefs about physical and social reality; and (iii) the relationship between theory and practice. Based on the representation provided in Table 5.3 below, it can be seen that the first group of assumptions are related to beliefs about knowledge which include epistemology and methodology. The second group of assumptions is based on the view point of physical and social reality which includes ontology, human intention and rationality and social relations, while the third set of assumptions identifies the connection between theory and practice.

Table5.3 A Classification of Assumptions

A. Beliefs about Knowledge
Epistemological
Methodological
B. Beliefs about Physical and Social Reality
Ontological
Human Intention and Rationality
Social Order/conflict
C. Relationship between Theory and Practice

Source: Chua (1986, p. 605).

Similarly, Boland (1989) criticises the separation of the objective-subjective perspective when establishing the assumptions about the nature of social science. Boland argues that there is an option of adopting a middle position. Likewise, Laughlin (1995) recommends an alternative framework for the analysis of social science research to Burrell and Morgan's (1979) framework which he labels as "too simplistic" (p.66). Laughlin's (1995) framework is based on three main dimensions: (i) theory; (ii) methodology; and (iii) change; these allow a researcher to adopt a middle range position, which he called "middle-range thinking" (p.78). Laughlin (1995) argued that the middle position was a more realistic illustration of social science research. Indeed, Chua (1986) suggested that research could be carried out by employing more than one paradigm at the same time and has led the researcher of this thesis to identify and justify the choice of the research methodology and the two paradigms employed in the current study.

5.5 Research Paradigms and Methodology for the Current Study

The main objective of this thesis is to identify and investigate current corporate governance practices and the accountability of companies in three Arabian Gulf countries, namely Saudi Arabia, Oman and Bahrain. It is an investigative study which aims to identify the views of stakeholders regarding corporate governance practice and the extent of the

accountability relationships that exist in the companies in these three countries and it has no intention of bringing about large scale change. Hence, adopting the radical change dimension through radical humanism or radical structuralist is inappropriate. By eliminating the underlying assumptions of these two paradigms, the researcher accepts the assumptions of the functionalist and the interpretive paradigms. In this context, Johnson and Duberley (2000) pointed out that "by accepting the assumptions that underpins the sociology of regulation, that assumption that constitutes the sociology of radical change is denied-and vice versa" (p. 79).

However, in the context of the research objective, the researcher believes that the business environment in the three countries is real, and that corporate governance in Saudi Arabia, Oman and Bahrain, are aspects of the business environment that operate within the real world. This is because it deals with regulators, regulations, companies and people, all of whom have an existence independent of the human mind. However, the perceptions that stakeholders have of these governance mechanisms do not exist outside of their mind. Therefore, it can be argued that the perceptions of corporate governance and accountability are linked to human thought, concentrating the study on the nominalist ontological approach. On the other hand, as this study adopts the mixed method as explained in the above sections (qualitative and quantitative).Therefore, the disclosure index is a quantitative method which assumes a realistic ontology.

In developing the epistemological assumptions for the current study both anti-positivist and positivist approaches have been chosen. In this context, knowledge is gained through an exploration of the perceptions of stakeholders concerning corporate governance practices and a descriptive analysis of corporate governance disclosure practices. These approaches

accept both the views of the participants to gain in-depth internal knowledge about the situation which seeks to understand the point of view of the stakeholders who are directly involved in the governance and accountability of the three countries' listed companies (through interviews) and also the view of the observer as a means for understanding human activities (via an analysis of corporate governance disclosure practices) (Burrell and Morgan, 1979). In relation to human nature, the study falls in to the category that combines voluntarism and determinism as the stakeholders of corporate governance of the three countries influence the environment in which they operate and they are also influenced by the environment in which they operate. Therefore, the study adopts an intermediate position between voluntarism and determinism as explained by Burrell and Morgan (1979) referring to the possibility of using an "intermediate standpoint which allows for the influence of situational and voluntary factors in accounting for the activities of human beings" (p. 6). Corporate governance can be studied by using a quantitative method such as a disclosure index which results in an objective approach. Furthermore, other studies of corporate governance utilise interviews to gather qualitative data. Therefore, to be in-line with available data sources, the investigation uses a combination of nomothetic and ideographic methodologies to accommodate both qualitative and quantitative methods (interview and corporate governance disclosure index). In conclusion, the study incorporates a nominalist and a realist approach on ontology, an anti-positivist and positivist approach on epistemology, a combined selection of human nature and a mix of both ideographic and nomothetic methodologies using a functionalist and interpretive paradigm. More specifically, the study is located mainly in the interpretive paradigms, but towards its functionalist end as outlined by Burrell and Morgan.

Further, Chua (1986) and Laughlin (1995) support the view that a researcher can use more than one paradigm at the same time and this is confirmed by Lee (1992) who argues:

> "Qualitative methodology, based on different paradigms, is mutually exclusive. A “mixed” approach may cause “ontological oscillation” (Burrell and Morgan, 1979), although a researcher can choose to operate in different paradigms at different times. The different research approaches are like “holography”, presenting reality in different lights and offering alternative paths to understating reality. They serve research purposes by different means with different results.” (p. 93)

In addition, Saunders et al. (2009) who indicate that:

> “the practical reality is that research rarely falls neatly into only one philosophical domain …business and management research is often a mixture of positivist and interpretivist” (p. 116).

This standpoint of Lee (1992) and Saunders et al. (2009) notes that a researcher can utilise more than one paradigm at the same time; as occurs in the current thesis. Thus, since this thesis utilises both qualitative (semi-structured-interviews) and quantitative (corporate governance disclosure index) research methods, the researcher does not adopt extreme positions with regard to the ontological and epistemological assumptions underpinning the study (Chua, 1986; Laughlin, 1995). This choice was deliberate since, “quantitative data provides breadth to a study while qualitative methods provide depth” (McCluskey, 2006, p. 91). Therefore, the researcher places himself towards the interpretive end of the functionalist paradigm. The interviews use more of a nominalist ontology and a more subjective epistemology to explore the perceptions of different stakeholders groups about corporate governance practices; as a result, an interpretive paradigm characterises this research component. On the other hand, the disclosure index is a quantitative method which assumes a realistic ontology and an objectivist epistemology; therefore, the interpretive end of the functionalist paradigm is employed.

5.6 Research Methods

Researchers utilise a different range of methods to explain, explore and comprehend the phenomenon they conduct. Indeed, Neuman (2003) states that research methods can be categorised into two different types: qualitative and quantitative. According to Punch (2005) qualitative research is concerned with words, coding and categorising the main themes in order to construct generalisations or theories. In contrast, a quantitative approach is more concerned with numbers and shows how the variables are organised, measured and analysed (Punch, 2005). Based on these two research methods, a number of data collection alternatives are available to a researcher adopting a qualitative and/or quantitative approach. For example, interviews, focus groups, case studies, physical observations, questionnaires, and statistical tests. Thus, in order to meet the objectives of this research, the thesis adopts two methods-semi structured interviews and disclosure index- as the main tools for generating the empirical data as the use of qualitative and quantitative methods that combine a mixed-method approach can provide a deeper and richer insight into governance practices (Zattoni et al., 2013). This study employs interviews first and then utilizes the disclosure index. This approach was followed because the researcher wanted to first gain some background information about the interviewees' knowledge and understanding of corporate governance and gather some insights on current corporate governance practices in the listed companies in the three countries. However, by employing a corporate governance disclosure index this helped the researcher to better understand and determine the disclosure of corporate governance practices in the annual reports. Thus, some perceptions about corporate governance practices in these three countries are also solicited and these are used to compare the results with the findings from the corporate governance disclosure index.

To support the decision to use a combination of methods, Saunders et al. (2009) state that:

> "..Different methods can be used for different purposes in the study. You may wish to employ, for example, interviews at an exploratory stage, in order to get a feel for the key issues before using a questionnaire to collect descriptive or explanatory data. This would give you confidence that you were addressing the most important issues" (p.153).

Using semi structured interviews helped the researcher elicit the views of different stakeholder groups about corporate governance practices. On the other hand, the disclosure index was utilised as the annual reports of listed companies play an important role in discharging hierarchical accountability (Soobryan and Mahdao, 2012), Therefore, the researcher used corporate governance disclosure index to understand the actual corporate governance practices among these three countries and it is consider as a measure of discharging accountability as suggest by Fox (2010). Thus, the following section identifies the different issues in relation to the two research methods used to conduct this study

5.6.1 Semi Structured Interviews

According to Gilbert (2008) the interview is one of the main data collection methods in qualitative research. The interview method is used as a tool in this thesis to gather data related to the view point of stakeholders in the three countries about corporate governance practices. As Saunders et al. (2009) state, interviews give the opportunity to gather valid as well as reliable data which is highly applicable to the research question.

There can be three interview types that can be identified based on the degree of formality and structure, namely: (i) structured; (ii) semi-structured; and (iii) unstructured (Walliman, 2001; Saunders et al., 2009; May, 2011). In structured interviews, closed questions are used to ask each interviewee the same question in the same way. This type of interview requires

the interviewer to ask each question and then record the response based on a standardised schedule (Saunders et al., 2009). Unstructured interviews are conducted in a very informal manner involving casual conversations leading to more qualitative data as the interviewees express their views explicitly (Bryman, 2012).

However, semi-structured interviews fall between these two types of interview. They involve a casual conversation which is moderated through a pre-designed informal set of questions, often referred to as an interview guide, thus the interviewer has the flexibility to include, exclude and modify the order of these themes or questions in order to lead the conversation to a conclusion (Saunders et al., 2009). In the same context, semi-structured interviews are defined by Bryman (2012) as:

> "The researcher has a list of questions or fairly specific topics to be covered, often referred to as an interview guide, but the interviewee has a great deal of leeway in how to reply. Questions may not follow on exactly in the way outlined on schedule. Questions that are not included in the guide may be asked as the interviewer picks up on things said by interviewees. But, by and large, all of the questions will be asked and a similar wording will be used from interviewee to interviewee" (p. 471).

According to Saunders et al. (2009), the quality of the data gathered in interviews depends on the interviewer's skills and experience. In other words, interviewers should have skills that help them to notice everything, observe the issues under study, understand the interviewees' perspectives and keep the interviews in the same area (Patton, 2002). In collecting interview data, it is always best to record the interview since there is a lot of information that can be gathered from interviews. The following table shows the advantages and disadvantages of recording interviews (Saunders et al., 2009).

Table 5.4 Advantages and Disadvantages of Audio-Recording the Interview

Advantages	Disadvantages
• Allows interviewer to concentrate on questioning and listening	• May adversely affect the relationship between interviewee and interviewer (possibly of 'focusing' on the audio recorder
•Allows questions formulated at an interview to be accurately recorded for use in later interviews where appropriate	•May inhibit some interviewee responses and reduce reliability
• Can re-listen to the interview	• Possibility of a technical problem
• Accurate and unbiased record provided	•Time required to transcribe the audio-recording
• Allows direct quotes to be used	
• Permanent record for others to use	

Saunders et al. (2009, p. 341).

However, it is also advisable for the interviewer to take notes during interviews as they act as supporting tools to understand the recorded data. In addition, taking notes is important to give a backup in case the recording does not work, and will provide an early insight of the inquiry and make the interview transcription and analysis easier (Patton, 2002). Some research requires producing full transcriptions but some scholars argue that providing full transcripts of interviews is not essential (Dunne, 2003). Bryman, (2012) argues that "the problem with transcribing interviews is that it is very time-consuming" (p.484).

Employing interviews as a data collection method has some disadvantages. First, performing interviews is time consuming and costly, especially if the interviews are located in a different country to the researcher (Sekaran, 2003; May, 2011). The flexibility given to the interviewer and interviewees can cause bias which could result in inaccurate data and may affect the reliability of the data collected (Ibrahim, 2000). Since there is a lack of anonymity, the interviewee might not want to disclose honest information especially with regard to sensitive issues (Ibrahim, 2000; Sekaran, 2003). However, assuring the

interviewees of anonymity can assist to relieve this. In addition, since the interview method is used in particular contexts and to produce certain results, it does not permit any systemic generalisation of results (Denscombe, 2010). Furthermore, Saunders et al. (2009) claim that, "using the interview to collect research data requires considerable skills" (p. 319).

On the other hand, the use of face-to-face interviews as a data collection method has several advantages. One of the main advantages of an interview is that it allows the interviewer to obtain clarifications and more details (Hussey and Hussey, 1997). The face–to-face interview can ensure that the point is clearly made and understood by the interviewer which adds more reliability (Sekaran, 2003). In addition, it gives the interviewer the opportunity to evaluate non-verbal communications such as body language (Hussey and Hussey, 1997). Fourth, the interview is considered to be flexible by adjusting the questions based on the interviewee and the situation (Walliman, 2001, Saunders et al., 2009; May, 2011).

To conduct this study, the researcher decided to employ semi-structured interviews by interviewing different stakeholder groups concerning current corporate governance practices in the three Arabian Gulf countries; Saudi Arabia, Oman and Bahrain to assess whether they are accountable (including the Islamic concept of accountability). This method allowed the different interviewee groups to express their experiences, opinions, and attitudes in response to the questions, in addition to any other relevant information that they wanted to be considered.

Thus, the researcher developed an interview guide that contained relevant topical questions. The topics and questions of the interview guide were mainly constructed from the literature of corporate governance in general and corporate governance in developing countries, as

well as from Islamic Shariah to assess corporate governance practices and the accountability of companies in these three countries. The interview questions contained three key topics: the understanding of corporate governance; current corporate governance practices; and accountability (including Islamic Accountability) in these three countries. Four interview guides were developed for each of the four stakeholder groups with similar questions but care was taken when developing the questions to be consistent with the interviewees' backgrounds and knowledge. The interview questions in English are provided in Appendix 6.1.

The researcher piloted the interview questions with staff and PhD students in the School of Business at the University of Dundee. The pilot was in English and Arabic[28]. Twenty-four face-to-face interviews were held in Saudi Arabia, Oman and Bahrain, all being conducted in Arabic. Table 5.5, provides the characteristics of the stakeholder interviewees. As shown in the Table 5.5, the interviews were grouped into four stakeholder categories: Regulators (R); Company directors (C); Independent directors (I); and other (U)[29] respectively. In addition, it shows that eight interviews were held in Saudi Arabia, six in Oman and ten in Bahrain. The interviewee sample consists of three regulators, 13 company directors (including CEO's, top management, chairmen of boards, executive and non-executive board members), three independent directors and five others (including academics, investors and auditors). The interviewees in this study were selected as representing individuals with the background and experience necessary to contribute to the research. It is important to note that there was only one female interviewee in this study and that was in Oman.

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[28] Arabic is the official language in these three countries.

[29] The researcher coded the Saudi interviewees with letter (S), Omani interviewees with (O) and Bahraini interviewees with (B).

Table 5.5 Categories of Interviews

No.	Code	Role	Country	Group
Regulators				
1	RS1	Regulator body	Saudi Arabia	G1
2	RO1	Regulator body	Oman	
3	RB1	Regulator body	Bahrain	
Company directors(CEO, Executives and non-executives board member, Executive directors)				
4	CS1	Chairman of the board (executive)	Saudi Arabia	G2
5	CS2	Chairman of the board (Non-executive)	Saudi Arabia	
6	CS3	Board Member (Non-executive)	Saudi Arabia	
7	CS4	Board secretary	Saudi Arabia	
8	CS5	Board secretary	Saudi Arabia	
9	CO1	CEO and Board Member	Oman	
10	CO2	Executive director	Oman	
11	CB1	CEO and Board Member	Bahrain	
12	CB2	CEO and Board Member	Bahrain	
13	CB3	Executive director	Bahrain	
14	CB4	Executive director	Bahrain	
15	CB5	Executive director	Bahrain	
16	CB6	Executive director	Bahrain	
Independent directors				
17	IS1	Independent director	Saudi Arabia	G3
18	IO1	Independent director	Oman	
19	IB1	Independent director	Bahrain	
Other Users (including academics, investors and auditors)				
20	US1	Auditor	Saudi Arabia	G4
21	UO1	Academic	Oman	
22	UO2	Investor	Oman	
23	UB1	Investor	Bahrain	
24	UB2	Auditor	Bahrain	

Note: This table shows some of interviewees' characteristics, such as their roles and the country where interviews were conducted. The interviewees were also grouped in four categories: G1 Regulators, G2 Company directors (CEO, Executive and non-executive board members, and other Executive directors), G3 Independent Directors and G4 others (Including academics, investors, auditors).

The interviews were conducted between July and September 2011 in the three Arabian Gulf countries' capital cities[30]: Riyadh (Saudi Arabia), Muscat (Oman) and Manamah (Bahrain). The researcher conducted all the interviews face-to-face and were arranged based on the researcher's father and friends' contacts, especially in Oman and Bahrain where there were

[30] These cities were chosen because all the main regulators body and managements of the companies sit in these cities.

many practical difficulties involved with conducting the interviews. Since the researcher is from Saudi Arabia, he had to travel and stay in Oman and Bahrain; this was time consuming and expensive. Moreover, the interviews took place during a time of political disquiet in these two countries during what is known as the Arab Spring. Interviews with three regulators, 12 company directors, one independent director, and three of others took place at their offices, but one of the company directors and two of others asked to be interviewed in a public coffee shop. In addition, one of the independent directors asked to be interviewed in his house and one came to the researcher's hotel and was interviewed in the hotel lobby, and later on before the researcher left Oman, he sent a package of Omani Halowa[31]. The average duration of each interview was one hour, and they were recorded with the permission of the interviewees. These interview recordings were later transcribed in Arabic and then the key points and relevant parts were translated to English. The results of the interviews were analysed in the context of the corporate governance literature as reviewed in Chapter 3, accountability (lateral and hierarchical forms of accountability) and the Islamic concept of accountability theory (Shura and Hisba) as laid out in Chapter 4. The following section describes the Disclosure Index used as the second research method.

5.6.2 Disclosure Index

This section provides an overview of the disclosure index method employed in the current study[32]. Marston and Shrives (1991) point out that disclosure indices are "extensive lists of selected items which may be disclosed in company reports" (p. 195). This means that the disclosure index method can be used to measure the extent of both mandatory and

[31] Omani Halowa (Omani Sweet) is very famous in the Arabian Gulf countries.
[32]More details associated to the sample selection, reasons for using annual reports pilot study and the reliability of the disclosure checklist are highlighted in chapter 7.

voluntary corporate governance disclosures. Likewise, Hassan and Marston (2010) define the disclosure index as:

> "a research instrument to measure the extent of information reported in a particular disclosure vehicle(s) by a particular entity(s) according to a list of selected items of information" (p. 18).

The corporate governance disclosure index in this thesis measures the extent of information circulated in the annual reports of the listed companies of Saudi Arabia, Oman, and Bahrain. From reviewing previous studies on corporate governance disclosure, there are two methods for constructing disclosure indices. The first approach revolves around reviewing the previous literature to develop the disclosure index (Hassan and Marston, 2010) and the second approach uses an existing index without making any changes. By using existing indexes the researcher can make comparisons with previous studies that employ the same index. However, some researchers use a combination of both methods as explained by Hassan and Marston (2010). The current study utilises a combination of both approaches using corporate governance disclosure indices from the previous literature on corporate governance, the codes of corporate governance in the three countries under investigation and the OECD corporate governance principles to construct a corporate governance disclosure index that is appropriate for this study.

Regarding the importance of the items included in the index, there are two types of index: weighted and un-weighted. Both weighted and un-weighted disclosure indices have been used by researchers in previous studies. Researchers such as Wallace et al. (1994); Cooke (1991, 1992); Hossain et al. (1994); Raffournier, (1995); Carson (1996); Hossain (2000); Haniffa and Cook (2002); Andersson and Daoud (2005); Parsa et al.(2007); Suphakasem (2008); Hossain and Hammam (2009); Mallin and Ow-Yong (2012); Mohamad and

Sulong (2010); Samaha et al. (2012); Ntim et al. (2012); Al-Moataz and Al-Hussainey, (2012) used the un-weighted approach and adopt a dichotomous procedure in which an item scores one if disclosed and zero if not disclosed. The weighted disclosure approach (employed by for instance by Choi, 1973; Courtis, 1978; Firth, 1984; Firer and Meth, 1986; Marston, 1986; Botosan, 1997; Barako, 2007; and Bauwhede and Willekens,2008), involves the application of weights above zero but less than one to items of information which are disclosed (zero is the weight for non-disclosure).

A weighted disclosure index takes into consideration the importance of each item included in the index and assigns different weights to different items on the disclosure index. This scoring approach has been criticised in the literature. For example, Marston and Shrives (1991) claim that by using weighted scoring the reliability of the disclosure index is affected. In addition, Ferguson et al. (2002) argue that the different scores do not consider the real use of each information item because they actually represent the perceptions of those information needs. Moreover, this scoring method is subjective because of the subjectivity of the weighting process (Chow and Wong-Borne, 1987). Furthermore, using different weights for the items could lead to ambiguous results, as the importance of each item on the checklist may differ due to country, industry type, company type, and the time of conducting the analysis (Abd-Elsalam, 1999; Hassan et al., 2006).

On the other hand, an un-weighted approach is a disclosure index where items are given equal scores and all items are the same of weight. In addition, according to Ahmed and Courtis (1999) the use of the un-weighted index reduces the subjectivity problem. Moreover, using un-weighted scoring is more reliable than weighted scoring (Marston and Shrives, 1991) and Beiner et al. (2006) state that this is both transparent and easy to

replicate. In addition, the weighted and un-weighted scoring approaches often tend to produce the same results (Beattie et al., 2004).

Therefore, based on the above, the current empirical work uses the un-weighted approach for scoring and measuring the corporate governance disclosure index of all three countries. This approach uses a dichotomous procedure to develop a scoring scheme that captures the level of disclosure. Accordingly, the researcher employs a simple binary coding scheme, whereby a score of 1 is assigned to the presence of the item and 0 to a non-disclosed item.

Like any research method, it is important to ensure the reliability and validity of the constructed and employed index. Marston and Shrives (1991) state that:

> "It is necessary to consider two criteria that are typically employed in the social sciences when evaluating measurements. These criteria are reliability and validity" (p. 197).

Likewise, Neuman (2003) suggests that: "reliability and validity are central issues in all measurement. Both concern how concrete measures are connected to constructs" (p.206). In this regard, Carmines and Zeller, (1991) indicate that reliability refers to "the extent to which an experiment, test, or any measuring procedure yields the same results on repeated trials" (p. 11). There are two major issues for reliability that must be addressed: (i) the stability and (ii) reproducibility. The constructed index- a corporate governance disclosure index- is reliable if it can be easily replicated by the same researcher over time (stability); as well as by another researcher (reproducibility) when coding the same content with higher levels of accuracy (Beattie et al., 2004; Beattie and Thompson, 2007). Thus, there are three major tests for reliability: (i) test-retest; (ii) inter-coder reliability; and (iii) internal consistency (Hassan and Marston, 2010). The test-retest reliability "measures the stability

of the results obtained from a measurement instrument over time" (Hassan and Marston, 2010, p.25). In the same context, Sekaran (2003) states that: "the reliability coefficient obtained with a repetition of the same measure on a second occasion is called test-retest reliability" (p. 204). The inter-coder reliability is defined as "the correlation between the results produced by more than one coder" (Hassan and Marston, 2010, p.26). In this context, inter-coder reliability is the proportion of agreement between several coders processing the same material (Krippendorff, 2004). On the other hand, internal consistency checks "the homogeneity of the items in the measure that tap the construct" (Sekaran, 2003, p. 205) and refers to "the degree to which all items hang together and measure the same underlying attribute" (Pallant, 2001, p.6). Cronbach's coefficient alpha[33] is the most employed test for measuring internal consistency (Sekaran, 2003). Therefore, inter-coder reliability and Cronbach's coefficient alpha were employed as a proxy to test the reliability of the corporate governance disclosure index results for this current study. More details about these two tests are outlined in Chapter Seven.

The second issue that should be addressed is the validity. Validity is defined as "the extent to which any measuring instrument measures what it is intended to measure" (Carmines and Zeller, 1991, p.17). There are three types of validity: (i) content validity; (ii) construct validity; and (iii) criterion validity (Sekaran, 2003; Lee and Lings, 2008). Content validity "ensures that the measure includes an adequate and representative set of items that tap the concept" (Sekaran, 2003, p. 206). Criterion validity measures how well the items predict future observations (Litwin, 1995). Construct validity "testifies how well the results obtained from the use of the measure fit the theories around which the test is designed"

[33] Values of Cronbach's alpha coefficient range from 0 to 1, the higher the value, the greater the internal consistency reliability (Sekaran, 2003).

(Sekaran, 2003, p. 207). Thus, the validity of the disclosure index employed in the current study was fulfilled through the pilot study. In addition, the disclosure checklist was reviewed by academics and post-graduate researchers with familiarity of using disclosure indices who verified its appropriateness. Furthermore, items from prior corporate governance disclosure studies are valuable in assuring the validity of the disclosure checklist employed in this study.

5.6.2.1 Constructing a Corporate Governance Disclosure Checklist for this Study

According to Marston and Shrives (1991), the selection of the items to be included is a first stage when developing disclosure index research; although Coy et al. (2001) note that there is no general way or model that offers guidance on the selection of items to construct a disclosure index. In addition, with regard to the number of items to be incorporated in the index, Wallace and Naser (1995) state that there is no fixed theory with respect to the number of items to be incorporated in the disclosure index.

Therefore, all corporate governance disclosure items for this research are based on the following three sources: (i) using the local country corporate governance code in Saudi Arabia, Oman and Bahrain; (ii) the OECD disclosure and transparency principle of corporate governance as MENA countries including GCC countries rely heavily on the OECD corporate governance principles when developing their local codes (IFC and Hawkamah, 2008); and (iii) prior studies on corporate governance disclosure. Thus, based on these three sources, the items of information to be included on the checklist were first categorised as either mandatory or voluntary. Hassan and Marston (2010) define mandatory and voluntary disclosures as:

> "Mandatory disclosure is information revealed in the fulfillment of disclosure requirements of statute in the form of laws, professional regulations in the form of standards and the listing rules of stock exchanges. Voluntary disclosure is any information revealed in excess of mandatory disclosure." (p.7)

Therefore, mandatory items are those that companies are required to disclose in their annual report by the respective Company Acts and corporate governance codes in each of the three countries. The voluntary items are information that are not mandated by any regulations but are recommended by the academic literature. After investigating the codes and prior research, 135 items were identified for inclusion, as shown in detail in Table 5.6.

Table 5.6 List of the Mandatory and Voluntary items for each country

Items	Saudi	Oman	Bahrain
Mandatory	31	27	68
Voluntary	104	108	67
Total items	135	135	135

Note: this table displays the items which are mandatory and voluntary for each country.

According to Table 5.6 above, the checklist contains 31, 27 and 68 mandatory items for Saudi Arabia, Oman and Bahrain respectively. Thus, it can be seen that Bahrain is required to disclose more items than Saudi and Oman, possibly because the Bahraini code of corporate governance was issued later and so is more contemporary than the code belonging to the other two countries[34]. In addition, the checklist contains 104, 108 and 67 voluntary items in all three countries respectively as shown in Table 5.6 above.

[34] As mentioned before in this study, the Bahraini code was established in 2010 and the effective date for adoption by companies was January 1st 2011.

As shown in Appendix 7.1, the complete corporate governance disclosure checklist included 135 items divided across seven sections: board of directors (29 items); CEO (10 items); other senior managers (excl. CEO and board members) (8 items); board sub-committees (64 items); information related to auditors (6 items); shareholding information and investor rights (7 items) and corporate behavior and responsibility (11 items). Thus, the corporate governance index employed here represents a comprehensive measure of corporate governance disclosure amongst all companies listed in the three countries. The checklist was then used to score corporate governance disclosure for each selected company. The study used an un-weighted index for the reasons outlined above.

5.7 Summary

This chapter highlights Burrell and Morgan's (1979) different philosophical perspectives associated to the assumptions about the nature of social science research and the assumptions about the nature of society research. It also discusses the four research paradigms of Burrell and Morgan’s framework followed by some critiques of this framework. In addition, the chapter identifies the philosophical assumptions employed in the current study. Furthermore, it outlines and discusses the two research methods utilised in the current study to carry out the empirical research; in particular, interviews and a disclosure index (corporate governance disclosure index). The following two chapters report the results of the empirical analysis that was employed in this research to answer the research questions.

Chapter 6: Interviews Analysis

6.1 Introduction

As described in Chapter Five, the first research method used in this study was semi-structured interviews. The main purpose of conducting these interviews is to investigate stakeholders' views of corporate governance practices in three Arabian Gulf Countries (Saudi Arabia, Oman and Bahrain) and discover whether they reflect accountability (including the Islamic concept of accountability). The interviewees in this study include: (i) company directors; (ii) regulators; (iii) independent directors; and (iv) others (including investors, academics and auditors). This chapter presents the results of 24 interviews across the four stakeholder groups. The interviews were conducted between July and September 2011. Following this introduction, the remainder of this chapter is organised as follows: section 6.2 highlights and examines the interviewees' understanding of the concept of corporate governance as preparation for an analysis of accountability. Section 6.3 elaborates on the views of the interviewees regarding the current corporate governance practices in these three countries and teases out any differences, while section 6.4 summaries the issues related to accountability (including Islamic accountability). Section 6.5 provides a summary of the chapter.

6.2 The Interviewees' Understanding of Corporate Governance

To investigate the stakeholders' understanding of the concept of corporate governance, all of the interviewees were asked to provide their views relating to the definition of corporate governance, the best translations of the term in the Arabic Language and the importance of corporate governance.[35] The purpose of these questions was to gain some background information about the interviewees' knowledge and understanding of corporate governance in order to find out about the way accountability is perceived, understood and practiced in

[35] These are based on the responses to interview questions 1 to 4, shown in Appendix 6.1.

Saudi Arabia, Oman and Bahrain. The following sections outline their responses to these questions.

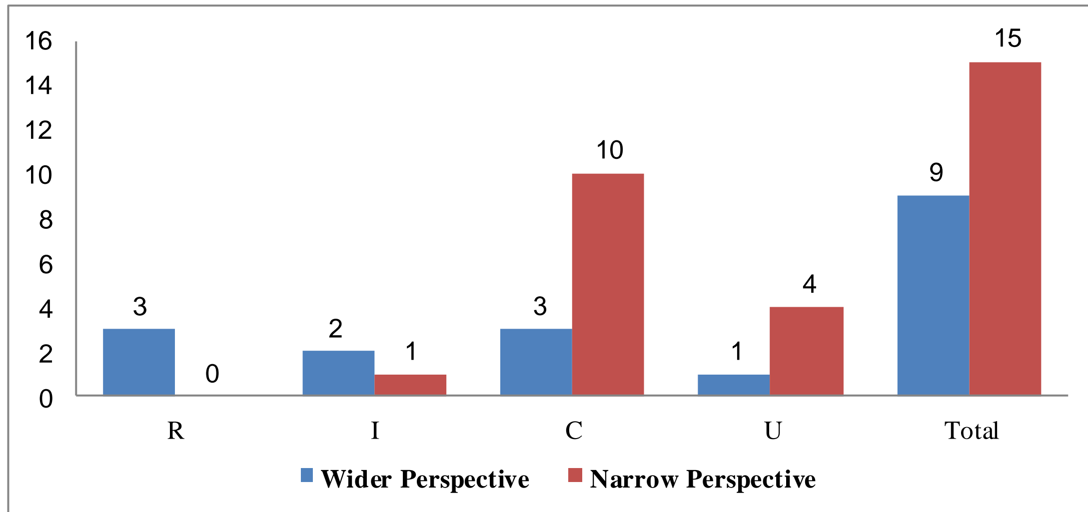
6.2.1 Corporate Governance Definitions

According to Mina (2011), it could be argued that a narrow view of corporate governance represents a narrow view of accountability. In contrast, a wider view of corporate governance could represent a wider view of accountability. As outlined in Chapter Three, the term 'corporate governance' has still not acquired a collectively-accepted definition and the interviewees were thus asked to define this term and explain their understanding of the various perspectives of accountability, ranging from a narrow to a wide definition, as shown in Figures 6.1.A and 6.1.B. For example, some interviewees defined corporate governance from a narrow perspective and focused only on the agent-principal relationship, or a regulatory perspective, while others adopted a wider perspective, reflecting an approach that was more stakeholder-focused.

Overall, Figure 6.1(A) indicates that the majority of the interviewees (15 out of 24) perceived corporate governance from a narrow perspective, especially company directors. Indeed, eight of the interviewees in all three countries (CS4, US1, CO2, UO1, CB1, CB3, IB1, UB2) repeated the definition given by Cadbury (1992), which focuses on the system by which companies are directed and controlled. Thus, in these cases, there seemed to be a very limited view of corporate governance, and hence accountability, because the respondents viewed corporate governance almost as an internal task of a company. For example, a Saudi company director (CS4) stated that:

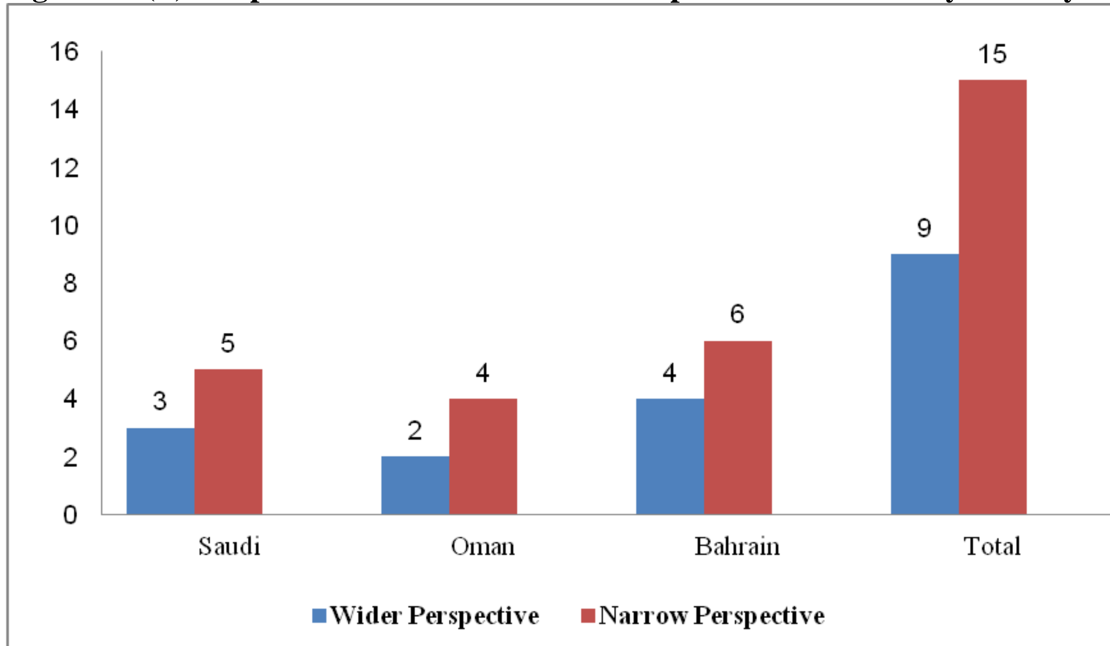
> "Corporate governance could be defined as the way in which companies are managed and controlled."

Figure 6.1 (A) Perspectives on the Definition of Corporate Governance by the Stakeholder Groups



Note: this figure shows the interviewees' understanding of corporate governance based on the stakeholder groups. R=Regulators; I= Independent Directors; C=Company Directors; U= Other Stakeholder groups.

Figure 6.1 (B) Perspectives on the Definition of Corporate Governance by Country



Note: this figure illustrates the interviewees' understanding of corporate governance by country.

Likewise, CO2 suggested that corporate governance relates to: "the proper way to manage the affairs of the company." Similarly, interviewee IB1 defined corporate governance as: "the system by which companies are directed and controlled."

In addition, four interviewees, two from Saudi Arabia (CS1, CS3) and two from Oman (CO1, UO2), gave a very narrow definition of corporate governance. They suggested it occurs only between shareholders and managers, implying a lack of wider accountability. For example, a chairman of a Saudi Company (CS1) suggested that:

> "Corporate Governance generally refers to the set of systems that ensures there is a separation between the ownership and management."

Likewise, an Omani interviewee (UO2) commented:

> "Corporate governance is the system that manages the relationship between the major shareholders, minority shareholders and company directors to ensure no one can take advantage more than the others."

Furthermore, three of the interviewees, the chairman of a Saudi Company (CS2) and two of Bahraini interviewees (CB4, CB5), defined corporate governance only from a regulatory perspective, where the focus is only on regulators, showing even less regard for the accountability of companies. For example, CS2 stated that:

> "Corporate governance is a regulation established by the Capital Market Authority to direct the companies that are listed on the stock market."

Equally, CB4 defined corporate governance as:

> "The system that lays down rules for companies or entities to prevent negligence by the board of directors."

However, all of the regulators (RS1, RO1, RB1) in the three countries, two of the independent director interviewees (IS1, IO1), one from the other group (UB1) and three

company directors (CS5, CB2, CB6) defined corporate governance from a wider stakeholder perspective, as consisting of a general set of principles, regulations, behaviour and rules that clarify the way in which companies should be governed to benefit different groups of interested parties. Thus, they took a wider perspective of accountability between a company and all its stakeholders, as noted in the following quotes:

> "Corporate governance is a set of procedures and regulations that govern and frame the relations between the shareholders, board of directors, and executive management in order to achieve the interests of the shareholders and other related parties." (RS1)

> "Corporate governance is a set of rules and procedures that regulate the relationship between the company and the related parties, such as the shareholders, board of directors, regulators, suppliers and others." (RO1)

> "The framework for regulating the relationships between all stakeholders in any institution, whether it is the management, the owner, or other relevant parties." (UB1)

One reason for this broader view of the independent directors and regulators in this study might be because they understood, and had more knowledge of, corporate governance than the other interviewees and were also aware of the issues regarding codes of corporate governance globally. For example, the Saudi regulator (RS1) stated that:

> "As a regulator, I have to read international codes of corporate governance and attend conferences in order to gain more knowledge and update the existing code of corporate governance in Saudi Arabia as we all know that corporate governance is considered a hot topic nowadays."

In addition, the independent non-executives directors (INEDs) interviewed in this study were more likely to be experts in corporate governance. For example, the Saudi INED (IS1) had written books on corporate governance and issued frameworks of corporate governance for several companies in Saudi Arabia. The Omani INED (IO1) had attended several OECD meetings and conferences. However, their wider view of corporate governance does

not necessarily mean that all of the INEDs in Saudi, Oman and Bahrain held the same view,[36] but the INEDs in this study represented independent directors with a wider experience of corporate governance.

Thus, the evidence suggests that, as shown in figure 6.1.B, the majority of the stakeholders (15 out of 24) in these three Arabian Gulf countries have a very narrow view of corporate governance, seeing it as relating only to managers, shareholders and regulators. This in turn indicates a limited view of accountability, and in particular, limited hierarchical accountability.

However, the regulators and the majority of INEDs seemed to have a much wider understanding of corporate governance as they included other company stakeholders in their definitions and hence took a much wider perspective of accountability (see Tricker, 1984; OCED, 2004; and Solomon, 2010). Thus, from the interviewees' definitions of corporate governance, it appears that the accountability of companies may be similar across all three countries. This result was unexpected, especially given that all three countries are dominated by Islamic values that encourage people to take into account, and to be accountable to, a broad range of stakeholders and to society in general. Accordingly, it was expected that the majority of the interviewees in these three Arabic countries would view corporate governance from a wider perspective, but this proved not to be the case.

[36] As will be seen later, especially in Saudi and Oman, where truly independent directors do not exist in certain Saudi and Omani Companies.

6.2.2 The Translation of Corporate Governance

It is possible that confusion about the concept of corporate governance exists due to the Arabic translation of the term. According to Falgi (2009), there is no agreement in the Arabic corporate governance literature about how to translate this term. In this thesis, the majority of the interviewees in the three Arabian Gulf countries agreed that there was no agreement on the best Arabic translation of the phrase 'corporate governance' and that this poses a significant challenge. Overall, some of the interviewees' recognised 'Hawkamahat alsharikat' (the governance of companies) as the most generally accepted Arabic term for corporate governance in Arabic countries, but another term, Edarat wa Tawjeh alsharikat (directing and controlling the company) might also be used.

Indeed, 62.5% of the Saudi interviewees, 33.33% of the Omani interviewees and all of the Bahraini interviewees believed that 'Hawkamahat alsharikat', 'the governance of companies', was the best Arabic translation. According to IS1, the Arabic word 'Hawkamahat', means governance and oversight which can include several parties, such as the board of directors as an internal governing body of a company, and the capital market authority as an external governing body as this has been proposed by the secretary general of the Academy of the Arabic Language. This translation links the role of the government to that of the regulators, boards of directors, senior management, board committees, shareholders and other interested parties because its focus is on all of the interested parties which may have implications for hierarchical accountability and to a wider stakeholder group. In this context, CB5 claimed that corporate governance is a canopy that covers many elements, of which Edarat wa Tawjeh alsharikat is just one. In addition, a Bahraini Auditor (UB2) stated that:

> "Hawkamahat alsharikat is the common term for 'corporate governance' used in Bahrain and I do not recall that there is another word that could describe the full meaning of corporate governance used in Bahrain."

Three of the Saudi interviewees (CS2, CS4, CS5) and four of the Omani interviewees (RO1, CO2, UO1, UO2) disagreed with this view. They stated that they used, and preferred, the translation Edarat wa Tawjeh alsharikat which means 'directing and controlling the company;' it is also the translation most directly related to the Cadbury (1992) definition of corporate governance, as indicated by CS4[37]. This may represent a narrower view of corporate governance and reflect a more limited view of accountability. Thus, it is interesting to note that the majority of the Omani interviewees preferred the term 'Edarat wa Tawjeh Alsharekat', which may mean that in Oman, corporate governance is viewed from a narrower perspective in comparison with Saudi Arabia and Bahrain representing weaker hierarchical accountability.

For example, CS2 argued that Hawkamahat alsharikat is a vague term, and could be understood by people who do not have any idea about corporate governance as being related to state-owned companies that have been privatised. He argued that this term, which does not reflect the real meaning of corporate governance and so Edarat wa Tawjeh alsharikat, might be a better translation of corporate governance. In this context, UO2 explained that:

> "I believe that Edarat wa Tawjeh alsharikat is considered the best Arabic translation of the term 'corporate governance' because, if we say Hawkamahat alsharikat, I immediately think of companies that are owned by the government, especially those who are unfamiliar with corporate governance."

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[37] CS4 hold a PhD in corporate governance and he works in large Saudi company which still uses "Edarat wa Tawjeh alsharikat" as an Arabic translator and that might explain the reason why he preferred this translation.

From a stakeholder perspective, two of the regulators and all of the INEDs had a similar view of the translation of corporate governance into Arabic, in accordance with their wider focus on corporate governance as already noted. In addition, the majority of company directors in the three countries also preferred the term Hawkamahat alsharikat.

6.2.3 The Importance of Corporate Governance

All of the interviewees in the three countries collectively believed that corporate governance was essential for business. For example the Saudi regulator (RS1) stated that:

> "It is very important for all companies to have and implement the best practice of corporate governance. As without it, the chances of success of the company's is very little."

Similarly, the CEO of an Omani company and a board member (CO1) thought it was important, and linked it with a narrow focus and stated that:

> "Corporate governance is very important for all types of companies and most of the Arab revolutions happened these days because they do not apply a good system of corporate governance."

This may have been expected in Oman and Saudi Arabia because their codes of corporate governance have been around for more than five years[38]. In contrast, this was unexpected in Bahrain because the code had only been introduced in 2010 with an effective date of 2011. Nevertheless, all of the Bahraini interviewees agreed on the importance of corporate governance, and some of the Bahraini interviewees assumed that the accountability of companies that implemented corporate governance would be improved. This was more apparent when the responses of the interviewees from Bahrain were compared to those from Saudi Arabia and Oman; for example, one of the Bahraini interviewees (CB2) stated

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[38] As stated in chapter 2, the Saudi code of corporate governance was issued in 2006 and the Omani code in 2002.

that corporate governance helped the continuity and success of a company if it was properly managed. Furthermore, the interviewee (CB2) said that it also improves the disclosure of information to interested parties, clarified the relationships between boards of directors, executive managers and other stakeholder groups and helped to discharge accountability between those groups, enhancing hierarchical accountability.

Overall, the interviewees in all three countries indicated that corporate governance was beneficial, as documented in Table 6.1, where nine different reasons were mentioned by the interviewees about why corporate governance was important.

Table 6.1The Importance of Corporate Governance by Country

Reasons	N	% (out of 24)	Saudi (Rank)	Oman (Rank)	Bahrain (Rank)
Defining the roles and responsibilities	16	66.66%	6 (1)	4 (1)	6 (1)
Improving disclosure of information and greater transparency	11	45.83%	4 (2)	2 (5)	5 (3)
Increasing an awareness of accountability	11	45.83%	3 (4)	2 (5)	6 (1)
Protecting shareholders' rights	10	41.66%	4 (2)	3 (2)	3 (6)
Promoting the success and the continuity of the company	10	41.66%	3 (4)	3 (2)	4 (4)
Protecting stakeholders' rights	8	33.33%	3 (4)	1 (9)	4 (4)
Protecting and strengthening the economy	6	25%	1 (7)	3 (2)	2 (7)
Maintaining public trust and confidence	5	20.83%	1 (7)	2 (5)	2 (7)
Enhancing the separation between ownership and management	4	16.66%	1 (7)	2 (5)	1(9)

Note: this table indicates the number and percentage of interviewees by country who mentioned each reason for why corporate governance is important. (N=Total number of interviewees). Interviewees may have stated more than one reason.

According to Table 6.1, the most cited advantage that can be achieved by applying corporate governance is defining the roles and responsibilities to certain individuals (66.66% of the interviewees), followed by improved disclosure of information and transparency which mentioned by 45.83% of the interviewees, which enhances hierarchical accountability. More importantly to this thesis, 45.83% of the interviewees stated that applying corporate governance increased an awareness of accountability, especially in Bahrain (60%); but only 37.50% of the Saudi and 33.33% of the Omani interviewees thought this.

In addition, Saudi and Omani interviewees cited the importance of corporate governance from a narrower perspective of corporate governance which may restrict accountability to wider stakeholder groups; protecting shareholders' rights was ranked second in Saudi and Oman, and sixth in Bahrain. In contrast, the Bahraini stakeholders considered the importance of corporate governance from a wider stakeholder perspective; protecting stakeholders' rights was ranked fourth in Bahrain, fourth in Saudi Arabia and ninth in Oman. Overall, accountability was ranked first in Bahrain, but fourth in Saudi Arabia and fifth in Oman. Consequently, stakeholders of Bahraini companies may be more aware of the importance of discharging hierarchical accountability to stakeholder groups than Saudi and Omani companies. The finding is consistent with IFC and Hawkamah (2008) who found that the majority of respondents claimed that implementing corporate governance was very important for their businesses. The next section highlights the interviewees' views about current practices of corporate governance in the three Arabian Gulf countries to establish whether there is a similar accountability across them all.

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6.3 Corporate Governance Practices

This section examines the interviewees' views about corporate governance practices in their countries and any improvements that might be required. These practices will be discussed in the following sub-sections: board size; board directorship; the term of office of each board member; board evaluation; independent non-executive directors; separation of the CEO and Chairman; board meetings; boards of directors' sub-committees; stakeholders and shareholder rights; and disclosure of information and transparency.[39]

6.3.1 Board Size

Mallin and Ow-Yong (2012) note that a greater number of board members brings together more varied experiences and enhances the discussions of the board members by providing different views. For this thesis, this reflects a more lateral form of accountability and of Shura. When asked about the size of corporate boards, the regulator interviewees explained that these were based on their corporate governance code and/or company law. For example, both the Saudi and Omani Regulators (RS1, RO1) explained that their codes and/or Commercial Laws required a maximum and minimum number of directors to be appointed to the board. As RS1 noted:

> "According to the Saudi corporate governance code, the board size should be between three and 11 members."

Similarly, Omani Commercial Law states a required board size for companies to follow, as an Omani Regulator (RO1) indicated:

> "Omani company law states that the board size should be between five as a minimum and 12 as a maximum number."

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[39] These are based on the responses to interview questions 5 to 21, shown in Appendix 6.1.

In contrast, a Bahraini Regulator (RB1) noted that the new Bahraini corporate governance code only states a maximum size for a board of directors; but the law already stipulated a minimum size:

> "The Bahraini code of corporate governance states that there should be no more than 15 members sitting on the board...Also, Commercial Law requires a minimum size for a board of no less than five."

Stipulating both a maximum and a minimum board size may lead to greater accountability, because companies have some freedom to choose an appropriate number of board members thereby making the board effective for that company. However if there were no boundaries, executives might choose a size that allowed them to control the board by appointing either too few or too many directors. As Arcay and Vázquez (2005) state, most corporate governance codes limit the number of board members to enhance the exchange of ideas between them, which may lead to more lateral accountability and Shura, and therefore more flexible decision making. All of the interviewees in this study confirmed that Saudi, Omani and Bahraini Companies complied with the requirements regarding board size.

Based on the interviewees' responses, the majority of the interviewees in the three countries suggested that a board size ranging between eight and 11 board members was best because it allowed enough time for each board member to speak and express their opinions. If there were fewer than eight members, the board would be too small and there would not be enough debate and discussion of the issues or the necessary diversity of background and experience, reflecting lateral accountability and Shura. In addition, others argued that, if there were more than 11 members, this would be too many, the board might find it difficult to discharge an appropriate level of lateral accountability and be unable to make effective decisions because it might be challenging for each director to participate. An appropriate

board size should therefore ensure that the members are engaged; know each other; are able to work together; are able to easily communicate with each other both inside and outside board meetings; and for board meetings to take place on the phone or via other electronic communication devices. This should ensure that all directors may fully participate in the discussions and express their opinions. As one of the Saudi interviewees (CS3) stated:

> "Eight members sit on the company board and this number is reasonable for our company because this number enables the board to carry out its duties effectively and allows each member enough time to frankly discuss the issues."

CS2 stated that:

> "We have six members but it is not enough as sometimes we face the problem that there are not enough members present to constitute a quorum. Thus, we plan to increase this to nine members, as a board with nine members is good for the company as there will be a better mix of expertise and opinions that might enhance the board discussions."

An Omani Interviewee (UO1) also noted that:

> "I believe that a size of nine is better and suitable for the company because more than nine members sitting on the board will be crowded and communication and effective contributions from all members will begin to break down, mainly when making decisions. In addition, one has to think about the length of time the discussions will take to arrive at the right decision."

Moreover, the Bahraini Interviewee (CB4) stated that:

> "In my opinion, if a board contains more than 11 members, the efficiency of the company will be lower and some members will be unwilling to discuss matters that they think the other members understand more than they do."

However, three of the Saudi interviewees, three of the Omani interviewees and six of the Bahraini interviewees pointed out that board size should depend on the size of the company and its operations. An Omani Regulator interviewee (RO1) stated:

> "The size is subjective and companies should choose the size that is most effective for their operations as one size does not fit all."

Likewise, the CEO and board member of a Bahraini Company (CB2) stated:

> "We have 13 members because our company is considered a large company and operates in 14 countries around the world. This number allows us to have representatives from other countries, to add value to the board discussions and serve on the different sub-committees that we have."

Thus, a board size that is based on each company's size may be more effective in improving lateral accountability and Shura because it may allow the board to better discharge its duties and responsibilities, hold productive and positive discussions and make timely decisions. Thus, the quality of the board members is as important as the number of board members. For example, large companies or those in specific sectors, such as the financial sector, tend to have more sub-committees and thus need to have a board size that enables them to appoint members with different types of expertise to sit on the board and serve on the different board sub-committees as suggested by CB5. Overall, accountability appeared to be discharged similarly across these three Arabian Gulf countries because they all recommend a similar board size that allows time to discuss issues and contribute to decision making. Therefore, lateral accountability in all three countries may be discharged similarly because all of the interviewees recommended a similar board size to permit discussion and debate before making decisions. In addition, the debate about board size reflects the Islamic practice of Shura (consultation), where it is important that each member contributes to the discussion before a decision is made. According to IFC and Hawkamah (2008), the boards of MENA listed companies generally consist of at least eight members, so the board size in these three countries is similar to those in MENA countries more generally, reflecting a common practice between the boards in this study and those more generally in MENA countries. The next section concentrates on other features of boards of directors.

6.3.2 Independent Non-Executive Directors

All of the interviewees were questioned about the importance and existence of INEDs. There was general agreement among the interviewees that they were aware of the importance of having INEDs as board members to: (i) control and monitor majority shareholders and executive directors' activities; and (ii) to add value to company decisions by making independent judgments for the benefit of the company, the shareholders and other stakeholders. This was in accordance with previous studies (see for example Aguilera, 2005; Andres and Valleado, 2008; Millan, 2013; Leung et al., 2014).

These INEDs are often experts in specific areas and have the skills and knowledge to act as a balance between the executives and NEDs who sit on the boards. Therefore, having experts and skilled INEDs sitting on the board may result in greater lateral and hierarchical accountability because they can often widen the discussions amongst board members and work for the interests of the minority of shareholders and other stakeholders. In addition, INEDs should be free from any pressure exercised by the owners (who may be non-executives) and executive management so they can discuss issues more openly and frankly. Therefore, INEDs provide balance on the board, as well adding new ideas from a more objective perspective. For example, one of the Saudi interviewees (RS1) explained that:

> "The reason for having INEDs on the board is to get good input into the company decisions by having experts and skilled, knowledgeable directors and to have a balance when the board makes decisions."

Similarly, one of the Omani interviewees (UO2) shared the same opinion, commenting:

> "Having INEDs on the board is essential for all companies. For example, when discussing any issues, they will be frank, honest and have unbiased views. In addition, they will give their opinion based on what they think is in the best interests of the whole company such as the management and the minority and majority shareholders."

Furthermore, one of the Bahraini interviewees (IB1) agreed about the importance of having INEDs and their key role on the board to establish accountability:

> "INEDs are important as a source of new, fresh ideas as they greatly improve the company's decision-making process. In addition, it is important to control and monitor the executive directors and majority shareholders from serving their own interests."

Furthermore, all of the Saudi interviewees indicated that INEDs were present on the boards of all the Saudi Listed companies, and that they followed the code's requirements regarding the number of INEDs sitting on the board (a minimum of one third INEDs or at least two INEDs, whichever is greater). However, some of the interviewees (ISI, CS2, CS3, RS1) were worried about the degree and extent of the true independence in some of the Saudi companies. They believed that the appointment of INEDs in some Saudi companies was undertaken mostly by the majority shareholders and was based on their relationships, as one of the interviewees (IS1) stated that, in some Saudi companies there are no INEDs sitting on boards of directors with real independence. Similarly, CS3 mentioned that:

> "In our company, there were five INEDs chosen as usual based on the voting system in the AGM and the appointment was based on the members' expertise in the company activities and the diversity of the members' experience and qualifications. However, in some of the Saudi companies, the selection is only based on the choice of the major shareholders."

Interviewee RS1 expressed the view that:

> "The concentration and mixture of experience improves the discussion and decisions making, but when we get to this, sadly, appointment to the board is based on favouritism."

However, the following shows that there may be a problem concerning the independence of the INEDs in certain Saudi companies. A chairman of a board (CS2) claimed that INEDs

were not independent in practice, as companies only took some aspects of independence into account, such as non-share ownership, while ignoring the experience and qualifications which should accompany this. Therefore, CS2 thought that more restrictions were required by the regulators to ensure Saudi listed companies appoints truly INEDs.

The Omani interviewees expressed the view that INEDs existed in Omani listed companies and that they followed the code's requirements regarding the number of INEDs sitting on the board (a minimum of one third independent). However, four of them (CO1, CO2, UO2, IO1) were also concerned about their true independence consistent with Al-Busaidi (2005); CO1 claimed appointment in Oman was based on personal relationships. He stated that:

> "Unfortunately, INED is just a title, but truly they are not. They should be appointed based on their qualifications and there should be a certain level of education required for appointment."

Equally, IO1 stated that the selection of INEDs was based on personal relationships, and mentioned that: "cultural issues are always there for the time being."

In contrast to Saudi Arabia and Oman, the majority of Bahraini interviewees (CB2, CB4, CB5, CB6, IB1, UB1, RB1) agreed that there was true independence in terms of the INEDs who sat on their boards. One Bahraini interviewee (CB5) noted:

> "I believe that the INEDs in our company are fully independent. For example, the chairman of our board has a PhD in corporate governance and is a member of the corporate governance sub-committee. He is an expert and understands corporate governance theoretically and in practice."

Likewise, UB1 stated that:

> "Bahrain is one of the first countries to focus on increasing the number of INEDs. The appointment was based on added value."

In addition, one of the interviewees (CB2) stated that there were seven INEDs, five NEDs and an executive director on his board. The INEDs were chosen on the basis of their experience, from their different geographical regions, their different levels of education and age in order to have a diversity of ideas and to gain the greatest benefit from them. Similarly, CB4 noted that his company had four INEDs, mainly elected on the recommendation of the nomination committee to the AGM and based on their experience. In addition, regarding the independence issue, CB5 noted that: "the code of corporate governance in Bahrain is fairly strict".

Attention was also paid by the interviewees to the characteristics required to be an INEDs. One of the Saudi interviewees (RS1) indicated that:

> "There should be an appropriate number of INEDs sitting on the board with the different backgrounds and expertise needed by the company, ensuring that they are not a competitor to the company and do not have any relationship with it."

RO1 had a similar view:

> "The INED should have an enough expertise, appropriate qualifications and should meet the CMA requirement that he does not have any relationship with the company, does not have a salary from the company, has not worked for the company in the last two years and does not have any family relationship with the board members."

Regarding the INEDs' responsibilities, all of the interviewees believed that there were no specific roles that the INEDs should perform, and that responsibility was shared equally between all board members. However, only one of the interviewees (RO1) noted that it was crucial to have specific roles for INEDs, more so than for the other directors.

In addition, the Saudi and Omani interviewees collectively agreed that INEDs should not meet separately to discuss issues outside the board because this kind of meeting could

create lobbying of the board and the disadvantages might outweigh the advantages. US1 claimed that it was unhealthy to meet separately as they were appointed to add value to the board discussions. One of the Saudi interviewees (RS1) indicated that:

> "We do not welcome such meetings because they may create clusters on the board that are inappropriate."

Equally, RO1 mentioned that:

> "I don't think that the purpose of the presence of INEDs on the board is to create competition between the members. So, I believe it is unacceptable for INEDs to have separate meetings."

In the same vein, one of the Saudi interviewees (CS3) stated that INEDs in his company did not meet separately, but they might contact each other before the meetings to coordinate and consult with each other. In the same context, one of the Omani interviewees (UO2) claimed that:

> "It should not be the norm, unless they need to meet each other and brain-storm ideas before the board meeting to discuss them at the board meeting."

However, four of the Bahraini interviewees disagreed with the above, stating that, in Bahrain, INEDs can choose to meet separately. CB6 stated that his company encouraged INEDs to meet separately to discuss issues without executives and NEDs. In addition, RB1 pointed out:

> "Based on the Bahraini code, it is recommended that INEDs meet separately before board meetings to hold free, open discussions and formulate their own ideas."

From the above, there appears to be greater accountability in Bahraini companies than in the Saudi and Omani ones because they tend to have truly independent directors. In addition, the quality of the discussion of the board and the monitoring role might be

improved by the presence of INEDs. Thus, the Bahraini companies appear to demand more lateral and hierarchical accountability (see Roberts, 2001; Soobaroyen and Mahadeo, 2012) compared to the Saudi and Omani ones. In addition, the Bahraini companies appear to practice Shura more than the Saudi and Omani ones, as true INEDs widen the debate and discussion before any decisions are made. Moreover, Bahraini companies practice Hisba more than the Saudi and Omani companies, as the main role of the INEDs is to safeguard the interests of the stakeholders; and are perceived to be a tool for monitoring and controlling management (see, for example, Rosenstein and Wyatt, 1990; Dixon et al., 2005; Chakrawal, 2006).

6.3.3 Separation of the CEO and Chairman

Another corporate governance practice is the separation of the roles of CEO and Chairman which, according to Van den Berghe and Levrau (2004), can help to reduce the domination of the management over the board. Furthermore, the OECD (2004) states that the Chairman and CEO should be separated to achieve an appropriate balance of power and enhance corporate accountability, which may enhance the hierarchical and lateral accountability. When asked about the separation of these roles, all the interviewees were in favour of this particular corporate governance practice. The interviewees believed that the roles of the CEO and Chairman were different; indeed, one of the Chairman and the board's main tasks was to evaluate the performance of the CEOs and make them accountable. If there was no separation, conflicts of interest would arise. Therefore, splitting these roles enabled them to discharge their duty and reduce the control of the management over the board. For example, Saudi regulator RS1 claimed that:

> "The separation of the CEO and the Chairman has been widely discussed in the past two decades. It is important to separate the CEO and Chairman because the latter has the specific role of leading the board of directors. Therefore, the

> board members delegate the authority to sign contracts to the CEO so, if the CEO is the Chairman, then he will dominate the decisions and control the board."

Similarly, UO2 stated that:

> "The CEO should not be the Chairman of the board because, if there is no separation, the CEO will control the board and therefore influence the other board members to make decisions that may be inappropriate for the company; it is possible that decisions will favour his personal interests and not be based on the shareholders and company's interests, so, if I am the Chairman and the CEO, definitely I will not mention everything to the board, especially the negative points."

Likewise, the Bahraini interviewee (CB4) stated that:

> "In my opinion, I believe it is very important that the Chairman of the board should not be the CEO of the company because the integration of these two positions in one person will raise the issue of a conflict of interest. Therefore, separation is essential, so the chairman of the board is responsible for following-up the executive managements and making them accountable."

Thus, all of the stakeholder groups interviewed in Saudi Arabia, Oman and Bahrain shared similar views regarding the separation of the CEO and Chairman. This finding is consistent with IFC and Hawkamah (2008), who find that the majority of listed companies in the region have different people in the Chairman and CEO positions, in accordance with each country's corporate governance regulations.

Thus, accountability appears to be similar across these three countries, hence enhancing the hierarchical and lateral accountability in all three countries, as the board's monitoring quality is enhanced and no one can control the decisions. In addition, one of the tasks of the board of directors is to evaluate the CEO's performance, approve their remuneration and hire or remove them from their positions (see for example, Zahra and Pearce,1989; Roberts

, 2001; Van den Berghe and Levrau, 2004; Shivdasani and Zenner, 2004; Monks and Minow, 2008; Ponnu, 2008; Maharaj, 2009; Argüden, 2010).

However, most of the interviewees agreed that one of the most important characteristics of the Chairman was to be a non-executive[40] director rather an executive member who might collude with the CEO. For instance, CS4 claimed that:

> "I don't care if the chairman is an INED or not; the most important is not to have an executive."

Equally, CO2 stated that:

> "I believe it does not matter if we have a NED or INED sitting as a chairman, but the most important thing is not to have an executive member."

Likewise, UBI claimed that:

> "It is unnecessary for the chairman to be an INED, because his powers are limited and he gets his power from the board of directors as a whole."

However, three of the Bahraini interviewees (IB1, UB2, RB1) stated that they preferred to have independent members sitting as chairmen because they believed that they had the appropriate knowledge and skills to discharge their role effectively. IB1 stated:

> "I prefer companies to have an INED as chairman of the board to separate the ownership from the management and, at the same time, the chairman will be separate from conflicts of interest problems and be able to discuss any issues frankly, which can then add value to the company."

Thus, the Bahraini companies seem to discharge greater accountability than the Saudi and Omani ones by preferring INEDs as chairmen of the board, which might allow freer discussion without limitations during board meetings. The Bahraini companies tend to

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[40] As shown in Chapter 3, non-executive directors can be either independent or not independent directors.

discharge more lateral and hierarchical accountability than the Saudi Arabian and Omani ones, and they also practice Shura more effectively than them.

6.3.4 Board Meetings

As noted earlier, more frequent board meetings will help to discharge more lateral accountability as there is more time to have greater discussions (see Vafeas, 1999a; Shivdasani and Zenner, 2004; Mangena and Tauringana, 2006; Laksmana, 2008). In addition, more frequent board meetings enables the board to act as a monitoring mechanism which helps to discharge more hierarchical accountability (see Xie et al., 2003; Persons, 2006).

The interviewees were asked about the boards of directors' meetings. Most of the Saudi, Omani and Bahraini interviewees agreed that the boards meet (or should meet) at least six times a year, while two of the Bahraini interviewees (CB1, CB3) stated that their boards met four times a year, as most of the members came from overseas. A Saudi interviewee (CS1) noted that:

> "We meet six times a year and this number is suitable for our company and the minimum requirement is four meetings. However, I believe that any board of directors that meets four times a year just wants to follow the requirements and show the regulators that they are meeting these legal requirements. For example, a company is required to publish its financial statements on a quarterly basis, which means they have to meet four times to approve these statements, so what about the other issues that they have to discuss at board meetings, as they do not have time to do so?"

Similarly, a Bahraini interviewee (CB4) stated that:

> "The minimum requirement is four meetings a year. However, the board of directors actually meets six times and this was by agreement between the board members in order to discuss and follow up the company's issues on a timely basis."

Likewise, UO2 argued that the frequency of board meetings depended on the company's situation, suggesting that four times is enough for a stable company, but not for a newly-established company or one experiencing trouble, in which case the board needed to meet more often to discuss the problems with the executive management and find solutions.

Hence, the boards of directors in the Saudi, Omani and Bahraini companies may be discharging their accountability by fulfilling their roles and responsibilities related to meetings, as they usually meet at least six times per year to discuss issues, in line with best practice as stated by IFC and Hawkamah (2008). Thus, lateral accountability may be discharged similarly across all three countries, as more debate and face-to-face discussions occur as well as Shura.

Regarding obtaining information and the agendas of board meetings, the interviewees in all three countries agreed that board members have a right to these within an appropriate time frame. In general, the interviewees clarified that the rationale behind this was to allow the board members sufficient time to read the agendas, reflect on them and make a meaningful contribution at the board meetings, enhancing their ability to discharge lateral forms of accountability and Shura. All of the company directors and INEDs interviewed stated that they usually received the agenda for board meetings 10-14 days in advance (and sometimes 21 days). This is a legally-protected right, as noted in the quotations below:

> "The board meeting agenda is sent to the board members a fortnight before the meeting to allow the board members to read it and send in their comments or suggestions to the chairman or board secretary to include on the agenda and resend to all board members. All of this information and the agenda are sent by email." (CS2)

Similarly, one of the Omani interviewees (CO2) claimed that:

> "The board members receive the agenda and written reports about the company's situation and the topics that they will discuss at the meeting two to three weeks before the meeting and sometimes they ask the executive management to provide extra information related to the issues included on the agenda. It is company policy to let the members read this before the meeting. We send out the agenda and reports by email and mail and sometimes by the company driver to make sure that the members receive them."

Likewise, one of the Bahraini interviewees (CB1) stated that:

> "The board meeting agenda is sent to all board members a minimum of 15 days before the meeting to ensure that the members read it carefully, and this includes all information, summaries, pictures, etc., related to the issues that will be discussed at the meeting to give them enough time to become familiar with them. The file is emailed to the members to ensure that no one says that he did not receive it."

Despite the above, some of the Saudi and Omani interviewees claimed that some board members, especially the major shareholders and family members of some companies, did not contribute to the board discussions. One of the Saudi interviewees (CS3) stated:

> "Some of the board members, especially the major shareholders, care only about themselves and their own interests. They attend the meetings, but without even bothering to read the information that they have been provided with and only talk about their own investments, which is sad, as this affects their contribution to the board meeting."

In addition, one of the Omani Interviewees (RO1) stated:

> "We found that some of the board members are ineffective and we call them silent members because of the tribe mentality. Some board members can't say anything to the board chairman, just because the chairman of the board is the oldest member of the family."

Likewise, IO1 claimed that some board members received the board agenda in advance of the meeting but did not read it, so they came to the meeting unprepared, which affected their contribution. Thus, this kind of behaviour weakens the Saudi and Omani board accountability by directors who are failing to fulfill their roles and responsibilities by failing

to contribute to board discussions and reduce the board's capability to perform as a monitoring mechanism. If the issues are not fully discussed, the board might not consider all possibilities, making them less able to be accountable. Hence, the Bahraini boards appear to discharge more lateral and hierarchical accountability and Shura than the Saudi and Omani boards. CB6 indicated that he prepared the minutes of board meetings which were full of questions, and discussion was provided by board members in order to arrive at decisions.

With regard to consulting other people from inside and outside the company by inviting them to attend the board meetings, reflecting lateral accountability and Shura, the interviewees from all three countries generally agreed that the boards of directors invite people to board meetings to inform board members on certain issues in an advisory role. Those attending board meetings were usually invited by the chairman of the board. For example, some interviewees explained how the CEO attended board meetings, even though he was not always a board member; in most cases, the CEO is a non-voting member of the board. In addition, the senior management and other staff members occasionally attended board meetings to provide more information to the board about issues that needed to be clarified, by presenting and explaining issues in more detail. Furthermore, internal and external auditors attended board meetings separately or together to provide information about the company's finances and answer the board members' questions regarding financial statements. Often, the company lawyer could be asked to attend board meetings to provide information on legal issues that the company faces. Finally, consultants or outside experts might also be invited to board meetings to answer questions. The invited person is then often thanked and excused from the meeting to allow the board to complete its discussion and make decisions. Therefore, according to the interviewees, the boards of directors in all

three countries discharge their lateral accountability by fulfilling their roles and responsibilities by undertaking to obtain information that may assist them to make their decisions by consulting and inviting others from both inside and outside the company to attend board meetings, provide their views and make presentations. Thus, the above evidence suggests that the practice of Shura is discharged in all three countries with regard to inviting experts to attend the board. For example, a Saudi interviewee (CS2) stated that:

> "We consult other people from inside or outside the company, if necessary. For instance, if we have a new plan for a marketing strategy, we invite an expert in marketing from outside the company, sometimes consulting a firm specialising in marketing, and discuss with them the plan and take their views, then excuse them to discuss it as a board to make the decision."

One Omani interviewee (CO2) stated:

> "The board may invite someone from inside the company to get his opinion about the issues on the agenda that could be considered his responsibility to ensure that we have a good insight into the topic under discussion before making any decisions. In addition, sometimes, the board invites people from outside the company to consult them about the company's strategies or get some information from the external auditor when necessary. Thus, it is very important for the board members to consult people to arrive at proper decisions based on the company's interests because they are the trustees of the company resources."

One Bahraini interviewee (RB1) stated that:

> "Bahraini companies have the right to consult and invite third parties to board meetings and the company will pay for this consultation in order to ensure that the board members do not do anything or make any decisions until they know that they have made a decision in the interests of the company and the minority shareholders."

In addition, there was general agreement among all of the interviewees from all three countries that board members should attend all board meetings and be aware that their absence from a meeting did not relieve them from their responsibilities. Moreover, the board members, even if absent, had to share responsibility for the consequences of the

actions and decisions of the board. They stated that board members who were absent from a meeting would tell the chairman, or another board member, the reason for their absence and state their views regarding the issues on the agenda to discharge their duty. This action was practiced by the majority of the Bahraini board members, but few of the Saudi Arabian or Omani ones.[41]. Thus, directors are possibly more accountable in Bahrain than in Saudi Arabia and Oman, due to their participation in board decisions even when absent, hence discharging more lateral and hierarchical accountability than those in Saudi and Omani companies. Thus, the boards of directors in Bahrain are practicing Shura more appropriately than those in Saudi and Omani companies.

6.3.5 Board Multiple Directorship

A further concern of the interviewees was the number of boards on which a director could be a member. The Saudi interviewees thought that no director should serve on more than five other public company boards, as required by the corporate governance code. The fact that these other appointments could all be in the same sector raised concerns over conflicts of interest (see Mace, 1986; Lorsch and Maclver, 1989; Haniffa and Hudaib, 2006), as those directors could transfer important proprietary information to competitor companies whose boards they also sat on, thereby challenging their accountability. In Oman, which has the same regulations as Saudi regarding the number of director memberships, these other appointments should be in different sectors to keep such proprietary information for each company confidential and away from their competitors. In contrast, the Bahraini interviewees stated that no director should serve on more than three other public company

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[41] RB1 noted that, based on the Bahraini regulations, if a board member misses 75% of the board meetings without good reason, the MOIC and CBB will remove him from the board because he is not interested in or taking care of the company's matters.

boards and that these should also be in different sectors, based on the legal requirements. As RB1 explained:

> "There is a limit of three on the number board membership; no one can be a director of more than three companies and these should be from different sectors in the stock market to minimize conflicts of interest and in order to prevent information related to the company's strategies being passed to its competitors."

Some of the Saudi and Omani interviewees disagreed with their regulation regarding up to five other director memberships. For example, CS4 claimed that board members are supposed to undertake several tasks and work part-time, so serving on more than three boards would take up too much time for them to be effective board members, so three should be the maximum, not five.

The above evidence suggests that the Bahraini companies appear to discharge more accountability by placing more restrictions on board membership, so that the Bahraini board members are able to spend an adequate amount of time on company business and board matters to enable them to engage in higher quality discussions and make better decisions. Serving on five boards might affect the amount of time that the board members of the Saudi and Omani companies spend fulfilling their duties (Lipton and Lorsch, 1992; Harris and Shimizu, 2004; Jiraporn et al., 2009). One might argue that the members will gain greater experience by sitting on more boards and enhance their skills. However, as stated above, time is an important issue for board members, especially if they work, which can affect their contribution and discussions which is consistent with Fich and Shivdasani, (2006). Thus, this type of restriction indicates that lateral accountability in the Bahraini companies is discharged more than in the Saudi and Omani companies, as the Bahraini

board members will have time to read board papers and focus on their companies to prepare for their discussions. In addition, Shura might be enhanced as well.

6.3.6 Directors' Term of Office

With regard to the term of office of each elected board member, all of the Saudi interviewees and four of the Omani interviewees stated that the term of office was three years for each elected member, and that there was no limit of how many times a member could be re-elected. One of the Saudi interviewees (CS3) noted that:

> "In some countries, the president of the country has a fixed office term and number of years for which he can serve as president, but unfortunately the board members here do not have a restriction on the number of years for which they can serve as board members."

However, most of the interviewees disagreed with this, and suggested a maximum of two or three terms. As one of the Saudi interviewees (RS1) stated:

> "If the board members sit for more than three terms on the board, I think it would be too much, as their contribution in the fourth term would be limited. In the first term, they will exchange ideas, get to know each other, and get to know the company well. In the second term, they start to develop plans and strategies for the company. In the third term, the results of their work and their actions will on the board become visible."

Similarly, UO1 claimed that the term of office for board members is three years and there is no limit on their re-election. He thought that nine years (three terms) would be enough to add value by sitting on the board which is in line with Yocam and Choi (2010).

In contrast, the majority of the Bahraini interviewees declared that the term of office was three years for each elected member, and that they could only be re-elected for a second

term. In addition, RB1 stated that Bahraini board members could be only re-elected for a third term if the commerce ministry and Central Banks approved. He stated:

> "Six years serving the company is enough to contribute all of the ideas that he has to enhance the discussion and add value to the company's board. However, if the elected INED serves six years and is re-elected for a third term, then he will directly become a NED, because of the fact that a close relationship exists between the board member, the executives and the company employees, this might affect his true independence."

From the above, the Bahraini companies appear to demand more accountability by limiting the term of office of elected board members, as boards need to be refreshed and receive new ideas to be able to perform their duties. This is achieved by having new board members instead of re-electing older ones, hence enhancing the lateral accountability of the board and of Shura (see Young, 2009; Sahgal, 2013). As CS4 claimed, during certain periods of time, board members give the company their ideas, so the company should elect someone new to enrich the board by inputting new ideas and enhancing the future vision for the company.

6.3.7 Board Evaluation

With regard to board evaluation, according to IFC and Hawkamah (2008), this plays an important role in improving the board's work. The majority of Saudi and Omani interviewees agreed that a culture of board evaluation was missing and it was difficult to evaluate high status people who sit on boards such as large shareholders, family members and the elite of society. However, although RS1 and RO1 agreed, they added that board evaluation was improving because of the workshops and board training programmes implemented by the Capital Market Authority in Saudi Arabia and Oman.

In contrast, most of the Bahraini interviewees indicated that board member appraisal was recommended by the Bahraini corporate governance code.[42] For instance, one of the Bahraini interviewees (RB1) stated that although board evaluation is a very sensitive topic in Arab countries, it could be achieved by requesting help from outside experts or by peer evaluation. CB4 claimed that:

> "In our company, the board members have to evaluate each other by using the board member appraisal form. The chairman of the board collects these and sends them to nomination and remuneration committee, and I think this is the best way to evaluate the board members."

IB1 have similar views and indicated that board evaluations were done by the nomination committee, with a majority of INEDs, in most Bahraini companies. Thus, the Bahraini companies appear to discharge greater hierarchical accountability by conducting board evaluations, which shows the weaknesses and strengths of the board and its members so that actions can then be taken to improve it by appointing board members with diverse experience, so enhancing the lateral accountability and Shura. This is consistent with Kiel and Nicholson (2005) who state that board evaluations have a number of advantages such as enhancing teamwork, decision making and communication. In addition, Bahraini companies appear to practice Hisba, as Kiel and Nicholson (2005) indicate that board evaluations give a procedure for boards to be aware of cause of collapse and permits boards to detect areas of concern before the collapse happens.

6.3.8 Board Sub-Committees

Charkham (2005) argues that board sub-committees undertake different tasks, such as assisting the board directors by looking at issues in more depth and sending them their recommendations, which saves time when the board meets to discuss these issues. In

[42] As shown in Directive 1.8 of the Bahraini code of corporate governance.

addition, board accountability may be enhanced by establishing board sub-committees due to allowing independent oversight of the board's actions (Harrison, 1987).

Thus, this section presents the responses of the interviewees in the three countries to questions regarding board sub-committees. All of the Saudi interviewees noted that the sub-committees that are typically established by the boards are the audit, nomination and remuneration committees, because they are legally required by the corporate governance code, followed by an executive committee and investment committee; very few Saudi companies have a corporate governance, social responsibility or Shariah committee. In this regard, RS1 stated that:

> "Based on the regulation, it is important that the company should establish audit, nomination and remuneration committees. However, the regulations allow the company to establish different types of committees, if required, to do the necessary work that cannot be done by the executive management. For example, banks need to establish an executive committee which is considered a mini-board to do the necessary work in running the bank's operations and making decisions quicker, as the board cannot meet every month to take these decisions."

Likewise, the Bahraini interviewees stated that the three most common sub-committees were the audit, nomination; and remuneration committees, because they were also legally required by the corporate governance code. Some Bahraini companies also had corporate governance, executive, investment, risk, Shariah,[43] and social responsibility committees. UB2 explained:

> "The first committee that I always find everywhere is the audit committee. Also, I notice that companies, such as investment companies, always have specialized committees in their business field, followed by nomination and remuneration committees, and many companies have currently established

[43] Directive 9.1 of the Bahraini Code mentions that companies who refer to themselves as "Islamic" or guided by Shariah principles should establish a Shariah Supervisory Board (SSB) to provide an assurance to stakeholders that they are following Shariah principles.

> these two committees as required by the corporate governance code. However, Islamic banks have established Shariah Committees and some companies have also established corporate governance committees to help their company to adopt internal regulations in accordance with the corporate governance requirements."

In contrast to the Saudi and Bahraini interviewees, the Omani interviewees stated that all Omani companies had an audit committee, because it was the only one required by the code, followed by remuneration and nomination committees, investment committees and executive committees. However, this was only in a few Omani companies. RO1 stated that all Omani companies have an audit committee, and some companies have established a nomination and remuneration committee by themselves because they believe it is important. In addition, CO2 argued that companies will not establish more committees unless asked to follow a particular system or regulations by the regulators.

The finding indicates that the board committees in the Saudi and Bahraini companies reflect the international practice of corporate governance, such as the UK's Corporate Governance Code (2012) and the OECD Principles of Corporate Governance (2004) which highlight the importance of establishing audit, nomination, and remuneration committees. Thus, the interviews showed that the Saudi and Bahraini companies had more sub-committees than the Omani Companies and may discharge more accountability than them by establishing specialized sub-committees to discharge their roles and responsibilities related to monitoring the management and helping the board of directors to fulfill its duties. Thus, Saudi and Bahraini companies discharge more hierarchical and lateral accountability than the Omani ones (see Roberts, 2001 and Soobaroyen and Mahadeo, 2012).

However, Turley and Zaman (2004) indicate that much attention has been given to the role of board sub-committees and the presence of INEDs on them. As noted earlier, Saudi and

Omani companies select the INEDs on the board based on personal relationships. Thus, the selection procedures are likely to diminish the expected benefits of establishing board sub-committees due to their lack of independence. However, other interviewees in these two countries, especially those representing company directors, disagreed with the above and mentioned that their companies selected and appointed board sub-committees' members based on their qualifications and experience. In contrast, the Bahraini companies selected members based on their qualifications and skills. Thus, the Bahraini companies may discharge more accountability regarding the selection and appointment of the members of board sub-committees based on their qualifications and experience, and enhance their decision making which might in turn enhance their Shura practice in reality, as there might be an absence of experts and specialists in the relevant fields on the main boards of Saudi and Omani companies. Thus, the Bahraini companies may discharge more lateral and hierarchical accountability than those in Saudi and Omani companies.

However, in all three countries, the interviewees shared a similar view regarding the selection of audit committee members because it needs independent members, with at least one expert who is knowledgeable about accounting and finance, so they were chosen based on their qualifications, skills and expertise. Their view is consistent with that of Xie et al. (2003), who strongly recommend that audit committee members should be independent board members with financial expertise. In addition, this is consistent with the findings of Bronson et al. (2009), who argue that the presence of independent directors is sufficient to make audit committees effective. In this context, one of the Saudi interviewees (CS2) stated that the audit committee, unlike the other board sub-committees, was considered to be a technical committee, so most of the board members stayed away from it and were not interested in becoming a member of this committee. Thus, this committee needs members

who are experts in accounting and finance. Therefore, companies in the three countries may discharge accountability regarding the selection and appointment of the members of audit committees based on their qualifications and experience, enhancing decision making and hence Shura and Hisba in practice as well as discharging lateral and hierarchical accountability.

In addition, there was general agreement that the main responsibility of the audit committee was to oversee a company's internal and external auditors and recommend to the board of directors and in the AGM the appointment (and dismissal) of the external auditors. In addition, they stated that audit committee members had a right to meet with anyone from inside or outside the company, such as the CFO, to discuss the financial statements in the presence of the external auditor.

With regard to the number of sub-committee meetings convened, this varied from company to company and from one committee to another. Most of the interviewees stated that the committees met when they needed to and usually no less than four times a year. In addition, RB1 expressed his view that the committee members should meet once a month to discuss issues. CS3 claimed that one of his company’s special committees (the Land Committee) met more than six times a year because its work depended on the opportunities that arose. In particular, some of the company directors and INED interviewees stated that the audit committee, as an example, met on average 6 to 12 times a year, more frequently than the main board.

In addition, this finding suggests that the board sub-committees in Omani companies fall below the minimum level of the international practice of corporate governance and of

MENA countries (IFC and Hawakmah, 2008); this might be because the Omani code was issued in 2002 and not updated until recently and, as CO2 stated, Omani companies do not establish committees unless enforced by the regulators. Hence, there may be less accountability by corporate boards in Oman. In addition, the selection procedures for board committee members in Saudi companies, with the exception of the audit committee, may reduce the advantage of establishing such committees reducing any lateral and hierarchical accountability as well Shura and Hisba.

6.3.9 Shareholders and Stakeholder Rights

This section focuses on the interviewees' views about the role and rights of shareholders and stakeholders in Saudi, Omani and Bahraini companies as a form of hierarchical accountability. The interviewees were asked to identify the key stakeholders and whether they were represented on the boards. There was a common agreement among the interviewees in all three countries that the shareholders, employees and regulators were the key stakeholders. However, a few of them (three of the Saudi, two of the Omani, and four of the Bahraini interviewees) mentioned that society was also a key stakeholder, reflecting the broader view of accountability. Very few of the interviewees in the three countries mentioned customers and suppliers.

There was also agreement that these stakeholders, except for the major shareholders, were not represented on the boards. They argued that it was not common practice for companies to appoint representatives of the stakeholders and this is consistent with Harabi (2007). One of the Omani interviewees (UO2) stated that the stakeholders should not be appointed as board members, because a conflict of interest could arise. However, companies could gain an advantage from having stakeholders being invited to attend meetings to provide their

views about the issues discussed. Likewise**,** one Bahraini interviewee (UB1) argued that: “stakeholder groups are represented on boards indirectly by appointing INEDs.”

However, there was general agreement among the interviewees in all three countries that the legal requirements in respect to the protection of shareholders rights, including minority ones, are sufficient to enable them to look after their interests in the companies. The majority of the interviewees mentioned that appointing INEDs, transparency, the timely disclosure of important information about the company and attending AGMs were the main legal requirements for protecting minority shareholders. In addition, RS1 claimed that the cumulative voting system[44] as suggested for Saudi companies could be used to enhance the protection of minority shareholders, as cumulative voting[45] gives minority shareholders a chance to nominate INEDs to the board, whereas current voting practices gave the large shareholders control of board nominations, as noted earlier.[46] However, the practice of these rights was highlighted as being a problem especially in the Saudi and Omani companies regarding the appointment of fully independent directors, as discussed earlier. Some of the interviewees mentioned that most of the shareholders were not always aware of their rights, as very few attended the AGMs. Thus, the role of shareholder activism was also limited, as more education was needed about shareholders rights to take a more active role. In this context, one Bahraini interviewee (IB1) mentioned that it was important for the shareholders to attend the AGM to practice their rights granted by the law.

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[44] According to the Saudi Code, a cumulative voting system is "a method of voting for electing directors, which gives each shareholder a voting rights equivalent to the number of shares he/she holds. He/she has the right to use them all for one nominee or to divide them between his/her selected nominees without any duplication of these votes."
[45] In 2012, the Ministry of Commerce issued a statement encouraging all listed companies to work on adopting cumulative voting.
[46] In 2012, 23% of Saudi listed companies had adopted this practice (CMA, 2014).

With regard to the rights of other stakeholders, the majority of the Saudi and Omani interviewees stated that they were dissatisfied with the current practice regarding the protection of stakeholder rights. This was as a result of the lack of awareness of the stakeholder roles and an absence of legal requirements which clarified and identified the importance and role of the stakeholders. However, three of the Saudi, two of the Omani and five of the Bahraini interviewees mentioned that awareness of stakeholders had increased due to having a Code of Conduct (Code of Ethics) which outlines the responsibility of companies to protect their stakeholders' rights. One of the Omani interviewees (UO2) stated that companies must have a code of conduct towards their stakeholders, not only their shareholders or employees, as most Omani companies have, but also towards their suppliers, customers and also have a CSR policy. Likewise, RS1 stated that:

> "One of the main roles of the board of directors, suggested in the Saudi code of corporate governance, is to develop a written policy for the company to regulate its relationship with its stakeholders, such as CSR. However, this type of policy is found only in some Saudi companies that have effective corporate governance standards."

Thus, the Saudi and Omani companies seemed to limit their accountability relationships to company shareholders and did not consider their other stakeholders. In contrast, the Bahraini companies had improved their accountability relationships by establishing a code of conduct. Thus, the findings about Bahrain support the recommendations made by the OECD (2004), that stakeholder rights should be protected by law in addition to those of the company's shareholders. Overall, according to the interviewees, the Bahraini companies may be discharging wider hierarchical accountability than the Saudi and Omani companies, as the latter two limit their hierarchical accountability to their majority shareholders.

6.3.10 Disclosure and Transparency

This section presents the interviewees' opinions about the information provided to the shareholders and other stakeholders, which reflect only hierarchical accountability. IFC and Hawkamah (2008) state that, if there is a lack of disclosure and transparency, then it might be difficult for shareholders and other stakeholders to monitor the board and management and hold them accountable. There was unanimous agreement among the interviewees in all three countries that most companies use different ways of providing timely information, such as company websites, newspapers, stock exchange websites and annual reports, to their shareholders and other stakeholders. However, in Oman, disclosure via corporate websites was limited, as not every company had a website. UO1 stated that:

> "There is a lack of disclosure of such important information on some of the Omani companies' websites because they do not have a company website."

Thus, it appears that Saudi and Bahraini companies may discharge more hierarchical accountability by utilising different channels of information, such as disclosure via their websites, than Omani companies which is consistent with Eltkhtash (2013).

With regard to the interviewees' opinions about the companies' disclosure and transparency within the three countries, some of the Saudi and Omani interviewees noted that these had improved in recent years, but still remained inadequate, as most of the Saudi and Omani companies only complied with the minimum requirements to ensure that they were not penalized by the regulators. CS2 stated that his company only disclosed the information in the annual report that was required by law to avoid any penalties being imposed. In addition, RS1 raised a concern about the extent of the disclosure of information regarding corporate social responsibility as most Saudi companies did not disclose enough

information. Moreover, IS1 stated that there was weak disclosure of future predictions even though these should be disclosed and reviewed by the top management and published in the annual report. Similarly, IO1 indicated that 40% of the stakeholders were dissatisfied with corporate disclosure. UO1 stated that there was a problem with disclosure being timely. In addition, UO2 stated that:

> "The annual report is considered the main source of information in Oman, but are all companies in Oman transparent? The answer is no, some Omani companies just follow the minimum requirements and that is it. For example, if it is required to disclose seven sections, some Omani companies will only disclose these seven sections, with little information, such as one or two sentences in each section."

In contrast, most of the Bahraini interviewees thought that Bahraini companies had improved their disclosure. One Bahraini Interviewee (CB2) mentioned that his company now disclosed two types of information: that required by the Bahraini regulations and also that considered as best international practice, as his company engaged in transactions outside Bahrain. In addition, he stressed that "Bahraini regulators require the company to disclose a large amount of information." Moreover, CB6 indicated that his company's stakeholders were satisfied with his company's disclosure and transparency and he had never heard any complaints about this at the AGM.

Further, one of the Bahraini interviewees (IB1) noted that having a code of corporate governance had enhanced the disclosure practices of Bahraini companies. He stated:

> "Before the code was issued, most of the disclosure was related to financial and accounting information and little to corporate governance, which is most important for shareholders and other stakeholders... Indeed, the code of corporate governance asked for more information related to the company, its board of directors, board sub-committees and their meetings, and the remuneration of all directors which will enhance the disclosure practices of Bahraini companies, as a result of a three-year consultation period and a review of more than 25 national and company governance codes from other countries."

Overall, according to the interviewees, the Bahraini companies may be discharging more hierarchical accountability by disclosing more information about their companies in their annual reports than the Saudi and Omani companies.

6.4. Accountability Framework

This section examines the interviewees' responses about their understanding of the concept of accountability in addition to Islamic accountability[47]. The interviewees were asked about their views on accountability and in general they identified it as every individual being held responsible and accountable for their own actions. For example, one of the Saudi interviewees (CS5) stated that:

> “People are responsible for their actions and then held accountable for what they have performed in regard to the task delegated to them.”

Likewise, CO2 defined accountability as: “Each one is responsible for his decisions and actions”. Similarly, RB1 thought that:

> “There are duties you should perform in an appropriate way. Therefore, if you breach them, you will then be accountable for this breach.”

In addition, the Saudi and Omani interviewees agreed that accountability was covered by the country’s legislation, but most of them claimed that there was a problem with the legislation as it either was not enforced, unclear or needed updating. For example, one of the Saudi interviewees (CS3) stated that:

> “From the legal side, the regulations were issued, but the problem is that they are on paper and are not actually applied in real life and need to be enforced.”

[47] These are based on interview questions 22 to 28, shown in Appendix 6.1.

Equally, CO2 claimed that:

> "We have regulations that clarify how to discharge accountability, but the problem is that it is not fully activated and practiced in our society."

Nevertheless, the majority of the Saudi and Omani interviewees claimed that there was a lack of accountability in practice in the business environment, as the companies and boards of directors were far from being held accountable for their actions and deeds. On this subject, CS2 explained that accountability was not practiced in Saudi Arabia, as individuals did their jobs in a way that seemed appropriate to them and that was all and US1 claimed that there is no clear process in how to question and make boards of directors accountable. In the same vein, one of the Omani interviewees (CO1) stated that:

> "There were no cases where the members of the boards of directors were being held accountable for their actions. However, if it happens, it is mainly because it appears to the public to be huge corruption."

In addition, CO2 gave an example of lack of accountability in Oman. He said that one listed company had huge losses due to mismanagement and investments in irrelevant fields. These board members were still in positions: "so where is the accountability!? No one was even questioned."

Despite the above, RS1 and RO1 disagreed with this and claimed that there had been an improvement in accountability practices. RS1 stated that there had been a huge improvement in the last five years regarding the accountability practices in Saudi Arabia[48]

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[48] For example, King Abdullah bin Abdul-Aziz issued a Royal Decree to establish a Saudi National Anti Corruption Commission. Also, there were several Decrees issued by King Abdullah regarding dismissing several executive officials, as they had not fully discharged their duties and it was unusual. Normally, the resolution shows that this dismissal was based on the request of the official to respect and appreciate them even if they did not perform their duties diligently.

and that some board members and investors had been penalised for their violations of the law. Likewise, RO1 indicated that such accountability had been clarified in the Omani regulations and enforced,[49] as some board members had been fined and others imprisoned. In contrast, 8 out of the 10 interviewees from Bahrain stated that accountability existed in the majority of Bahrain business environments. One Bahraini interviewee (CB4) stated:

> "I remember that some boards of directors in Bahrain were dismissed and punished because they made investments that were useless for the company. They did not study or discuss the issues sufficiently. There are also cases in the courts against members of boards of directors who are punished. I believe that Bahrain is restricted in this, because it is a small country and, if anything like this happens, it will affect the reputation of Bahrain as a financial centre."

Likewise, there was agreement between the Saudi interviewees that the legal system was weak.[50] They argued that there was a lack of judges specialising in commercial matters and that some cases take a very long time to be resolved, which was why most foreign companies did not go to Saudi courts to resolve issues with Saudi companies (as mentioned by CS1).[51] Moreover, IS1 stated that "the commercial court is unknown and thus it does not exist." In addition, the Omani interviewees shared this dissatisfaction with the Omani legal system and stated that it was ineffective. Some of the respondents mentioned that there was a need for well qualified expert judges in commercial matters, especially over securities, and there was a need to establish courts or departments that focused only on securities cases.

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[49] After the Arab Spring and protest in Sohar in 2011, Sultan Qaboos accelerated the efforts to strengthen the pursuit of a high-profile anti-corruption campaign, with trials of some senior executives and former officials for corruption.

[50]In 2007, Saudi Arabia announced, by royal decree, an overhaul of its judicial system, including the allocation of $2bn (£981m) for training judges and building new courts.

[51]In 2013, King Abdullah issued a royal decree approving the system for pleading procedures, finishing an important phase of King Abdullah Bin Abdul-Aziz's project for developing the judiciary. These regulations took the principle of flexibility of procedures and reduced the duration of litigation. In addition, this decree provides the courts with the right to use expert and government bodies to get the expertise available to its employees.

In contrast, the majority of the Bahraini interviewees (80%) were satisfied with the Bahraini legal system and suggested that it provided an appropriate environment for accountability practice, but according to CB1 and CB4 the process needed to be faster.

Moreover, all of the interviewees agreed that compliance with and the adoption of good corporate governance principles made it easier for the company's management, board of directors and companies as a whole to be accountable. CS3 stated that corporate governance is considered an effective vehicle for activating and practicing accountability which is consistent with Keasey and Wright (1993), Chakrawal (2006) and Solomon (2010). In addition, UO2 stated that:

> "The existence of a good corporate governance system, which includes regulations that identify the responsibilities of each person in the company, would facilitate the process of accountability through following these responsibilities or not."

Correspondingly, one Bahraini interviewee (IB1) indicated that:

> "By adopting the best practice of corporate governance, it will make it clear to an individual his responsibility to be accountable for his deeds if he does not do them."

The discussion on accountability reflected a stakeholder focus, covering boards of directors, shareholders, regulators and society. The interviewees in the three countries emphasised that companies should discharge their accountability towards all stakeholders and therefore, as noted earlier, it was essential for companies to produce relevant information for them. Indeed, the majority of the Bahraini interviewees stated that most Bahraini companies discharged their accountability towards stakeholders by establishing codes of conduct, as noted earlier, which explained their relationships with their stakeholders. In contrast, the

majority of Saudi and Omani interviewees stated that there was an absence of such a code which led the companies only to discharge their accountability to regulators and major shareholders. In particular, companies that practiced poor accountability were not questioned about their actions, except during AGMs, as minority shareholders by law have the power to question boards of directors and hold them accountable. However, this is undermined as the minority shareholders do not have knowledge about their rights to demand accountability or are sometimes frightened to confront the majority shareholders who sit on boards, so limiting the discharge of accountability at AGMs. In relation to this, one of the Saudi interviewees (CS2) stated:

> "The law asks the board to take the ibra althmah [wave from responsibility] from the shareholders at the AGM, but believe me this is considered to be just filling in paper work because nobody will ask you what you did or not."

Equally, one of the Omani interviewees (IO1) stated:

> "The AGM is the best place to practice accountability. However, the shareholders, especially the minority shareholders, do not have the information about their rights or are just concerned about getting a profit from the company. I believe we have to educate them and distribute brochures to let them know that they have power regardless of the number of shares that they hold."

However, in relation to their understanding of Islamic accountability, the interviewees shared similar views, claiming that companies as a whole, board members, managers and employees were accountable for their behavior to God (Allah) first, then to their stakeholders. Based on this concept, one Saudi interviewee (CS2) stated:

> "As I am the chairman of the board, at each board meeting, I ask all of the board members to ensure that we have to think about Allah before the regulators and shareholders."

RO1 noted that:

> "It is very important for an individual to remember that he will be questioned by Allah on the Day of Judgment before making any decision, and he should see it from a holistic perspective, as making wrong decisions would make him

> hurt society and his family members. Thus, he should consider the public interest rather than his personal interest."

In addition, there was a general agreement amongst the interviewees that Islamic accountability should have a positive impact on the practices of corporate governance as religious faith and a fear of being punished on the Day of Judgment should prevent the directors from committing illegal actions.

However, when asked about the influence of Islamic accountability on company practices, the interviewees stated that none could be identified in Saudi, Omani and Bahraini businesses or the way they operated. If there was any influence, it would be based on individuals' personal religious faith, beliefs and understandings of Shariah. Many companies focused solely on the legal requirements of the country, which included some components of Shariah law. Indeed, they only complied with these regulations because they were required to do so by law and not because they were based on Shariah. This is consistent with Alsahlawi (2014) who concluded that Saudi listed companies are not complying with Shariah law as they use conventional derivatives contracts.

For instance, regarding the Islamic concepts of Shura and Hisba, companies did not consider the real essence of Shariah, but preferred to act according to the legal requirements. For instance, one of the Saudi interviewees (CS1) noted that:

> "Believe me, this is the first time I have thought and linked such practices to Shariah principles."

To explore this further, the interviewees were asked to give an example of Shura being applied in the business environment. Their responses showed that, in practice, the

mechanisms considered to be an application of Shura (or enhancing its practice) were: having skilled and expert INEDs; referring to expert advice in complicated situations; establishing board sub-committees; and allowing discussion at AGMs. Regarding Hisba, most of the interviewees stated that this was achieved by having INEDs, establishing audit committees, engaging external auditors and having whistle-blowing polices. However, the interviewees stressed that companies engaged in these practices, not because they aimed to be Shariah compliant or reflect Islamic accountability, but because they were required to do so by the law. Regarding whistle-blowing, the majority of the Saudi and Omani interviewees indicated that this was helpful but difficult, maybe impossible, to implement in the Saudi and Omani environment, as one Saudi interviewee (RS1) stated:

> "Whistle blowing is one of the applications related to the Hisba concept. However, the majority of Saudi companies do not have it because it is not required by law."

Likewise, CS4 argued that employees did not care about whistle-blowing and tended to avoid whistle-blowing against their superiors or other employees, because individuals in society fear reporting any fraud or other illegal activities as it is regarded as an immoral act. In addition, no assurances or rights are given to whistle-blowers such as being confidential. UO1 expressed a similar view. This result is consistent with OECD (2012) which indicates that in many countries, whistle-blowing is still associated with treachery or spying. In contrast, according to most of the Bahraini interviewees, whistle blowing is required by law and is practiced.

All of the interviewees agreed about the importance of having a corporate governance system which does not conflict with Shariah law, as Shariah law safeguards the interests of

all stakeholders. In addition, it lays the foundation for the practice of corporate governance as CS3 indicated:

> "Definitely, there is no conflict. Islam is a supportive and not a hindrance to implementing corporate governance, because Islam asks for honesty in dealing with others, and doing the tasks in a perfect way."

In addition, one Bahraini interviewee (IB1) stated:

> "There is no such conflict between Islam and corporate governance because corporate governance principles require individuals to work within high level ethics and transparency, and all these appear in Islamic principles."

Thus, from the above, Shariah could play a major role in the corporate governance practices in all three countries, connecting the principles of corporate governance to Shariah concepts that would have a positive impact in all three countries and are applicable in other Muslim countries.

6.5 Summary

This chapter analyses and reports the findings obtained from 24 semi-structured interviews conducted with a variety of stakeholders in Saudi Arabia, Oman and Bahrain from July to September 2011 to examine current corporate governance practices in order to see whether there is any discharge of hierarchical and lateral forms of accountability and the Islamic concept of accountability especially with regard to Shura and Hisba.

The interview findings indicate that, although the majority of interviewees in the three countries perceive corporate governance from a narrow perspective and particularly limited hierarchical accountability, a few interviewees, especially the regulators and INEDs group, perceive corporate governance from wider perspectives. This result may reveal that the majority of the interviewees do not clearly recognise the concept of corporate governance.

Further, the interviewees share the similar view regarding the importance of adopting corporate governance and the majority of the Bahraini interviewees revealed that by adopting corporate governance the company's accountability would be enhanced compared to the views of Saudi and Omani interviewees.

In addition, all of the interviewees in the three countries have a similar view on the understanding of accountability and the Islamic concept of accountability and claimed that Islam does not conflict with corporate governance, but instead could strengthen it. Moreover, there were variations in the corporate governance practices implemented amongst the three countries under investigations.

Table 6.2 summarizes the results, showing the types of accountability in the three GCC countries. Nevertheless, accountability in Saudi and Oman is far weaker than in Bahrain as shown in Table 6.2. Bahraini companies discharge more lateral and hierarchical accountability as well as Shura and Hisba. Appointing real INEDs as well as implementing board evaluation and by contributing in board meetings might lead Bahraini companies to discharge more lateral and hierarchical accountability as well as Shura and Hisba compared to Saudi and Omani companies where no real INEDs are appointed and board evaluation is absent in most Saudi and Omani companies.

Table6.2 Summary of Corporate Governance and Accountability by Country

Corporate Governance Practices	Lateral	Hierarchical	Shura	Hisba
Panel-A: Saudi Arabia				
Board size	✓	N/A	✓	N/A
Appointing INEDs	×	×	×	×
Separation of CEO and Chairman	✓	✓	✓	✓
Board Meeting	×	×	×	×
Board directorship	×	N/A	×	N/A
Term of office of each board member	×	N/A	×	N/A
Board sub-committee	×	×	×	×
Board evaluation	×	×	×	×
Shareholders' and Stakeholders' right	N/A	Limited	N/A	N/A
Disclosure and transparency	N/A	Limited	N/A	N/A
Whistle blowing	N/A	×	N/A	×
Panel-B: Oman				
Board size	✓	N/A	✓	N/A
Appointing INEDs	×	×	×	×
Separation of CEO and Chairman	✓	✓	✓	✓
Board Meeting	×	×	×	×
Board directorship	×	N/A	×	N/A
Term of office of each board member	×	N/A	×	N/A
Board sub-committee	×	×	×	×
Board evaluation	×	×	×	×
Shareholders' and Stakeholders' right	N/A	Limited	N/A	N/A
Disclosure and transparency	N/A	Limited	N/A	N/A
Whistle blowing	N/A	×	N/A	×
Panel C: Bahrain				
Board size	✓	N/A	✓	N/A
Appointing INEDs	✓	✓	✓	✓
Separation of CEO and Chairman	✓	✓	✓	✓
Board Meeting	✓	✓	✓	✓
Board directorship	✓	N/A	✓	N/A
Term of office of each board member	✓	N/A	✓	N/A
Board sub-committee	✓	✓	✓	✓
Board evaluation	✓	✓	✓	✓
Shareholders' and Stakeholders' right	N/A	Wider	N/A	N/A
Disclosure and transparency	N/A	Wider	N/A	N/A
Whistle blowing	N/A	✓	N/A	✓

Note: this table shows the summary results of the interviews in each country. L=Lateral Accountability; H= hierarchical Accountability; S= Shura; C=Hisba and N/A= not applicable.

Moreover, by having restrictions over board members being a member of too many boards and restrictions on the terms of office for board members might lead Bahraini companies to

discharge more lateral accountability and Shura. Furthermore, establishing more sub-committees with INEDs, who are independent, especially audit, nomination and remuneration committees enhances lateral and hierarchical accountability as well as Shura and Hisba.

Moreover, Bahraini companies discharge wider hierarchical accountability by establishing codes of conduct and other policies that regulate the relationships between internal and external company stakeholders (such as employees, customers, CSR and others) and by disclosing more information than Saudi and Omani companies. Finally, Bahraini companies discharge more hierarchical accountability and Hisba by adopting whistle-blowing. To take this further, the next chapter presents an analysis of a corporate governance disclosure index for these three countries to examine further whether Bahraini companies do indeed discharge more hierarchical accountability.

Chapter 7: Corporate Governance Disclosure in Annual Reports

7.1. Introduction

Chapter Six of this thesis provided a detailed view of stakeholders' perspectives concerning current corporate governance practices in three Arabian Gulf countries (Saudi Arabia, Oman and Bahrain). As seen in Chapter Six, the interviewees identified various corporate governance practices that reflect different levels of accountability that are discharged across the three Arabian Gulf countries. The annual reports of these companies may also play a crucial role in discharging hierarchical accountability. Thus, as mentioned in Chapter Five, the second research method employed in the current study is to use a corporate governance disclosure index to determine the extent of the accountability of 107 companies listed in Saudi Arabia, Oman and Bahrain. In particular, it examines the disclosure of corporate governance practices in their annual reports. Therefore, this chapter aims to look at which countries discharge more hierarchical accountability by disclosing more corporate governance information. In addition, this chapter examines the impact of certain characteristics on the companies to discharge hierarchical accountability including: board size; the frequency of board meetings; the proportion of INEDs; company size; type of auditor; industrial sector; and country. This will contribute to knowledge, as there is a lack of studies related to corporate governance disclosure in these three countries, to the best of the researcher's knowledge. The following empirical analysis utilises a corporate governance disclosure score as a proxy for measuring the accountability of the companies in the three countries under investigation, as disclosure and transparency are key elements of accountability (Ho and Wong, 2001; Cerbioni and Parbonetti, 2007), and Fox (2007) claims that transparency often creates accountability. According to Gul and Leung (2004), corporate transparency is directly linked to strong corporate governance which is designed to protect stakeholders' interests. It is argued that, the higher the level of

disclosure and transparency, the better the quality of the corporate governance practices (Alexandrina, 2013). Thus, with respect to the spirit of transparency and accountability, it could be argued that listed companies that disclose more information, especially corporate governance information, in their annual reports might also be discharging more accountability (Fox, 2010), and hence discharging more hierarchical accountability (Roberts, 2001; Soobaroyen and Mahadeo, 2012).This is because the annual report is an instrument that discharges accountability to society, the community and different stakeholders (Hassan, 2013; Arif and Tuhin, 2013). In addition, in Islam, Haniffa and Hudaib (2006) suggest that companies use annual reports as:

> "...one of the avenues to demonstrate their accountability and commitments in serving the needs of the Muslim community and society in general is via disclosure of relevant and reliable information in their annual reports" (p.5).

In the same vein, according to Abu Tapanjeh (2009), accountability in Islamic society delivers true and fair disclosure and transparency.

The remainder of the chapter is organized as follows: section 7.2 outlines the data and method of analysis utilised in the present study. Section 7.3 describes the research variables and their measurement; section 7.4 reports the statistical analysis; section 7.5 discusses the univariate analysis; section 7.6 reports the regression analysis; and, finally, conclusions are offered in section 7.7.

7.2 Data and Analysis

The present chapter examines the corporate governance disclosure practices of a sample of 107 companies from Saudi Arabia, Oman and Bahrain in their 2011 annual reports. The sample selected for the analysis included: 43 companies from Saudi; 39 companies from Oman; and 25 companies from Bahrain. The sample was drawn from companies listed on the Saudi Stock Market, Muscat Stock Market and the Bahrain Bourse, at 31st December 2011 selected from DataStream. Table 7.1 provides details of how the sample was drawn from an original population of 310 listed companies as at 31st December 2011.

Table 7.1 Sample Details

	Saudi	Oman	Bahrain	Total
Total number of listed companies	150	116	44	310
Companies excluded because:				
Insurance and Financial Services Companies (except banks)	(-39)	(-27)	(-10)	-76
Sectors not common to all three countries	(-22)	(-35)	(-1)	-58
Data or the annual report were not found	(-3)	(-15)	(-8)	-26
Population available to sample	86	39	25	150
Rotationally excluded from Saudi Arabian sample to have a comparable number of companies	(-43)	-	-	(-43)
Total sample	43	39	25	107
Percentage of companies selected within each country	28.66%	33.60%	56.80%	34.51%

Note: This table shows details of how the sample was selected

The total population of 310 companies was initially reduced to a sample of 107 because the Life and Non-life Insurance and Financial sectors were excluded because they might be subject to more detailed disclosure requirements (Arcay and Vazquez, 2005; Cheng et al., 2008; Gust, 2009; Ntim, 2009; Akhtaruddin et al., 2009) which might in turn have an effect on the disclosure of their corporate governance practices. This resulted in the exclusion of

76 companies: 39 from Saudi Arabia, 27 from Oman and 10 from Bahrain[52]. However, the banking sector was not excluded because this is a major industry sector in Bahrain[53]. Eleven banks were included in the sample from Bahrain, representing 44% of the total Bahraini sample. In addition, including the banking sector in the sample allows a comparison to be made between different financial sectors. Moreover, sectors that were not common to all three countries were also excluded[54], with the exception of the Oil, Gas and Chemicals sector, as this is the most important sector in Saudi Arabia and Oman, which are both oil-based countries[55]. This ensures comparability of the results, and resulted in the exclusion of a further 58 companies: 22 from Saudi Arabia, 35 from Oman and one from Bahrain. In addition, 26 firms had missing annual reports and/or missing data from DataStream; for example, those with suspensions, deletions or missing annual reports were excluded. Three of these were from Saudi Arabia, 15 from Oman and eight from Bahrain. These exclusions resulted in 150 companies being available for the sample selection (86 from Saudi Arabia, 39 from Oman and 25 from Bahrain) for the year 2011. To ensure that the sample from each country was of comparable size, it was decided to halve the number of Saudi Companies to 43 and sample every other company (see for example Fox, 2010). Therefore, the final sample included 107 companies from Saudi Arabia, Oman and Bahrain,

[52]In Saudi, the researcher excluded two firms from the Life insurance Sector, 29 from the Non-life insurance Sector and eight from the Financial Sector. In Oman, the researcher excluded 24 firms from the financial sector and three from the non-life insurance sector. In Bahrain, the researcher excluded five firms from the Financial services Sector and five from the Non-Life insurance sector.

[53] 14 Banks were listed on the Bahrain Bourse at the end of 31-12-2011 based on DataStream.

[54] In Saudi Arabia, these sectors were Electricity, Electronic and Electrical Equipment, General Industrials, Health Care Equipment and Services, Household Goods and Home Construction, Industrial Transportation, Mining, Personal Goods, Pharmaceuticals and Biotechnology, Food and Drug Retailers, Support Services and Media from the sample which compromises 22 companies. In Oman, these sectors were Forestry and Paper, Beverages, Automobiles and Parts, Electricity, Electronic and Electrical Equipment, Water and Multiutilities, General Industrials, Health Care Equipment and Services, Household Goods and Home Construction, Industrial Transportation, Mining, Personal Goods, Support Services and Pharmaceuticals and Biotechnology from the sample which compromises 35 companies. In Bahrain, these sectors were Forestry and Paper.

[55] The researcher included the Oil, Gas and Chemicals in Saudi and Omani companies in one sector. In addition, construction and materials and real estate sectors were included in one sector as the real estate sector is considered an important sector in Bahrain and was not common in Oman.

drawn from eight different sectors. Table 7.2 shows the industry sector representation of the sampled companies investigated in this empirical work, based on the industrial classification by DataStream. Table 7.2 shows that the Construction and Materials, Food Producers and Banking sectors constituted the largest number of companies in Saudi Arabia, Oman and Bahrain respectively, compared to other sectors; 13 companies (33%), 10 companies (26%) and 11 Banks (44%) in Saudi Arabia, Oman and Bahrain respectively.

Table7.2 Number of Selected Companies in each Industry Sector

Industry Sector	Saudi		Oman		Bahrain		Total	
	No.	%	No.	%	No.	%	No.	%
Banks	6	14%	4	10%	11	44%	21	20%
Oil, Gas and Chemicals	8	19%	5	13%	0	0%	13	12%
Construction, Materials and Real Estate	13	30%	6	15%	3	9%	22	20%
Telecommunications	2	5%	2	5%	1	4%	5	5%
Food Producers	6	14%	10	26%	3	13%	19	18%
General Retailers	4	9%	5	13%	2	9%	11	10%
Industrial Metals and Mining	2	5%	1	3%	1	4%	4	4%
Travel and Leisure	2	5%	6	15%	4	17%	12	11%
Total	43	100%	39	100%	25	100%	107	100%

Note: this table shows the number of companies in each sector and the percentage of the selected sample.

The 2011 annual reports were chosen for the analysis because it was the first year when a comparison of corporate governance disclosure across Saudi Arabia, Oman and Bahrain was possible; although the codes of corporate governance for Saudi and Oman had existed for some years, the Bahraini code was only issued in 2010 and the effective date for adoption by companies was January 1st 2011 (see Chapter Two). In addition, 2011 was the

most recent year available at the time of the data collection, and it coincided with the year when the interviews were conducted.

The annual reports for the selected companies were obtained from: (i) the company's website; (ii) the Tadawul website for Saudi Companies; (iii) the Muscat stock market website for Omani Companies[56]; or (iv) the Bahrain Bourse website for Bahraini Companies.

7.2.1 Reasons for Using Annual Reports

Although there are several ways in which companies can disclose their corporate governance information, such as press releases, websites and annual reports (Suphakasem, 2008), this study uses the latter, because these are formal documents published by companies which are produced regularly and are publicly available to all interested parties (Hines, 1988; Botosan, 1997). In addition, effective communication via disclosure in annual reports ensures transparency and accountability and consequently assists various groups' decision making (Arif and Tuhin, 2013). Thus, the annual report is an important source of information for stakeholders and is a means of discharging accountability (Catasüs, 2000; Mina, 2011), as suggested by the interviewees, in Chapter Six. Further, annual reports are often the only formal and public source of information in many developing countries (Naser and Nuseibeh, 2003; Al-Razeen and Karbhari, 2007) and this is in line with previous studies that also use the annual report as the primary source for corporate governance disclosure (for example, Carson, 1996; Bujaki and McConomy, 2002; Suphakasem, 2008;

[56] Since the annual report was used for most of the Omani companies, obtained from the Muscat stock market with a different format, care was taken to ensure comparability with the standard format of the annual report during the scoring process. This was done by comparing the standard format annual report of three Omani listed companies that were available with the file that was found on the Muscat Stock Market website. No differences were found regarding the items on the checklist.

Mohamed and Sulong, 2010; Samaha, 2010; Mallin and Ow-Yong, 2012; Samaha et al., 2012; Ntim et al., 2012; Al-Moataz and Al-Hussainey, 2012). This can facilitate a direct comparison of the results to ensure the validity of this study (Soliman, 2013). Consequently, the annual report is employed in this chapter to examine corporate governance disclosure in the three countries for the year 2011. However, there are some limitations to using annual reports; for example, there is a possibility that the corporate governance information disclosed in the annual report might not reflect actual practice. Nevertheless, as the reports are audited, the information disclosed in them should be fairly reliable (Suphakasem, 2008).

7.2.2 Pilot Study - Reliability of the Disclosure Checklist

The reliability of the results obtained using the corporate governance checklist of disclosures items, as explained in Chapter Five was tested first by checking the inter-coder reliability[57]. In the pre-analysis stage, three annual reports for each country were scored twice by two independent individuals, one of whom was the researcher, and then a comparison was made whereby the results from the independent scores were compared with the researcher's scores. These were mostly in agreement, apart from a couple of disparities and the differences which were noted and reconciled. Minor adjustments were then made to the disclosure checklist. When the agreement between the coders was above 90%[58], the disclosure checklist index was finalised and applied to the annual reports of the selected sample companies (see for example Mallin and Ow-Yong, 2012; Allegrini and Greco, 2013). In addition, the reliability of the utilised index was also tested using Cronbach's Alpha Coefficient, as described in Chapter Five, to test the internal consistency

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[57] Inter-coder reliability is defined as the extent to which content classification produces the same results when the same content is tested by more than one coder (Weber, 1990).

[58] Kassarjian (1977) advocated that an inter-coder reliability of less than 80 per cent should be treated with suspicion.

(see, for example, Gul and Leung, 2004; Hassan, 2006; Cheng and Courteny, 2006, Hassan, 2013; Allegrini and Greco, 2013)[59]. The Cronbach's Alpha value of the checklist was 0.910, showing that there was inter-item consistency and reliability among the variables analysed[60]. The next section justifies the independent variables and formulates the hypotheses.

7.3 Hypotheses Development: Variables Influencing Corporate Governance Disclosure

This study utilises two dependent variables as a proxy to measure accountability which are: (i) the percentage of total corporate governance disclosures (TCGD); and (ii) the percentage of voluntary corporate governance disclosure (VCGD). To be specific, TCGD includes both mandatory and voluntary items in the disclosure checklist for each country and comprises of 135 items. The VCGD is voluntary corporate governance disclosure and varies depending upon the disclosures required by each country's code; consequently this value differs across all three countries.

This is a cross-sectional, three-country study of a total of 107 listed companies using seven independent variables. To test the relationship between the dependent and independent variables, the independent variables in this study have been categorised into two types (i) continuous variables (which include board size, the proportion of independent non-executive directors, the frequency of board meetings; and company size); and (ii) categorical variables (which include industry sector ; type of auditor; and the country to find out which country has companies that are more accountable by disclosing more corporate

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[59]An acceptable level of internal consistency reliability is often cited as 0.6 or above (Sekaran, 2003) or being greater than 0.7 (Pallant, 2010).

[60] Gul and Leung (2004) obtain a score of 0.51 using Cronbach's coefficient alpha for their disclosure index and they conduct their study with a low score.

governance practices). Data relating to the board size, independent non-executive directors, board meetings, and external auditors were mainly hand collected from the companies' annual reports or websites. Market capitalisation data was collected from DataStream and stated in USD for comparison purposes. The rest of this section explains and discusses the hypothesis development for each independent variable.

7.3.1 Continuous Independent Variables

7.3.1.1 Board Size

Board size represents the number of directors who serve on a company's board (Zahra and Pearce, 1989). It could be argued that larger boards may monitor activities more than smaller boards (John and Senbet 1998; Cheng and Courtenay, 2006; Haniffa and Hudaib, 2006) and Gandia (2008) states that the supervisory ability of a large board is enhanced because more directors sit on it, which enhances hierarchical accountability. In addition, a larger board size provides an increased pool of expertise as the board members are likely to have more knowledge and skills and engage in more debate (Forbes and Milliken, 1999), and this may lead to a greater representation of experienced independent directors (Xie et al., 2003; Hassan, 2013), thus creating more lateral accountability and resulting in enhanced Shura. Furthermore, larger boards may represent an increase in the diversity of the board composition and enhance a company's ability to understand and address the diversity of different stakeholders' interests and needs (Pearce and Zahra, 1992; Goodstein et al., 1994; Welford, 2007), leading to greater disclosure and transparency (Williams, 2002; Barako et al., 2006; Laksmana, 2008; Mallin and Ow-Yong, 2009; Ntim et al, 2012; Hassan, 2013) and thereby discharging greater hierarchical accountability.

However, the empirical evidence about the relationship between board size and corporate governance disclosure is limited. For instance, Andersson and Daoud (2005), Mallin and Ow-Yong (2012), Samaha et al. (2012), and Ntim et al. (2012) find a positive relationship; while Parsa et al. (2007), Suphakasem (2008) and Alexandrina (2013) do not find any association between corporate governance disclosure and board size. Furthermore, the impact of board size on corporate disclosure (including corporate governance practices) in general is mixed: Arcay and Vázquez (2005), Cheng and Courtenay (2006), Ghazali (2010 for the year 2006), Uyar et al., (2013), and Hassan (2013) did not find a significant association. However, Akhtaruddin et al. (2009), Ghazali (2010 for the year 2001), Al-Janadi et al. (2013) and Allegrini and Greco (2013) find a positive, statistically significant association between board size and corporate disclosure.

Based on the above, larger boards may reflect greater accountability as they increase the variety of expertise, and allow broader board discussions thereby improving Shura and lateral accountability; this may lead to greater corporate governance disclosure in the annual report which may in turn increase the hierarchical accountability. Hence, the first hypothesis is:

H_1**:** *Companies with larger boards disclose more information about their corporate governance practices and hence discharge more hierarchical accountability.*

7.3.1.2 Board Meetings

The frequency of meetings held per year can be seen as a measure of a board's ability to discharge and fulfill their responsibilities (Vafeas, 1999a; Persons, 2006); this in turn might make boards more accountable. According to Khanchel (2007), more frequent board

meetings reflect stronger corporate governance practices, and as Xie et al. (2003) and Persons (2006) state, it enhances a board's ability to act as a monitoring mechanism. Consequently, boards should increase the frequency of their meetings if the position requires more supervision and control (Shivdasani and Zenner, 2004), to solve and address emerging problems in a timely manner (Mangena and Tauringana, 2006). More frequent meetings may also lead to enhanced lateral accountability due to more timely discussions of issues and, according to Laksmana (2008), facilitate greater information sharing among board members. It is also possible that it allows better communication and discussions between directors (Shivdasani and Zenner, 2004), thus creating more lateral accountability and enhancing Shura practices between board members, as recommended in Chapter Six by the interviewees. Thus, more frequent board meetings may enhance the board’s success (Conger et al., 1998) and, hence, its ability to address diverse stakeholders’ interests. It may also positively influence disclosure decisions which may lead to enhanced hierarchical accountability by disclosing more information related to corporate governance practices. The frequency of meetings may also be associated with the quality of the reporting, reflecting greater hierarchical accountability. As Laksmana (2008) and Alexandrina (2013) indicate, more board members’ meetings lead to increased transparency and may lead to more effective monitoring; pressuring the company's management to enhance their disclosure decisions (Barros et al., 2013).

However, to the best of the researcher's knowledge, there is a lack of empirical evidence on the relationship between board meetings and corporate governance disclosure. Thus, this study will contribute to the existing literature regarding the impact of the frequency of board meetings on corporate governance disclosure and hence hierarchical accountability.

Previous studies that have investigated the association between the frequency of board meetings and the extent of general corporate disclosure are limited and provide mixed results; Laksmana (2008), Allegrini and Greco (2013) and Alexandrina (2013) find a positive relationship, while Cormier et al. (2010) and Barros et al. (2013) do not find any relationship between board meeting frequency and the extent of corporate disclosure. However, based on the above, the second hypothesis is as follows:

H_2*: *Companies with more frequent board meetings disclose more corporate governance information and hence discharge more hierarchal accountability.

7.3.1.3 The proportion of independent non-executive directors (INEDs)

The proportion of INEDs on the board is measured by the ratio of INEDs to the total number of directors on the board (Mohamed and Sulong, 2010). The proportion of INEDs on the board is perceived as an important factor that influences corporate disclosure in general (for example, Ho and Wong, 2001; Barako et al., 2006) and corporate governance information in particular (for example, Samaha, 2010; Pahuja and Bhatia (2010); Samaha et al., 2012). INEDs are perceived to be a tool for monitoring and controlling management (Dixon et al., 2005; Rosenstein and Wyatt, 1990). Similarly, Chen and Jaggi (2000) and Gul and Leung (2004) claim that a higher number of INEDs leads to more effective board monitoring and enhanced corporate transparency. Furthermore, a larger proportion of INEDs on the board brings expertise, experience, and business contacts (Haniffa and Hudaib, 2006) which may result in more lateral accountability, thereby enhancing Shura as was suggested in Chapter Six by the interviewees. According to Barako et al. (2006), this may lead to decisions to disclose more information in the annual reports, thus reflecting greater hierarchical accountability.

In addition, INEDs may be seen to represent the views of a wider group of stakeholders during their discussions and recommendations (Zahra and Pearce, 1989), as suggested in Chapter 6. Thus, INEDs may demand more information to be disclosed which may in turn lead to increased hierarchical accountability. Accordingly, INEDs provide an external view to the board, including a desire to give transparent information to stakeholders to help to attain the company's strategic goals (Rupley et al., 2011), and discharge hierarchical accountability. Consequently, the presence of INEDs plays a role in corporate governance with regard to the release of adequate information in the annual report (Akhtaruddin et al., 2009).

However, the empirical evidence on the relationship between the proportion of INEDs and corporate governance disclosure is limited. For instance, Parsa et al. (2007), Suphakasem (2008), Samaha (2010), Samaha et al. (2012), and Alexandrina (2013) document a positive association between the proportion of INEDs and corporate governance disclosure, while Al-Moataz and Hussainey (2012) find a negative relationship in Saudi Arabia. Contrary, Pahuja and Bhatia (2010) and Mohamed and Sulong (2010) find no significant association.

Even the relationships between the proportion of INEDs and corporate disclosure (including corporate governance practices) in general are mixed. While Gul and Leung (2004), and Barako et al. (2006) find a negative relationship, Arcay and Vázquez (2005), Cheng and Courtenay (2006), Huafang and Jianguo (2007), Lim et al. (2007), Hossain (2008), Akhtaruddin et al. (2009), Chau and Gray (2010), Al-Janadi et al. (2013), and Uyar et al., (2013) find a positive association. In addition, Haniffa and Cooke (2002), Ghazali and Weetman (2006), Ghazali (2010), Allegrini and Greco (2013) find no significant association. From the above, the following hypothesis is therefore proposed:

***H_3*: Companies with a larger proportion of independent non-executive directors on the board disclose more corporate governance information and hence discharge more hierarchical accountability.*

7.3.1.4 Company Size

Larger companies are also likely to have better corporate governance practices (Beiner et al., 2006; Gordon et al., 2012), and thus, according to Bujaki and McConomy (2002), generally do not experience difficulties in complying with governance requirements compared to smaller companies. In addition, Ahmed and Courtis (1999) suggest that larger companies follow better disclosure practices, as they have the resources to produce information for a wide range of stakeholders (Hassan et al., 2006), thereby reflecting greater hierarchical accountability. According to Abdel-Fattah (2008), based on the relative power of the groups of stakeholders, company directors and managers may respond to such information needs by disclosing more information, reflecting greater hierarchical accountability. In this context, larger companies are more visible publicly and so stakeholders demand more information (Jaggi and Low, 2000; Debreceny et al., 2002; Cormier et al., 2005; Bollen et al., 2006; Amran and Haniffa, 2011), as McKinnon and Dalimunthe (1993) argue:

> "Larger firms tend to attract more analysts' followings than smaller ones, and may therefore be subjected to greater demand by analysts for private information" (p.40).

According to Sirat (2012), the larger the company, the better the information made available to investors when making decisions, which reflects a better form of hierarchical accountability. For instance, increased corporate governance disclosure could indicate to the public that the directors are acting responsibly and are being accountable to the public at

large. Buzby (1975) and Gordon (2012) note that larger companies are able to recruit more experienced board members, which may lead to enhanced lateral accountability and better Shura. This might allow the board to better direct its activities and provide adequate information to a wide range of stakeholders (such as disclosing more corporate governance information) which may enhance the hierarchical accountability. Consequently, larger companies might publish more information in their annual reports to various stakeholder groups to address their wider interests.

However, the measurement of company size varies from study to study, with several proxies used in prior research, including the number of shareholders (Cooke, 1991), total assets (for example, Bujaki and McConomy, 2002; Barako et al., 2006; Mallin and Ow-Yong, 2012; and Ntim et al., 2012), and market capitalisation (for example, Collett and Hrasky, 2005; Suphakasem, 2008; Desoky, 2009; Desoky and Mousa , 2012; Mallin and Ow-Yong, 2012; and Aljifri et al., 2014). According to Marston (2003), there is no specific theoretical reason for choosing one measures of size rather than another. Thus, for this study, market capitalisation is chosen as the proxy for company size, as there are no significant differences among the results of studies employing different measures for company size (AbuRayah, 2012). However, the results of studies investigating the association between company size and corporate governance disclosure are mixed, with a positive significant relationship being found by Carson (1996), Bujaki and McConomy (2002), Samaha (2010), Pahuja and Bhatia (2010), Samaha et al. (2012), Mallin and Ow-Yong (2012), and Ntim et al. (2012), while Collet and Hrasky (2005), Suphakasem (2008), Mohamed and Sulong (2010), and Al-Moataz and Al-Hussainey (2012) did not find any significant relationship between company size and corporate governance disclosure.

Even the association between company size and corporate disclosure in general are mixed. A positive, significant relationship has been found by Depoers (2000), Gul and Leung (2004), Arcay and Vázquez (2005), Alsaeed (2006), Ghazali and Weetman (2006), Barako et al. (2006), Huafang and Jianguo (2007), Lim et al. (2007), Hossain (2008), Hossain and Hammami (2009), Allegrini and Greco (2013), Uyar et al., (2013), and Al-Janadi et al. (2013), while Haniffa and Cooke (2002), Cheng and Courtenay (2006), Akhtaruddin et al. (2009), Ghazali (2010), and Hassan (2013) do not find any significant relationship between size and disclosure. However, Ağca and Önder (2007) find a significant negative relationship between company size and disclosure. Based on the above arguments, the following hypothesis is tested:

H_4: *Larger firms disclose more corporate governance information and hence discharge more hierarchical accountability.*

7.3.2 Categorical Independent Variables

7.3.2.1 Type of Auditor

The type of auditor is often divided into two groups; the Big-4 audit firms[61] and the rest (Mutawaa and Hewaidy, 2010). The external auditor is an important governance mechanism (Subramaniam, 2006), and Khanchel (2007) argues that, if the external auditor is from the Big-4, the quality of the governance will be improved, and there will be higher levels of disclosed governance information (Gordon et al., 2012). In addition, DeAngelo (1981) claims that audit quality is usually related to the auditors' size and reputation. Consequently, companies that are audited by the large audit firms will have increased

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[61]The Big-4 Audit Firms are Deloitte and Touche, Ernst and Young, KPMG, and Pricewaterhouse Coopers.

information disclosure in their annual reports (DeAngelo, 1981; Wallace et al., 1994; Al-Mulhem, 1997; Hassan, 2013) and so may discharge more hierarchical accountability. Haat et al. (2008) argue that the external auditors enhance corporate governance practices through transparent reporting, as large audit firms have experts that small audit firms do not (Wallace et al., 1994), which may lead to the discharge of greater hierarchical accountability in the annual reports. According to Oyelere and Al-jifri (2011), the Big-4 auditors keep their clients updated about new regulations (for example, the corporate governance code) and have a greater ability to ensure that boards comply with the regulations on a timely basis; this may increase their corporate governance disclosure, thus leading to enhanced hierarchical accountability.

Prior studies have mixed findings related to corporate governance disclosure and type of auditor; for instance, Ntim et al. (2012) find a positive relationship; whereas other studies, such as Carson (1996), Mallin and Ow-Yong (2012), and Samaha (2010) do not find any relationship between corporate governance disclosure and auditor type. Even the relationships between the type of auditors and general corporate disclosure (including corporate governance disclosure) are mixed; for example Ağca and Önder (2007), Wang et al. (2008), Hassan (2013), and Al-Janadi et al. (2013) find a positive relationship, Depoers (2000), Haniffa and Cooke (2002) Chau and Gray (2002) Gul and Leung (2004), Alsaeed (2006), Barako et al., (2006), Huafang and Jianguo (2007), Lim et al., (2007), Akhtaruddin et al., (2009), Chau and Gray (2010), Ghazali (2010) and Soliman (2013) do not find any relationship.

The current study uses the dummy variable “1” if the company is audited by a Big-4 audit firm and “0” if not. Based on the theoretical arguments and previous studies, this study

assumes that there is a positive relationship between the type of auditor and hierarchical accountability. Thus, the fifth hypothesis is:

H_5: *Companies audited by the Big-4 disclose more corporate governance information and hence discharge more hierarchical accountability.*

7.3.2.2 Industry Sector

Corporate governance practices may vary between industries (Haniffa and Cooke, 2002; Lim et al., 2007; Nitm, 2009). The amount of information disclosed by companies may differ according to the specific industry sector (Arcay and Vazquez, 2005; Desoky and Mousa, 2012). Furthermore, companies that operate in a regulated industry might be subject to more national controls that can greatly influence their disclosure practices (Owusu-Ansah, 1998). For example, companies in the financial sector, such as banks, may have greater disclosure of information due to regulatory influences (Arcay and Vazquez, 2005), thereby discharging more hierarchical accountability. In order to gain customer trust, financial entities (such as banks) may be encouraged to provide more information (Arcay and Vazquez, 2005). This is in line with Ramsay and Hoad (1997), whose study indicates that bank and finance companies tend to disclose more corporate governance information, and Maingot and Zeghal (2008) state that good governance is still one of the most important characteristics of banking firms. In addition, Wallace et al. (1994) argue that companies in a particular industry might face particular situations and conditions due to the nature of their work that may impact upon their disclosure practices, with a resultant impact on their hierarchical accountability. As the number of sectors in the previous studies varied, and the current study is a cross-sectional three-country study where the industrial categorisation varies from one country to another (as noted earlier in this chapter), for the

purpose of this chapter, Suphakasem's (2008) study is followed; thus, the industry sector of companies investigated in this chapter are categorised into the bank and non-bank sectors, to reduce the number of sectors and facilitate the data analysis. Based on the above, companies in the banking sector are more likely to have greater corporate governance disclosure and hence more hierarchical accountability than those in the non-bank sectors. Prior studies, such as Cooke (1991), Barako et al. (2006), Bhuiyan and Biswas (2007), Al-Janadi et al. (2013) and Aljifri et al. (2014) all find a positive relationship between the financial sector and general corporate disclosure (including corporate governance information). On the other hand, Suphakasem (2008) did not find any relationship between corporate governance disclosure and the financial sector.

The current study uses the dummy variable “1” if the company is from the bank sector and “0” if not. Based on the theoretical arguments and previous studies, this study assumes that there is a positive relationship between the type of industry and hierarchical accountability. Thus, the sixth hypothesis is:

H_6: *Companies in the banking sector disclose more corporate governance information and hence discharge more hierarchical accountability.*

7.3.2.3 Country

As stated in Chapter Two, the GCC countries share common characteristics, including religion, tribal identity, culture, customs and traditions and the same political regime (monarchy) (Benbouziane and Benmar, 2010; Al-Janadi et al., 2013). In addition, they are rich countries in terms of resources and their capital markets have developed rapidly (IFC, 2008). As noted previously in Chapter Three, Saudi Arabia, Oman and Bahrain have adopted civil law (Cotran and Mallat, 1996; Koraytem, 2000; Sourial, 2004; Olwan, 2013).

In the same context, the OECD (2013) states that Bahraini Commercial Law follows civil law with some influence from the common law, and it is suggested by Othman and Zeghal (2008) that a country with common law will have a higher level of corporate governance disclosure than a country with civil law. This is because, according to La Porta et al. (2000), there is strong investor protection, which might suggest that the Bahraini companies discharge more accountability than those in Saudi and Oman, as they have some influence from common law. In addition, Al-Busaidi (2005) claims that the ownership in Omani listed companies is very high concentration of shareholdings, weak nature of public participation, which might suggest that less accountability. Furthermore, Bahrain was ranked third in the corruption index among the Arabian Gulf countries (six Countries), with Oman fourth and Saudi fifth in 2012 (Transparency International, 2013), which might suggest that the Bahraini companies discharge greater accountability than those in Saudi and Oman, as they have a lower rate of corruption than the companies in the other two countries.

In addition, Chapter 6 suggested that Bahraini companies tend to have the highest level of corporate governance disclosure, with Oman the lowest, and Saudi Arabia somewhere between the two. This is consistent with Eltkhash (2013), who finds that 85% of Bahraini companies disclose more information on their website than Saudi and Omani companies (66% and 58% respectively). In addition, Bahrain is one of the world's leading international financial centers (Joshi et al., 2008; Sturm et al., 2008; Desoky and Mousa, 2012) so Bahraini companies may disclose more information to be more transparent and not lose their reputation internationally. Thus, Bahraini companies may be willing to disclose more corporate governance information in their annual reports to provide investors with a higher level of confidence because Bahrain is the home to many multinational companies dealing

with Arabian Gulf Countries[62]. Consequently, Bahrain might discharge greater hierarchical accountability and Oman the lowest of the three countries. Therefore, the country variable is measured using dummy variables for Oman and Bahrain, with Saudi being the excluded group because, as stated above, it lies somewhere between the two.

H_7a: *Companies listed in Oman disclose less corporate governance information and hence discharge less hierarchical accountability.*

H_7b*: Companies listed in Bahrain disclose more corporate governance information and hence discharge more hierarchical accountability.*

To summarise, Table 7.3, Panel A shows all of the continuous independent variables in and Panel B shows the categorical independent variables, together with the expected sign.

Table7.3 Panel A: The Continuous Independent Variables

Independent Variable	Code	Proxy	Expected Sign
Board Size	B.Size	The number of directors who serve on a company's board	(+)
Board Meeting	B.Meeting	The frequency of meetings held in a year	(+)
Proportion of independent non-executive directors	P.Ind	Measured by the ratio of INEDs to the total the number of directors on the board	(+)
Company Size	Size	Market Capitalisation ($, 000)	(+)

Note: this table shows the continuous independent variables and their proxy measures.

[62] Bahrain Bourse won the 2013 award for corporate governance among the Arabian Gulf countries stock because of the efforts at the Bourse to improve on and ensure continuous good corporate governance for Bahraini companies (akhbar alkhaleej, 2013).

Table7.3 Panel B: The Categorical Independent Variables

Independent Variable	Code	Proxy	Expected Sign
Big-4	AUD	1= Audit firm affiliated with one of the Big-4 firms; otherwise 0.	(+)
Industry Sector	IND	1= Banking sector; otherwise 0.	(+)
Oman	Om	1=Oman; Otherwise 0.	(-)
Bahrain	Bah	1= Bahrain; otherwise 0.	(+)

Note: this table displays the categorical independent variables and their proxy measures.

The following sections present the statistical analysis.

7.4 Statistical Analysis

This section provides an overview of the tests that are used to examine the variables introduced in the previous section. Once the data had been collected and coded, the second stage in the analysis was to choose suitable statistical techniques. While the current chapter investigates the relationship between the above mentioned dependent and independent variables, a statistical regression technique is required (Bourne, 2012). According to Field (2010) and Bourne (2012) when the dependent variable is a continuous variable, many types of regression can be used. A researcher may use simple regressions to predict an outcome variable from one predictor variable; or may use multiple regressions to predict several predictor variables. Therefore, this study utilises a multiple regression as there were several independent variables included in the regression model. Descriptive statistics for the dependent and independent variables are illustrated in the next sections.

7.4.1 Descriptive Statistics of Corporate Governance Disclosure

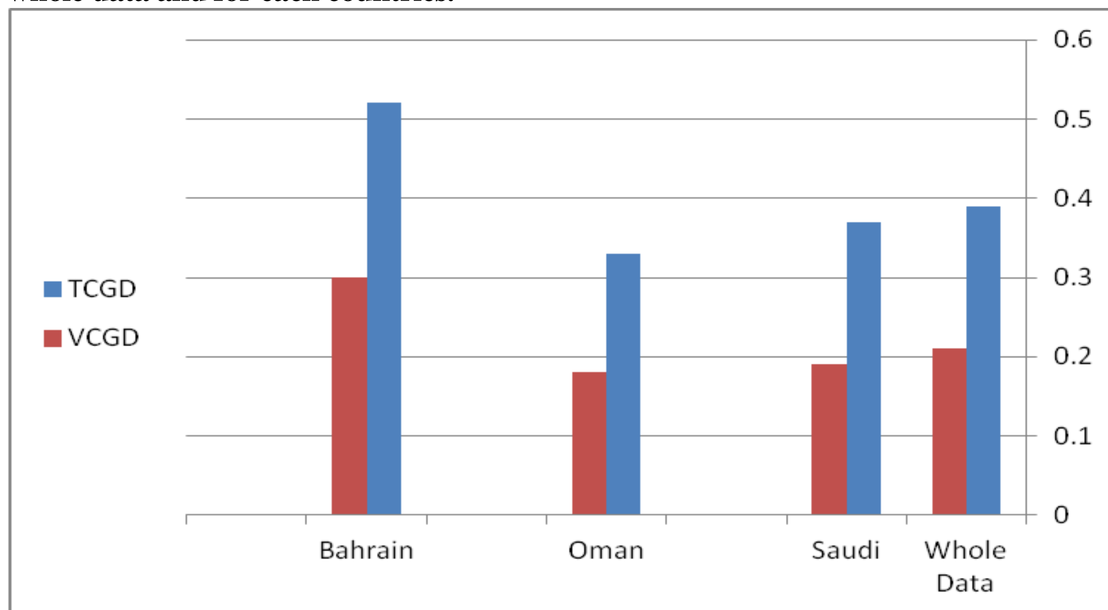
The corporate governance disclosure index developed for the current research consists of 135 items divided into 7 categories (as illustrated in the appendix 7.1). The checklist was used to investigate the extent to which the 107 listed companies in the three countries disclosed corporate governance information in their annual reports in 2011. As mentioned before, the total corporate governance disclosure score (TCGD) was calculated as a percentage of the awarded score for each company divided by the total number of corporate governance disclosure items. The voluntary corporate governance disclosure items (VCGD) was calculated on a similar basis but varied by country, as stated previously in Chapter Five. Table 7.4 presents the descriptive statistics of the TCGD and VCGD for the whole sample and for each country.

Table 7.4 Descriptive Statistics of TCGD and VCGD by Country

	Whole Sample		Saudi		Oman		Bahrain	
	TCGD	VCGD	TCGD	VCGD	TCGD	VCGD	TCGD	VCGD
Mean	0.39	0.21	0.37	0.19	0.33	0.18	0.52	0.30
Median	0.38	0.20	0.38	0.19	0.32	0.17	0.5	0.30
S.D	0.10	0.10	0.07	0.09	0.05	0.06	0.10	0.12
Max	0.69	0.64	0.59	0.47	0.43	0.30	0.69	0.64
Min	0.25	0.07	0.27	0.07	0.25	0.08	0.30	0.13

Note: this table presents the descriptive statistics for the dependent variable for the whole sample and for each country. TCGD= percentage of total corporate governance disclosure, VCGD= percentage of voluntary corporate governance disclosure.

Figure 7.1: Bar chart of the mean for the TCGD and VCGD index and for the whole data and for each countries.



Note: this figure shows the mean differences of corporate governance disclosure for both types of disclosure and for each country. TCGD= the percentage of total corporate governance disclosure; VCGD= the percentage of voluntary corporate governance disclosure.

Table 7.4 above shows that the average percentage of TCGD score for the whole sample is relatively low at 39% (median 38%). The maximum TCGD score for the whole sample is 69%, whereas the minimum is 25%. In addition, the VCGD it is even lower, with an average of 21% (20%), with a maximum score of 64%, and a minimum of 7%.

In addition, Table 7.4 and Figure 7.1 shows that Bahraini listed companies have the highest means for both TCGD and VCGD (at 52% and 30% respectively) compared with the Saudi listed companies (at 37% and 19% respectively) and those listed companies in Oman (at 33% and 18% respectively). It was expected that the Saudi and Omani companies might provide more voluntary disclosure as, according to Graham et al. (2005), the regulations and laws do not often meet the information needs of investors via mandatory disclosure. Al-Razeen and Karbhari, (2004) also claim that, in most cases, regulations give investors the minimum amount of information and hence, the call for more voluntary disclosure

increases. Consequently, disclosing more voluntary information was assumed for the Saudi and Omani companies to fill the gaps in the mandatory disclosure (Graham et al., 2005).

Table 7.5 shows the descriptive analysis of TCGD and VCGD based on the analysis of eight industrial sectors. Table 7.5 suggests that the banking sector has a higher TCGD compared with the non-banking sectors (50% and 36% respectively). According to Maingot and Zeghal (2008), better governance is an important characteristic of banking firms, possibly because this sector is more regulated than the non-banking sector (see also Yermack, 1996; Cheng et al., 2008; Gust, 2009; Ntim, 2009). However, with regard to the VCGD, the table shows that the telecommunications sector discloses slightly more than the banking sector, but both of these sectors disclose far more than the others (with 32% and 31% respectively).

Table7.5 Descriptive Statistics for TCGD and VCGD Based on Industrial Sectors

Sector Classification		N. of companies	TCGD		VCGD	
			Range (0.00-1.00)	Mean	Range (0.00-1.00)	Mean
Banking sector	Banks	21	0.35-0.69	0.50	0.15-0.64	0.31
Non-banking sectors	Oil, Gas and Chemicals	13	0.27-0.40	0.33	0.07-0.22	0.15
	Construction and Materials	22	0.26-0.48	0.35	0.07-0.32	0.18
	Telecommunications	5	0.40-0.64	0.48	0.26-0.39	0.32
	Food Producers	19	0.25-0.59	0.36	0.09-0.47	0.19
	General Retailers	11	0.27-0.50	0.38	0.07-0.30	0.21
	Industrial Metals and Mining	4	0.28-0.50	0.36	0.07-0.21	0.13
	Travel and Leisure	12	0.29-0.47	0.36	0.12-0.22	0.18
Total		86	0.25-0.64	0.36	0.07-0.47	0.19
Total of Bank and Non-bank		107	0.25-0.69	0.39	0.07-0.64	0.21

Note: This table details the descriptive statics based on eight sectors' classifications included in the sample.

Table 7.5 also provides a breakdown of the TCGD and VCGD by the eight main sectors included in the sample. It reports that Telecommunications companies have a higher TCGD and VCGD than the other sectors in the non-banking sectors with a mean value of 48% and 32% respectively, possibly because companies in the telecommunications sector operates and invest in other countries; for example, Betleco in Bahrain, which operates in India, Saudi Arabia and Egypt (Mubasher, 2014). In the same context, Saudi Telecommunications operates in different countries, such as Turkey, Malaysia, India, Bahrain, Kuwait and elsewhere (STC, 2014). Therefore, they might comply with the highest corporate governance regulation of countries where they operate. In contrast, the Oil, Gas and Chemicals companies in the sample score the lowest, with a mean value of 33% and 15% respectively, which is consistent with Owusu-Ansah (1998) who stated that companies in certain industries such as Oil, Gas

and Chemicals companies might face difficulty in reporting and disclosure due to the nature of their work.

7.4.2 Descriptive Analysis of the Continuous and Categorical Independent Variables

As stated above, four continuous variables are used in the regression, consisting of: i) board size; ii) the frequency of board meetings; iii) the proportion of INEDs; and iv) company size. Descriptive statistics for these continuous variables are presented in Table 7.6.

Table 7.6 Descriptive Statistics for Continuous Variables By Country

	Mean	Median	S.D	Minimum	Maximum
Panel-A: Board Size					
Whole Sample	8.36	8	1.798	5	12
Saudi	8.79	9	1.582	5	11
Oman	7.49	7	1.730	5	11
Bahrain	9.00	9	1.780	5	12
Panel-B: Board Meetings					
Whole Sample	6.09	6	2.528	3	16
Saudi	5.51	5	2.063	3	12
Oman	6.77	6	3.174	4	16
Bahrain	6.04	6	1.829	4	12
Panel-C: Proportion of INEDs					
Whole Sample	0.633	0.600	0.252	0.11	1.00
Saudi	0.525	0.454	0.178	0.22	0.89
Oman	0.838	0.875	0.208	0.17	1.00
Bahrain	0.491	0.444	0.217	0.11	0.91
Panel-D: Market Capitalisation (USD 000)					
Whole Sample	1,401,472	288,857	3,566,214	966	27,800,348
Saudi	2,846,333	662,763	5,275,158	80,930	27,800,348
Oman	342,460	57,740	664,722	966	3,080,666
Bahrain	572,876	155,825	843,362	17,798	3,314,651

Note: this table presents the descriptive statistics for the continuous variable

Panel-A of Table 7.6 shows that the average board size of the sample companies was 8.36 members, with a minimum size of five and a maximum of twelve; this shows that the board size varies across the listed companies in the three countries under investigation for the whole sample. In addition, by comparing the board size in the three countries, it shows that the average board size in the three countries is slightly different, whereby the Bahraini listed companies have the highest mean board size (9.00) compared to the Saudi and Omani listed companies (at 8.79 and 7.49 respectively). This accord with the GCC Board Directors Institute (2010) that finds the average number of directors on a GCC board to be 8.3, and Al-Janadi et al. (2013) who find the average number for Saudi listed companies to be 8.43. IFC and Hawkamah (2008) find that board size in MENA countries varied between eight and ten members. Thus, the listed companies selected in this study comply with their country's regulations regarding board size. As stated previously in Chapter Three, the number of directors on a Saudi board must be between 3 and 11. In Oman, the commercial companies' law requires that the number of board directors should be between five and twelve. In addition, this is in line with the finding of Chapter Six, that most of the interviewees recommend a board size of between eight and eleven.

In addition, Panel-B of Table 7.6 presents the frequency of the board meetings and indicates that the average number of board meetings for the whole sample is 6.09 times a year and that the frequency of the board meetings ranges from a minimum of three to a maximum of sixteen per year. Moreover, the average number of board meetings in the three countries is slightly different; Omani listed companies had the highest mean number of board meetings (6.77) compared to the Saudi and Bahraini listed companies (at 5.52 and 6.04 respectively). This average is higher than the minimum of four annual meetings recommended by the code of corporate governance in Oman and Bahrain and it is in line with the results of

Chapter Six. In addition, it is slightly higher than the results of previous studies. For instance, IFC and Hawkamah (2008) indicate that 60% of listed companies had between three and five board meetings a year, whereas El Mehdi (2007) finds that the average annual number of board meetings for 24 Tunisian listed firms is around four; Mangena and Tauringana (2006) find that Zimbabwean listed companies meet on average only 3.30 times a year.

Panel-C of Table 7.6 reveals that a wide difference exists between the proportion of INEDs sitting on the board, where the average of 63.3% and ranged from 11% (minimum) to a maximum of 100%, indicating that in some companies all board members were apparently independent members. This conclusion is similar to the UK and Switzerland, with 61% and 62% respectively (Heidrick and Struggles, 2011). Thus, the listed companies selected for this study comply with their country code regarding the number of INEDs sitting on the board. It also shows that the average proportion of INEDs in the three countries varies, whereby the Omani listed companies had the largest average proportion of INEDs (83.7%) compared to the Saudi and Bahraini listed companies (52.51% and 47.18% respectively). However, it should be noted that 19 companies, representing almost half of the Omani listed companies in the sample, have boards consisting wholly of INEDs. As indicated in Chapter Six, some Omani and Saudi listed companies select INEDs based on their personal relationships and are not truly independent; this had the effect of weakening their roles and hence reflecting less lateral and hierarchical accountability. Thus, this real independence is questionable.

The final continuous independent variable was company size, and Table 7.6 panel-D shows that the average size is USD 1.4 billion, ranging widely from around USD 1 million to USD

27.8 billion. It can also be seen that the average size of the listed companies in the three countries varied. The Saudi listed companies are larger (Mean USD 2.8 billion) than those listed in Oman (Mean USD 342 million) and Bahrain (Mean USD 572 million); Omani listed companies are the smallest.

Table 7.7 shows the descriptive statistics for these continuous variables based on their industrial sectors (banking and non-banking sectors) and demonstrates that the banking sector has larger boards, are larger in size and haveslightly more frequent board meetings per year. On the other hand, the non-banking sectors have the higher proportion of INEDs sitting on their boards compared to the banking sector.

Table7.7 Descriptive Statistics for Continuous Variables by Sector

Variables	Sectors	Mean	Median	SDV	Minimum	Maximum
Board size	**Banks**	9.52	10.00	1.750	5	12
	Non-Banks	8.08	8.00	1.703	5	11
Board Meetings	**Banks**	6.67	6.00	3.022	4	15
	Non-Banks	5.95	5.00	2.390	3	16
Proportion of independent non-executive directors	**Banks**	0.571	0.500	0.228	0.30	1.00
	Non-Banks	0.649	0.666	0.257	0.11	1.00
Company size	**Banks**	3,094,525	1,300,350	608,728	122,457	27,800,348
	Non-Banks	988,052	235,866	2,502,002	966	18,026,892

Note: this table presents descriptive statistical for the continuous variable based on two sectors (banking Vs Non-banking).

Regarding the dummy independent variables, Table 7.8 below shows that 85 companies are audited by one of the Big-4 firms, compared to 22 companies that are not audited by one of the Big-4 firm (79.43% of the total sample). In addition, Table 7.8 shows that the Bahraini

sample includes more banks (11) than the other two countries and is the largest sector in Bahrain.

Table7.8 Descriptive Statistics for Auditor and Industrial Sector by Country

Variable		Number of companies			
		Whole Sample	**Saudi**	**Oman**	**Bahrain**
Auditor	**Big-4**	85	32	32	21
	No Big-4	22	11	7	4
Industrial	**Banks**	21	6	4	11
	Non-Banks	86	37	35	14

Note: this table presents descriptive statistics for the dummy variables

After the data has been collected, it is useful to establish whether they are normally distributed, such that the data is distributed symmetrically around the mean (Field, 2010). According to Haniffa and Hudaib (2006), the data is normal if the skewness is within ±1.96 and kurtosis is about ±3. Based on these two tests of normality, the data is not normally distributed for the dependent variables TCGD and VCGD. Therefore, the Spearman correlation coefficients were used first to identify the statistical relationship between the dependent (TCGD and VCGD) and independent variables utilised in this study, as suggested by Field (2010)[63] .

7.5 Univariate Analysis

The correlation between the two dependent variables, TCGD and VCGD, and each of the independent variables and the correlation amongst the explanatory (independent) variables was tested using the Spearman's correlation as a nonparametric test. The results are

[63] When the data violates the parametric assumptions, instead of the Pearson correlation coefficient, Spearman's should be used to identify the correlation between the variables (Field, 2010).

presented in Table 7.9; such a correlation matrix suggests whether there may be any multicollinearity between the independent variables.

Table7.9 Spearman's rho Correlation Coefficients Between the Dependent Variables and Independent Variable

	TCGD	VCGD	B.Size	B.Meeting	P.ind	Size	AUD	IND	Country
TCGD	1								
VCGD	**.922****	1							
B.Size	**.422****	**.324****	1						
B.Meeting	0.08	0.175	.129	1					
p.ind	**-0.286****	-0.092	**-0.351****	-.019	1				
Size	**.324****	0.169	**.579****	.058	**-.444****	1			
AUD	0.148	0.143	**.224***	**.193***	-.105	**.249****	1		
IND	**.493****	**.456****	**.323****	.106	-.136	**.362****	**.251****	1	
Country	**.333****	**.363****	-.046	**.192***	.132	**-.437****	.100	**.240***	1

Note: *. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed). TCGD. = Percentage of total disclosure, VCGD. = Percentage of voluntary disclosure, B.size = Board Size, B.Meeting = Board Meeting, P.ind. =Proportion of independent non-executive directors, size= company size, AUD = external Auditor**,** IND= industrial sector.

Table 7.9 shows that five independent variables have a significant relationship with TCGD and three independent variables have a significant relationship with VCGD. For instance, board size is positively associated with increased TCGD and VCGD at the 1% level[64]. Thus, the greater the board size, the higher the corporate governance disclosure. On the other hand, a negative significant association at the 1% significance level exists between the proportion of INEDs and TCGD (and is not significant with VCGD). This suggests that, the higher the proportion of INEDs, the lower the corporate governance disclosure level. This could be explained by the fact that 19 Omani companies have 100% independent board members sitting on their boards but are not truly independent, as suggested in Chapter Six. Moreover, company size is significant at the 1% significance level with TCGD suggesting

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[64] This will be discussed more in the discussion and summary section.

that larger firms disclose more TCGD than smaller ones. Also, the correlation between TCGD and VCGD with type of industry suggests that the both of them are positively related to being a bank. Furthermore, country is positively related with both TCGD and VCGD and will be discussed more in the next section.

In addition, the associations between the independent variables with each other are lower than 0.8 and do not show any particular multicollineartiy problem (as will be discussed further later, in section 7.6).

In addition, to test the relationship between the dependent variables, TCGD and VCGD, and each of the two dummy independent variables of Industry and Type of Auditor the Mann Whitney (M-W)[65] test was conducted, as shown in Table 7.10. Moreover, for the country categorical variables, the differences across countries were calculated using the Kruskal-Wallis (K-W)[66] test, as the Kolmogorov-Smirnov test of normality showed that the data was not normally distributed. The K-W test identifies whether the disclosure of corporate governance practices varies across different countries, but it does not identify where the differences exist, so the Mann Whitney (M-W) test was also used to identify how levels of disclosure varied across the three countries.

Regarding TCGD, the results of Table 7.10, Panel-A, shows that companies in the banking sector have higher corporate governance disclosure levels than companies in the non-

[65] M-W test is a non-parametric test equivalent of the independent t-test and used to test difference between two conditions (Field, 2010).

[66] K-W test is a non-parametric test (counterpart of the independent one-way ANOVA) that identifies if the differences between two or several groups are the same (Field, 2010).

banking sector. For VCGD, the results of Panel B indicate the banking sector has higher VCGD levels than companies in the non-banking sector.

Table 7.10 Mann Whitney Test for Industry and Auditor

	Variables	N	Mean Rank	Z	Significant
Panel-A: TCGD					
IND	**Non-Bank**	86	46.49	5.071	**0.000****
	Bank	21	84.76		
AUD	**Non-Big-4**	22	45	1.527	0.127
	Big-4	85	56.33		
Panel-B:VCGD					
IND	**Non-Bank**	86	47.05	4.692	**0.000****
	Bank	21	82.48		
AUD	**Non-Big-4**	22	45.3	1.477	0.140
	Big-4	85	56.25		

Note: *= $p \leq 0.05$ and **= $p \leq 0.01$; TCGD = Percentage of total disclosure, IND= industrial sector, AUD = external Auditor.

Table 7.11, Panel-A, indicates that the differences amongst the three countries for TCGD are significant. Thus, pair-wise comparisons of the countries were performed using M-W test, as shown in Table 7.11 that suggests that the difference is significant between all three countries. Therefore, the TCGD for Bahraini companies is significantly higher than that for Saudi companies which is higher than for Omani companies. In addition, the TCGD for Saudi companies is significantly higher than that for the Omani companies. Panel-B indicates that VCGD is also significantly affected by country and it shows that Bahraini companies disclose significantly more than Saudi and Omani companies.

Table7.11 Differences between corporate governance disclosure across Saudi, Oman and Bahrain.

Panel A: TCGD				
K-W Test				
Significant	**0.000****			
M-W Test				
	Country	**Mean Rank**	**Z**	**significant**
Saudi vs. Oman	**Saudi**	48.28	2.711	**0.007****
	Oman	34.03		
Saudi vs. Bahrain	**Saudi**	25.03	5.18	**0.000****
	Bahrain	50.78		
Oman vs. Bahrain	**Oman**	21.31	6.011	**0.000****
	Bahrain	49.96		
Panel B: VCGD				
K-W Test				
Significant	**0.000****			
M-W Test				
	Country	**Mean Rank**	**Z**	**significant**
Saudi vs. Oman	**Saudi**	41.28	0.088	0.93
	Oman	41.74		
Saudi vs. Bahrain	**Saudi**	26,88	4.168	**0.000****
	Bahrain	47.6		
Oman vs. Bahrain	**Oman**	24.26	4.428	**0.000****
	Bahrain	45.36		

Note: *= p≤ 0.05 and **= p≤0.01; TCGD. = Percentage of total corporate governance disclosure, VCGD= Percentage of voluntary corporate governance disclosure.

Thus, for both TCGD and VCGD, Bahraini firms discharge greater hierarchical accountability compared to Saudi and Omani firms. One possible explanation for this is that the Bahraini code was newly issued in 2010, so it may contain up-to-date international corporate governance practices. In addition, Desoky and Mousa (2012) note that Bahrain is one of the world's leading international financial centers, so companies there may disclose more information in order to be more transparent and maintain their reputation internationally. The results of this section are consistent with the findings of Chapter Six, which indicated that Bahraini companies in general appear to be more accountable

compared to Saudi Arabian and Omani ones. A multivariate analysis of the dependent and independent variables is presented in the next section.

7.6 Multivariate analysis

After summarising the descriptive statistics and conducting the univariate analyses, a multiple regression is now conducted, as a multivariate analysis technique is most commonly utilised in the corporate governance disclosure literature (see, for example, Suphakasem; 2008; Mohamed and Sulong, 2010; Ntim et al., 2012; and Al-Moataz and Al-Hussainey, 2012). A multiple regression was employed in this study to find out how the independent variables affected corporate governance disclosure (TCGD and VCGD). The type of regression commonly used to test the relationship between the dependent and independent variables is an Ordinary Least Squares (OLS) regression. Hutcheson and Sofroniou (1999) state that OLS is a useful statistical technique if the regression model includes both continuous and dummy variables. However, before employing OLS, the researcher has to check several assumptions (Field, 2010).

For this study, the two dependent variables are: (i) the percentage of corporate governance disclosure (TCGD); and (ii) the percentage of voluntary corporate governance disclosure (VCGD), both of which are quantitative, continuous variables which are appropriate for multiple linear regressions. Furthermore, a variation exists in the values of the independent variables, and each value of the outcome (dependent) variables is independent of the other values.

A multicollinearity problem[67] may exist when the independent variables are associated with each other, which can be tested by a correlation matrix, and a problem exists when the correlation coefficient is 0.8 or above (see section 7.5). It can be seen that the association between all of the independent variables are lower than 0.8, and does not show any particular multicollinearity problems with a maximum correlation coefficient of 0.579 (as shown in Table 7.9 above). Another test for multicollinearity in a regression is to use the variance inflation factor (VIF) and the tolerance. If a VIF value is greater than 10 or the tolerance value is less than 0.1, there is a potential problem of multicollinearity (Field, 2010). Hence, the VIF and tolerance values for all of the independent variables are reported in the multiple regressions for different models.

In addition, the Durbin Watson (D-W)[68] test was also used in the OLS multiple regressions where, if the value is less than 1 or greater than 3, there is a cause for concern and, the closer the values are to 2, the more the error terms are independent and the OLS assumptions met (Field, 2010). Hence, the D-W tests are also reported in the multiple regression models.

Moreover, the distribution of the error term is normal if the mean value of the error term is zero and this can be tested utilising Histograms and Normal P-P plots by plotting standardised predicted values (ZPRED) against standardised residuals (ZRESID) (Cooke, 1998; Field, 2010). The figures in Appendix 7.2 for example, indicate that the error terms can be considered to be normally distributed.

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[67] Multicollinearity is considered as a serious problem in the multiple regressions when two or more independent variables are highly correlated with each other in the same regression model (Field, 2010).
[68] The Durbin Watson (DW) test provided an assurance about the lack of autocorrelation among the independent variables (Field, 2010).

In addition, the linearity and homoscedasticity can be evaluated via plotting standardised predicted values (ZPRED) against standardised residuals (ZRESID) in addition to the Normal P-P plot for linearity (Cooke, 1998; Field, 2010) (see Appendix 7.2 which indicates that the homoscedasticity and linearity are met). In addition, following Allegrini and Greco (2013), White's test was conducted to test for homoscedasticity using Eviews' statistical programme, with results showing that this assumption was also met. Based on the above discussion, the OLS assumptions were met, and the results are illustrated in the next section.

7.6.1 Multiple Regression Model

In this section, two regression models based on TCGD and VCGD were developed to investigate the relationship between the dependent and the independent variables. The following equation represents the two regression models:

$Y_i = \beta 0 + \beta_1$ (Bsize) $+ \beta_2$ Bmeeting) $+ \beta_3$ (PInd) $+ \beta_4$ (Size) $+ \beta_5$ (AUD) $+ \beta_6$ (IND) $+ \beta_7$ (Om) $+ \beta_{8}$ (Bah) $+ \varepsilon$,

Where the Covariates are:

Y	= dependent variables; (i) percentage of total corporate governance disclosure (TCGD) and (ii) percentage of voluntary corporate governance disclosure (VCGD)
i	= company identifier
β_0	= intercept
Bsize	= Board size
Bmeeting	= Board Meeting
PInd	= Proportion of independent directors
Size	= Company size (Market Capitalisation)

AUD	= type of auditor (dummy variables; 1= company audit by Big-4; otherwise 0)
IND	= Industry Type (dummy variables; 1= Banking sector; otherwise0)
Om	= 1 if "country" = Oman; otherwise 0
Bah	= 1 if "country" = Bahrain; otherwise 0
ε	= error term

The Statistical Package for Social Sciences 20 (SPSS 20)[69], and the enter method (a standard method), were used, and the models represented below include all seven of the independent variables (Oman and Bahrain represents one independent variables for countries. The regression analysis results of the OLS regression are discussed in the next section.

7.6.2 Multiple Regression Analyses Results

Table 7.12 (Model 1) reports the OLS regression analysis results for the first dependent variable (TCGD).

[69] SPSS is among the most widely used programmes for statistical analysis in social sciences.

Table 7.12 Regression using TCGD (Model 1)

Coefficients							
	Unstandardized Coefficients		Standardized Coefficients	t	Sig	Collinearity Statistics	
	B	Std.Error	Beta			Tolerance	VIF
Constant	.224	.042		5.286	.000		
B.Size	.012	0.004	0.204	2.982	**0.004****	0.736	1.359
B.meeting	.002	0.003	0.043	0.679	0.499	0.881	1.135
P.Ind	.036	0.032	0.089	1.125	0.263	0.559	1.788
Size	-1.122E-009	.000	-0.040	-0.580	0.563	0.747	1.339
AUD	.015	0.016	0.059	0.937	0.351	0.868	1.152
IND	.063	0.018	0.249	3.541	**0.001****	0.699	1.431
Oman	-.040	0.018	-0.189	-2.200	**0.030***	0.469	2.134
Bahrain	.130	0.018	0.528	7.214	**0.000****	0.647	1.546
Model Summary	**R**	**R Square**	**Adjusted R Square**	**Std. Error**	**F Value**	**F.Sig.**	**Durbin-Watson**
	0.817	0.668	0.640	0.06126	24.122	0.000**	1.985

Note: *= p≤ 0.05 and **= p≤0.01; TCGD. = Percentage of total disclosure, size= company size, B.Meeting = Board Meeting, B.size = Board Size, P.ind. =Proportion of independent non-executive directors, AUD = external Auditor**,** IND= industrial sector.

The regression of Model 1 in Table 7.12 examines the relationship between TCGD and the independent variables. Table 7.12 indicates that board size is statistically significant at the 1% level with TCGD; this means that larger boards disclose more corporate governance information than smaller ones, thus confirming hypothesis 1[70]. For the second hypothesis, Table 7.12 shows that the frequency of board meetings is not related to TCGD (P=0.499), indicating that hypothesis 2 is not supported. The third hypothesis assumes a significant relationship between the proportion of INEDs and TCGD; however, the findings from Table 7.12 show that the proportion of INEDs is not associated with TCGD (P=0.263).

[70] This and other findings from the above table will be linked back to the accountability theory framework in the discussion section later.

Based on the sign, the proportion of INEDs is positive, so the larger the proportions of INEDs the higher level of corporate governance disclosure. In addition, Table 7.12 reveals that the company size is not associated with TCGD (P= .563)[71], similarly, auditor type is not significant with TCGD, so the fourth and fifth hypotheses are not supported. Regarding industry sector, it is significant at the 1% level; the banking sector discloses more corporate governance information than the non-banking sector companies, supporting the sixth hypothesis.

There is also a negative value for the Oman coefficient and a positive value for Bahrain with respect to TCGD. Thus, the results show that companies listed in Oman disclose lower levels of corporate governance information and that companies listed in Bahrain disclose more information when compared with Saudi (the reference country), both are significant at the 5% and 1% levels, respectively.

The adjusted R^2 provides an estimation of the true population value, especially for small samples (Tabachnick and Fidell, 2001). The adjusted R^2 gives an idea about the power of the model in predicting the variables of interest. When the adjusted R^2 is close to 1, this indicates that the model has a very strong prediction, whereas a small adjusted R^2 reveals a weak relationship. The value of the adjusted R^2 in the current study is 64% thus the variation in disclosure between the companies can be explained by the independent variables in the model and is stronger than found in previous studies (such as 33.5% for

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[71] Running the multiple regression using natural logarithm for market capitalisations in Models 7 and 8 gives similar results and the Market capitalisation is not significant in any of them (please see appendix 7.3).

Suphakasem, 2008). According to Anderson et al. (1993) and Abd-Elsalam and Weetman (2003), an R^2 of 20% is considered useful in social science research.

In addition, the Tolerance and VIF for all the variables indicate that multicollinearity is not a problem in the current study; the maximum VIF is 2.134 (compared to 10) and the minimum tolerance is 0.469. In this model, the D-W values are also close to 2 at 1.985; and therefore, this assumption has been met (please see section 7.6 above for more information). The next model, Model 2 is shown in Table 7.13 using VCGD as the dependent variable.

Table 7.13 Regression using VCGD (Model 2)

Coefficients							
	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig**	**Collinearity Statistics**	
	B	**Std.Error**	**Beta**			**Tolerance**	**VIF**
Constant	.042	.055		.765	.446		
B.Size	.012	0.005	0.206	2.279	**0.025***	0.736	1.359
B.meeting	.003	0.003	0.071	0.855	0.395	0.881	1.135
P.Ind	.031	0.041	0.077	0.741	0.46	0.559	1.788
Size	-1.687E-009	0.000	-0.06	-0.67	0.505	0.747	1.339
AUD	.007	0.021	0.028	0.334	0.739	0.868	1.152
IND	.075	0.023	0.301	3.235	**0.002****	0.699	1.431
Oman	-.007	0.024	-0.034	-0.299	0.766	0.469	2.134
Bahrain	.090	0.023	0.37	3.828	**0.000****	0.647	1.546
Model Summary	**R**	**R Square**	**Adjusted R Square**	**Std. Error**	**F Value**	**F.Sig.**	**Durbin-Watson**
	0.649	0.421	0.373	0.07983	8.725	0	2.158

Note: *= p≤ 0.05 and **= p≤0.01; VCGD. = Percentage of voluntary disclosure, size= company size, B.Meeting = Board Meeting, B.size = Board Size, P.ind. =Proportion of independent, AUD = external Auditor, IND= industrial sector.

Table 7.13 indicates that board size is statistically significant at the 5% level with VCGD; companies with larger boards tend to disclose more voluntary corporate governance information than smaller boards. In addition, companies in the banking sector disclose more

voluntary corporate governance information than those in the non-banking sectors. Moreover, there is a positive relationship for Bahrain with VCGD, which is significant at the 1% level and a negative relationship for Oman although not statistically significant, suggests that Bahraini companies disclose more voluntary levels of corporate governance information than companies listed in Oman and Saudi companies (the reference country).

The results in Table 7.13 also show that there is no significant relationship between the frequency of board meetings, the proportion of INEDs, company size and auditor type. Based on the above results, hypotheses 2, 3, 4, 5 and 7a are rejected and hypothesis 1, 6 and 7a are accepted. These results will be linked to accountability theory and interpreted in the next section.

The value of the adjusted R^2 is 37.3% and is stronger than found in previous studies (with 21% for Mohamed and Sulong, 2010, and 26.3% for Mallin and Ow-Yong, 2012). In addition, the Tolerance and VIF for all of the variables indicate that multicollinearity is not a problem (maximum VIF is 2.134 and the minimum tolerance is 0.469). In this model, the D-W values are close to 2, at 2.158; and therefore, the assumption has been met. The next sections report further regression models as the robustness of the results provided above.

7.6.3 Robustness Tests

Conducting other regression models enhances the robustness of the results and conclusions of the study (Cooke, 1998; Haniffa, 1999; Mallin and Ow-Yong, 2012), as well as ensuring that transformations of the data do not change the conclusions (Afifi et al., 2004). Thus, this study conducts two forms of transformations that have been employed by previous researchers (see, for example, Haniffa, 1999; Mallin and Ow-

Yong, 2012; Uyar et al., 2013; Aljifri et al., 2014), the dependent variables are transformed to normal scores using the Van der Warden approach, by dividing the distribution into the number of observations plus one region on the basis that each region has an equal probability (Cooke, 1998; Haniffa and Cooke, 2002). Cooke (1998) indicates the advantage of using normal scores is because the F and t-tests and the regression coefficients are meaningful. In addition, it offers a means whereby a non-normal dependent variable may be transformed into a normal one. Second, log odd ratios can be used (Cooke, 1998) and this approach can be used here as the companies' disclosures are neither zero values nor negative values; and are consequently, always positive approaching towards one. Thus, the log of the odds ratio {ln [dependent variable /(1- dependent variable)]} of the dependent variable will overcome this problem, resulting a normal distribution from $-\infty$ to $+\infty$. The regression results using the normal score and the log of the odds ratio regression are presented below in Table 7.14 (Model 3) and Table 7.15 (Model 4) for TCGD.

Table7.14 Regression using Transformed TCGD to Normal Score (Model 3)

Coefficients							
	Unstandardized Coefficients		Standardized Coefficients	T	Sig	Collinearity Statistics	
	B	Std.Error	Beta			Tolerance	VIF
Constant	-1.544	.451		-3.423	**.001****		
B.Size	.114	.041	.212	2.753	**.007****	.736	1.359
B.meeting	.018	.027	.047	.664	.508	.881	1.135
P.Ind	.453	.339	.118	1.338	.184	.559	1.788
Size	1.276E-009	.000	.005	.062	.951	.747	1.339
AUD	.053	.168	.022	.315	.754	.868	1.152
IND	.556	.190	.231	2.923	**.004****	.699	1.431
Oman	-.493	.192	-.248	-2.563	**.012***	.469	2.134
Bahrain	1.042	.191	.448	5.449	**.000****	.647	1.546
Model Summary	R	R Square	Adjusted R Square	Std. Error	F Value	F.Sig.	Durbin-Watson
	.762[a]	.580	.545	.6516984	16.603	**0.000****	1.920

Note: *= p≤ 0.05 and **= p≤0.01; VCGD. = Percentage of voluntary disclosure, size= company size, B.Meeting = Board Meeting, B.size = Board Size, P.ind. =Proportion of independent, AUD = external Auditor**,** IND= industrial sector.

Table 7.15 Regression using Transformed TCGD with Log of the Odd Ratio (Model 4)

Coefficients							
	Unstandardized Coefficients		Standardized Coefficients	T	Sig	Collinearity Statistics	
	B	Std.Error	Beta			Tolerance	VIF
Constant	-1.164	.181		-6.447	**.000****		
B.Size	.049	.017	.206	2.979	**.004****	.736	1.359
B.meeting	.008	.011	.044	.702	.485	.881	1.135
P.Ind	.158	.136	.093	1.166	.246	.559	1.788
Size	-4.256E-009	.000	-.035	-.517	.606	.747	1.339
AUD	.059	.067	.056	.875	.384	.868	1.152
IND	.267	.076	.249	3.508	**.001****	.699	1.431
Oman	-.175	.077	-.197	-2.269	**.026***	.469	2.134
Bahrain	.539	.077	.520	7.048	**.000****	.647	1.546
Model Summary	R	R Square	Adjusted R Square	Std. Error	F Value	F.Sig.	Durbin-Watson
	0.814	.662	.634	.26088	23.505	**0.000****	1.988

Note: *= p≤ 0.05 and **= p≤0.01; VCGD. = Percentage of voluntary disclosure, size= company size, B.Meeting = Board Meeting, B.size = Board Size, P.ind. =Proportion of independent, AUD = external Auditor**,** IND= industrial sector.

Tables 7.14 and 7.15 show the results of Regression Models 3 and 4 both of which provide similar results to the previous sections, which indicate that the results are robust. In these two models' board size, Industry Type and Bahrain and Oman are all significant with TCGD. Thus, hypotheses 2, 3, 4, and 5 are rejected and hypotheses 1, 6 and 7a and 7b are accepted.

The value of the adjusted R^2 for these two models is 54.5% and 63.4% respectively and the Tolerance and VIF for all of the variables indicate that multicollinearity is not a problem. Moreover, the D-W values are close to 2, and therefore, the assumption had been met.

The next two models are shown in Tables 7.16 and 7.17 and report the regression analysis results of Models 5 and 6 using VCGD transformed to normal scores and the log of the odds ratio respectively.

Table 7.16 and Table 7.17 show the results from the Regressions which provide similar results to Model 2 using VCGD meaning that the results of Model 2 are robust. These two models indicate that board size; Industry Sector and Bahraini companies are all significant with VCGD. Based on the results, hypotheses 2, 3, 4, 5 and 7a are rejected and hypotheses 1, 6 and 7b are accepted.

Table 7.16 Regression using Transformed VCGD to Normal Scores (Model 5)

Coefficients							
	Unstandardized Coefficients		Standardized Coefficients	T	Sig	Collinearity Statistics	
	B	Std.Error	Beta			Tolerance	VIF
Constant	-1.724	.545		-3.163	**.002****		
B.Size	.102	.050	.191	2.049	**.043***	.736	1.359
B.meeting	.034	.032	.090	1.052	.296	.881	1.135
P.Ind	.505	.409	.132	1.234	.220	.559	1.788
Size	-2.400E-009	.000	-.009	-.097	.923	.747	1.339
AUD	.035	.203	.015	.174	.863	.868	1.152
IND	.640	.230	.267	2.787	**.006****	.699	1.431
Oman	-.031	.232	-.015	-.131	.896	.469	2.134
Bahrain	.912	.231	.393	3.948	**.000****	.647	1.546
Model Summary	**R**	**R Square**	**Adjusted R Square**	**Std. Error**	**F Value**	**F.Sig.**	**Durbin-Watson**
	.620[a]	.385	.333	.7872566	7.498	**0.000****	1.920

Note: *= p≤ 0.05 and **= p≤0.01; VCGD. = Percentage of voluntary disclosure, size= company size, B.Meeting = Board Meeting, B.size = Board Size, P.ind. =Proportion of independent, AUD = external Auditor**,** IND= industrial sector.

Table 7.17 Regression using Transformed VCGD to Log of the Odd Ratio (Model 6)

Coefficients							
	Unstandardized Coefficients		Standardized Coefficients	T	Sig	Collinearity Statistics	
	B	Std.Error	Beta			Tolerance	VIF
Constant	-2.486	.339		-7.337	**.000****		
B.Size	.067	.031	.200	2.162	**.033***	.736	1.359
B.meeting	.019	.020	.080	.939	.350	.881	1.135
P.Ind	.295	.254	.123	1.160	.249	.559	1.788
Size	-3.243E-009	.000	-.019	-.210	.834	.747	1.339
AUD	.016	.126	.011	.124	.901	.868	1.152
IND	.421	.143	.280	2.946	**.004****	.699	1.431
Oman	-.027	.144	-.022	-.187	.852	.469	2.134
Bahrain	.555	.144	.382	3.866	**.000****	.647	1.546
Model Summary	**R**	**R Square**	**Adjusted R Square**	**Std. Error**	**F Value**	**F.Sig.**	**Durbin-Watson**
	0.626	.392	.342	.48955	7.752	**0.000****	1.997

Note: *= p≤ 0.05 and **= p≤0.01; VCGD. = Percentage of voluntary disclosure, size= company size, B.Meeting = Board Meeting, B.size = Board Size, P.ind. =Proportion of independent, AUD = external Auditor**,** IND= industrial sector.

The values of the adjusted R^2 for the two models are 33.3% and 34.2% respectively and the Tolerance and VIF for all of the variables indicate that multicollinearity is not a problem. In this model, the D-W values are close to 2; and therefore, the assumption had been met. The next section presents a general discussion and summary.

7.7 Discussion and Summary

This chapter examines seven variables that may influence the corporate governance disclosure of listed companies in three Arabian Gulf countries using multiple regression analysis. The findings of the multivariate analysis are summarised as shown in Table 7.18.

Table 7.18 Summary of the Regression Findings for All Models

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model6
B.Size	**.004****	**.025***	**.007****	**.004****	**.043***	**.033***
B.Meeting	.499	.395	.508	.485	.296	.35
P.inde	.263	.46	.184	.246	.22	.249
Size	.563	.505	.951	.606	.923	.834
AUD	.351	.739	.754	.384	.863	.901
IND	**.001****	**.002****	**.004****	**.001****	**.006****	**.004****
Oman	**.030***	.766	**.012***	**.026***	0.896	0.852
Bahrain	**.000****	**.000****	**.000****	**.000****	**.000****	**.000****

Note: *= p≤ 0.05 and **= p≤0.01; VCGD. = Percentage of voluntary disclosure, size= company size, B.size = Board Size, B.Meeting = Board Meeting, P.ind. =Proportion of independent, AUD = external Auditor**,** IND= industrial sector. Model 1= TCGD without transformed; Model 2= VCGD without transformed; Model 3= TCGD transformed to normal scores; Model 4= TCGD transformed to log of the odd ratio; Model 5= VCGD transformed to normal scores; Model 6= VCGD transformed to log of the odd ratio.

The Table shows that that board size has a positive relationship with both TCGD and VCGD and was statistically significant at the 1% and 5% levels respectively. This result was supported by the univariate analysis using correlations tests. This result indicates that, the larger the board of listed companies in the three countries, the higher the disclosure of

the corporate governance practices by that company. This result is consistent with previous studies that found that board size influences corporate governance disclosure (see for example, Mallin and Ow-Yong, 2012; Samaha et al., 2012; Gordon et al., 2012; Ntim et al., 2012 whose find a significant positive association). As stated by Mallin and Ow-Yong (2012), the larger the board size, the more likely it is that the listed company has the ability to comply with good governance practice, as a larger number of board members brings more experience and increased disclosure. This positive association may be due to the fact that a large number of directors on the board provides the board with a greater capability to cover the company activities and also give enough information to the shareholders and other stakeholders because it has a variety of experts and qualified directors in different areas; such as reporting expertise, which may lead to greater lateral accountability and Shura by having more discussion and debate about the company's policies and strategies (as documented in Chapter Six). This leads to addressing the needs of different stakeholders' interests by improving disclosure practice, which may lead to the discharge of greater hierarchical accountability. Thus, hypothesis 1 is supported.

The frequency of the board meetings was statistically insignificant in all of the regression models and is consistent with the univariate analysis using correlations tests. This finding is different from some earlier research (Laksmana, 2008; Allegrini and Greco, 2013; Alexandrina, 2013), but is consistent with Cormier et al. (2010) and Barros et al., (2013) and accords with Chapter Six, (especially in the Saudi and Omani listed companies) as the interviewees mentioned that some board members do not contribute well at board meetings and do not even read the agenda, thus weakening the boards' lateral and hierarchical accountability. Therefore, the second hypothesis is rejected. It had been assumed that more frequent board meetings would lead to more discussion among board members resulting in

more lateral accountability and Shura, leading to more disclosure of corporate governance information and hence the discharging of more hierarchical accountability, but this does not appear to be the case in the three countries context.

Regarding the proportion of INEDs, the results of the current study are interesting. The univariate analysis showed a significant negative relationship between TCGD and the proportion of INEDs on boards, while Models 1, 3 and 4 did not find any significant relationship. The negative association between corporate governance disclosure and the proportion of INEDs occurred when the variable was assessed independently to the other variables, which might indicate that outside directors in the GCC countries as developing countries are less likely to be truly independent (Barako et al., 2006). However, by adding other variables into the multivariate analysis, the regression models tended to result in statistically insignificant findings, as other variables had a more significant influence on corporate governance disclosure practice. The conflicting findings between the univariate and multivariate analysis has been noted in previous disclosure studies and may be attributed to the cause of other variables in the model or to the statistical significance being overstated by the correlations used in the univariate analysis (Hossain et al., 1994; Akhtaruddin et al., 2009; Mohamed and Sulong, 2010; Ntim et al., 2012). Therefore, for the proportion of INEDs on the board in explaining the variation in corporate governance has mixed and contrary results, thus hypothesis 3 is rejected.

However, it should be noted that 19 of the Omani companies are comprised of 100% independent directors and, as found in Chapter Six, most of them are not truly independent. For example, the chairman of the board of one Omani company considers himself to be an independent director, but he owns 10% of the company's shares. In another Omani

company, the chairman of the board is the representative of a company that owns more than 40% of the shares and he is regarded as an independent director. Thus, hypothesis 3, which states that companies with a higher proportion of INEDs would probably have more corporate governance disclosure and hence more hierarchical accountability, was not supported. There are questions about the independence of the so-called 'independent' directors in the GCC countries and their effectiveness in terms of monitoring and advice, as many of them are appointed based on their relationships with the major shareholders rather than their skills (particularly in Saudi and Omani listed companies), as suggested in Chapter Six. As such, the directors may know each other as well as knowing the directors of the company prior to their appointment. Consequently, their independence, which may lead to the expected higher levels of disclosure and transparency, is questionable (Crowther and Jatana, 2005). Furthermore, the results of both the univariate analysis and regression Models 2, 5 and 6 were insignificant and accords with previous studies (see, for example, Pahuja and Bhatia. 2010; Mohamed and Sulong, 2010; Allegrini and Greco, 2013).

Company size, as measured by market capitalisation, was also insignificant in explaining corporate governance disclosure practice and is consistent with previous studies (see, for example, Collet and Hrasky, 2005; Suphakasem, 2008; Mohamed and Sulong, 2010; and Al-Moataz and Al-Hussainey, 2012). Accordingly, the fourth hypothesis has to be rejected. It had been expected that larger companies would discharge more hierarchical accountability than smaller companies. However, it seems that discharging hierarchical accountability by providing more corporate governance information is unrelated to company size in the GCC context.

The findings of the current study reveal that auditor type was also insignificant in all regression models, and is consistent with the univariate analysis. A possible reason for this is that the non-Big-4 audit firms now have more knowledge about the corporate governance regulations, as suggested by Mallin and Ow-Yong (2012). In addition, it is important to notice that the majority of the sample companies were audited by the Big-4. Thus, although hypothesis five is rejected, it is consistent with some previous studies (such as Carson, 1996; Samaha, 2010; Mallin and Ow-Yong, 2012). It had a positive sign across the two models, so that the Big-4 audit firms may influence companies to disclose more corporate governance information, reflecting greater hierarchical accountability.

The univariate and multivariate analysis show a positive significant association between industrial sectors and corporate governance disclosure, and reveals that the banking sector discloses more corporate governance information than other companies consistent with prior studies, such as Cooke (1991), Barako et al. (2006), Bhuiyan and Biswas (2007), Al-Janadi et al. (2013) and Aljifri et al. (2014). Furthermore, the banking sector is more advanced in implementing corporate governance practices (Maingot and Zeghal, 2008), and discharges more hierarchical accountability, to gain customer trust (Arcay and Vazquez, 2005). Therefore, the sixth hypothesis is accepted and reflects the view that companies in the banking sector are more accountable than the other listed companies and discharge more hierarchical accountability.

The findings in Table 7.18 also reveal a country effect on corporate governance information disclosure. Models 1, 3 and 4 suggest that companies listed in Oman disclose lower levels of corporate governance information and those companies listed in Bahrain disclose more information, when compared with Saudi. Regarding the VCGD, Models 2, 5 and 6 show

that Bahrain has a positive and significant relationship with disclosing VCGD, which suggests that Bahraini companies discharge more hierarchical accountability. A possible explanation for this finding, as noted previously, is that the Bahraini code was issued recently, so it may contain and recommend more recent international corporate governance practices than those in the Saudi and Omani codes. As shown in appendix 7.1, Bahraini discloses more information related to board committees, codes of conduct, whistle-blowing, CSR, the board's education and experience, amongst other items. In addition, Desoky and Mousa (2012) noted that Bahrain is one of the world's leading international financial centers, where companies disclose information to be more transparent and maintain their reputation internationally. In addition, Bahrain intends to produce the right business environment and is more confident to attract more foreign investment, which leads to an increasing concern to adopt high levels of corporate governance practices to ensure accountability and fairness for all stakeholders (Desoky and Mousa, 2012). These findings emphasise the results in Chapter Six, which reveal that the Bahraini companies have better corporate governance practices and hence are more accountable overall. The next chapter presents a general discussion and the conclusion to this thesis.

Chapter 8: Conclusions, Contributions, Implications, Limitations and Future Research

8.1 Introduction

The main objectives of this thesis have been to investigate the perceptions and understanding of various stakeholders regarding corporate governance practices, whether these have an impact on how accountability and Islamic accountability is practiced in the Arabian Gulf Countries (mainly Saudi Arabia, Oman and Bahrain) and whether its varies across these three countries. It also examines other characteristics that may influence how companies discharge hierarchical accountability. The main aim of this chapter is to provide an overview of, and conclusion to, the study. In order to achieve this broad aim, the chapter is divided into eight sections as follows: Section 8.2 provides a summary of the study. Section 8.3 summarises the results of the two empirical chapters. The contributions to knowledge and policy implications are illustrated in Sections 8.4 and 8.5 respectively. Section 8.6 then outlines the main limitations of the current study, 8.7 suggests avenue for future research, and 8.8 presents the concluding final thoughts.

8.2 Summary of the Thesis

This thesis consists of eight chapters. Chapter 1 addressed the introduction to the study in terms of its research objectives, questions, scope and structure. Chapter 2 then gave some background information about the Arabian Gulf Countries (with a particular focus on the three countries under investigations), the setting of the current study related to its geographical location, political environment, economic environment, and the commercial legal system, which include the ministries, regulatory authorities, and regulations that affect companies, such as the Companies' Acts and Corporate Governance Code. The aim of Chapter 2 was to offer a summary of the countries under investigation to inform the reader about the situation in these three countries in which the companies operate.

Chapter 3 discussed the academic literature regarding corporate governance in both developed and developing countries by reviewing various issues investigated in the current thesis to provide an understanding of the topic. In particular, this chapter started by presenting various definitions of corporate governance, together with the historical development of corporate governance in the UK, the USA and the OECD. It also reviewed the important mechanisms of corporate governance, specifically issues related to the board of directors, board sub-committees, whistle-blowing policy, ownership structure, shareholders and stakeholders' rights, and disclosure and transparency. In addition, it reviewed previous studies on corporate governance conducted in the three countries under investigation. Chapter 4 discussed the accountability (and the Islamic accountability theoretical framework) which was to be used to interpret and understand the findings.

The next chapter, Chapter 5, described the research methodology and methods; it discussed Burrell and Morgan's (1979) assumptions and justified the selection of the research paradigm, methodology and methods adopted in this thesis. This thesis is located in both the interpretive and functionalist paradigms. More specifically, it is placed mainly in the interpretive paradigm but towards the functionalist end to aid an understanding of corporate governance and accountability practices in Saudi Arabia, Oman and Bahrain. Specifically this chapter explains the two research methods utilised to collect the empirical data semi-structured interviews and a disclosure index.

The interview chapter investigates the perspectives and opinions of different stakeholder groups concerning the current corporate governance practices in the three countries and whether these reflect accountability and the Islamic concept of accountability, as this method is expected to allow these different stakeholders groups to express their

experiences, opinions, and attitudes in response to the questions, in addition to any other relevant information that they wish to be considered. A total of 24 interviews were conducted. To examine in greater depth which countries discharge more hierarchical accountability, Chapter 7 utilised a corporate governance disclosure index as a measure of hierarchical accountability, using a sample of 107 companies listed on the stock exchange of these three countries at December 2011. In addition, this chapter examines the impact of certain characteristics on the companies' corporate governance disclosure and hence hierarchical accountability, including board size, the frequency of board meetings, the proportion of INEDs and other factors that may have an impact, such as company size, the type of auditor, the industry sector and country. This chapter reports the results obtained from different multiple regression models and links them to the prior literature and theoretical framework adopted in the thesis. The following sections will discuss the main findings of the empirical research undertaken for this thesis and answer the research questions.

8.3 Summary of the Main Results of the Thesis

This section discusses the main results of the study and ties them in with the research questions. This thesis addresses the following research questions: i) Do corporate governance practices in Saudi Arabia, Oman, and Bahrain reflect hierarchical and lateral forms of accountability, including the Islamic conception of accountability of Shura and Hisba?; (ii) Do any of these three countries listed companies discharge more hierarchical accountability than the others?; and (iii) Are there any characteristics that influence some companies to discharge more hierarchical accountability than the others?

The first empirical stage was the face-to-face semi-structured interviews conducted with 24 respondents representing four different stakeholder groups in the three countries to examine their perceptions of corporate governance practices to see whether there is any discharge of hierarchical and lateral accountability including Islamic accountability especially with regard to Shura (consultation and discussion) and Hisba (verification). In general, the majority of the interviewees in the three countries shared a similar understanding regarding the concept of corporate governance and viewed it from a limited view of accountability, and particularly limited hierarchical accountability. In addition, the interviewees believed in the importance of adopting corporate governance, and the majority of the Bahraini interviewees indicated that the accountability of companies that implemented corporate governance would be enhanced compared to the views of the Saudi and Omani interviewees.

The evidence shows that all of the interviewees agree that Islam could support corporate governance practices. However, there was a variation in the corporate governance practices adopted in the three countries and the evidence shows that Bahraini companies might discharge more hierarchical and lateral accountability compared to Saudi and Omani companies, as well as Islamic Shura and Hisba practices by implementing better practices of corporate governance.

Limiting board members to sit on no more than three boards and restricting their terms of office allows Bahraini directors to discharge greater lateral accountability and Shura than Saudi and Omani directors. Furthermore, the Bahraini interviewees indicated that Bahraini companies conduct board evaluations, and hence appointing INEDs that are independent in reality and the frequency of board meeting might lead to a greater discharge of lateral and

hierarchical accountability as well as Shura and Hisba compared to the Saudi and Omani companies where this practice was absent or poorly implemented, to prove beneficial. The results show that the Bahraini companies established more sub-committees than the Omani and Saudi companies. The disclosure index confirms this. However, appointing INEDs who are independent in fact, especially to audit, nomination and remuneration committees in Bahraini companies, compared to Saudi and Omani companies, enhances the discharge of lateral and hierarchical accountability as well as Shura and Hisba.

The results reveal that the majority of the Bahraini interviewees believed that most Bahraini companies have established a code of conduct that regulates the relationship between internal and external company stakeholders. The results from the disclosure index in Chapter 7 also confirm this, as shown in appendix 7.1. This indicates that Bahraini companies discharge greater hierarchical accountability than those in Saudi and Omani. In a similar vein, according to the interviewees, the Bahraini companies might be discharging wider hierarchical accountability by disclosing more information about their corporate governance practices than the Saudi and Omani companies.

Moreover, the Bahraini interviewees revealed that most of the Bahraini companies adopt a whistle-blowing system, while the results from the disclosure index in Chapter 7 show that only three companies in Saudi Arabia and one in Oman report that they adopt a similar system, compared to 21 companies in Bahrain. This result might indicate that the Bahraini companies discharge greater hierarchical accountability and Hisba compared to the Saudi and Omani ones. Furthermore, accountability practices were absent from the Saudi and Omani business environment compared to that in Bahrain, as there were a lack of judges specialising in commercial matters.

To take this further, Chapter 7 presents an analysis of a corporate governance disclosure index for these three countries to examine further whether Bahraini companies do indeed discharge more accountability and evaluate the disclosure practices of these three countries in more detail. It also examined certine characteristics that might affect their hierarchical accountability in these three countries. Seven variables were examined using multiple regression and the findings indicate that Bahraini companies discharge more hierarchical accountability by disclosing more corporate governance information in their annual reports, which is consistent with the findings of Chapter 6. The findings also reveal that board size is positively and significantly associated with corporate governance disclosure with both TCGD and VCGD. This result indicates that, the larger the board of listed companies in the three countries, the higher the disclosure of the corporate governance practices by that company. Thus, larger boards discharge greater lateral accountability and Shura as they might comprise a variety of experts and qualified directors in different areas, leading to more discussion and debate (as suggested in Chapter 6). This leads to a discussion about the needs of various stakeholders' interests by improving disclosure practices, leading to the discharge of greater hierarchical accountability. In addition, the findings also reveal that companies in the banking sector disclose greater corporate governance information than other companies. Furthermore, the banking sector is more advanced in terms of implementing corporate governance practices, which supports the view that companies in the banking sector are more accountable and subject to more hierarchical accountability than the other companies listed in the other sectors.

So, in answer to the first research question, overall, it seems that corporate governance practices in Saudi Arabia and Oman reflect less accountability and, particularly, Islamic

accountability than those in Bahrain. Indeed, the results reveal that there might be an absence of the discharge of lateral and hierarchical forms of accountability in Saudi and Omani companies. In addition, Saudi and Omani companies neither practice nor embrace the real essence of Shura that would enable the stakeholders to participate in decision-making. In addition, Hisba, which would enable the stakeholders to ensure that all of their interests in the company are protected, does not feature in Saudi and Omani companies. Further, in considering the second and third research questions, overall, it seems that Bahraini companies discharge more hierarchical forms of accountability compared to Saudi and Omani companies. Morover, companies with a large board size and operating in the banking sectors discharge more hierarchical forms of accountability compared to other companies.

8.4 Contribution to Knowledge

The results of the current study make several contributions to our knowledge regarding the practices of corporate governance and accountability. First, most prior studies have been conducted in developed countries and little research has focused on developing countries; specifically, very few studies have been conducted in Arab countries including the Arabian Gulf countries. This study contributes to the literature regarding corporate governance practices in Gulf Countries and in Arab Countries more generally, reducing the knowledge gap by investigating Saudi, Omani and Bahraini companies. The empirical findings described in this study contribute to our understanding of the state of corporate governance in each of the three countries. In addition, Durisin and Puzone (2009) claim that there is a gap in the literature regarding cross-national studies of corporate governance; thus, this study fills this gap by conducting cross-national research.

Furthermore, at the best of the researcher's knowledge, this study contributes to knowledge as it is one of the first to examine issues related to corporate governance by utilising both qualitative (semi-structured interviews) and quantitative (a disclosure index) methods. The use of both methods promotes a more comprehensive understanding of the corporate governance practices in the three countries and enables researchers to recognise the relative strengths and weaknesses of various research methods.

This study also contributes to knowledge by focusing on the perceptions of different stakeholder groups regarding corporate governance practices as there is a dearth of such research from this perspective in the corporate governance literature (Zagoub, 2011) In this regard, it provides an understanding of current corporate governance practices in the three countries, the differences between them and whether these reflect accountability and, in particular, the Islamic conception of accountability.

Another contribution relates to the theoretical framework underpinning the study. Agency theory has been adopted in most prior studies and is the dominant theory employed when studying corporate governance. However, academic studies have called for more in-depth studies to assess the influence of corporate governance on accountability. Thus, this thesis adds new insights by using accountability and, in particular, an Islamic accountability theoretical approach which provides an opportunity to comprehend accountability from a religious viewpoint. Linking corporate governance mechanisms to Shura and Hisba is new and has not been touched upon before, to the best of the researcher's knowledge. Hence, this represents a significant contribution to knowledge.

The findings of this study contribute to the literature by showing the different ways in which corporate governance practices can prompt and impact on the forms of accountability (lateral and hierarchical accountability) as there is a dearth of research on these two forms of accountability, to the best of the researcher's knowledge. Further, the present corporate governance checklist represents a comprehensive set of criteria that can be used to measure corporate governance practices in different countries; it provides a rich assessment of such practices in these companies, in particular to assess hierarchical accountability.

8.5 Policy Implications

The findings of this thesis may provide a guideline for policy makers to promote corporate governance and accountability in the three countries and the GCC more widely. Furthermore, as it has already been eight and 12 years since the Codes were developed in Saudi Arabia and Oman respectively, it is valuable to revisit this in the light of global governance changes. Hence, the findings of the study may help regulators to identify important areas to concentrate on, such as implementing a whistle-blowing policy, adding requirements to confirm that true INEDs are appointed, and mandating board evaluations in Saudi and Omani companies. In addition, the regulatory bodies in the three countries should embark on improving the awareness of governance and link it to Islamic practices such as Shura and Hisba by providing training, conferences and workshops on these matters, as these countries are dominated by Shariah Law which might improve the practices of corporate governance, as suggested by the interviewees. Further, the GCC countries are in discussion about creating a political and economic union and are working to unify the policies and regulations relating to the financial markets in an effort to integrate with each

other and this study concentrates on three of the GCC countries which provides a basis for developing a unified corporate governance code.

8.6 Limitations

Similar to other academic research, the current study has some limitations that need to be acknowledged and addressed when assessing its findings. First, although the interviews were conducted with 24 individuals across all three countries, this research is limited by the small number of interviews involved, as some of the board members and regulators, especially in Oman, refused to be interviewed or cancelled the interview without giving any reason. This is one of the reasons why there are fewer interviews in Oman than in Saudi Arabia and Bahrain. Hence, the researcher used his father's and friend's relationships to raise the participation level of this study.

Other limitations are concerned with the fact that these interviews may not represent the opinions of all stakeholders in corporate governance practices and accountability (such as religious scholars, institutional investors, and suppliers), because it is difficult to cover all stakeholder groups in the interviews, making generalisations difficult.

Other limitations are concerned with the semi-structured interviews used for this study. The interview questions were intended to elicit the respondents' perceptions of the issues under investigation, but some of the interviewees may have misinterpreted or misunderstood some of the questions because they were unfamiliar with the concept of corporate governance or did not want to reveal their lack of knowledge and understanding to the researcher, which may, in turn, have affected the quality of the

findings. Nonetheless, a broad spectrum of stakeholders were interviewed, some of whom had extensive knowledge, which overcame this limitation to some extent.

Furthermore, all of the interviews were carried out in Arabic, so the researcher had to transcribe these in Arabic and then the key points and relevant parts were translated to English. Consequently, this procedure may not always produce the exact meaning, thus leading to potential subjectivity and bias. To overcome these problems, the researcher consulted colleagues to ensure the validity and effectiveness of the translations adopted.

Furthermore, the analysis of the sampled companies' annual reports was a lengthy, time-consuming procedure, and may be subject to individual misinterpretations in assigning categories and calculating the extent of disclosure in each annual report, that could affect the reliability and validity of the results. To overcome this limitation, an un-weighted disclosure index and simple binary coding scheme were used. In addition, the researcher and another PhD student coded a pre-analysis sample of nine annual reports. Any differences were spotted and reconciled.

A further limitation was that the annual report was used for most of the Omani companies, obtained from the Muscat Stock Market was in a different format, so care was taken to overcome this limitation to ensure comparability with the standard format of the annual report during the scoring process. This was achieved by comparing the standard format hard copy annual reports of three Omani listed companies that were available with the file found on the Muscat Stock Market website. No differences were found regarding the items on the checklist.

The factors that were chosen to be investigated may represent another limitation to this study. While the second empirical work focuses on three board and four company characteristics, other corporate governance variables were excluded from the current study due to data availability, such as ownership structure.

8.7 Avenues for Future Research

The lack of academic literature on Saudi Arabia, Oman and Bahrain in general and corporate governance in particular is a gap that this study intended to fill, but future research might target other GCC countries (United Arab of Emirates, Kuwait and Qatar) as a single-country or cross-country study.

In addition, it would also be helpful to compare an Arabian Gulf country with another Islamic country that has already implemented regulations for Islamic finance, such as Malaysia. This could provide information about the importance of having such regulations, whether these influence Islamic concepts more appropriately and if such regulations could increase the discharge of accountability and, in particular, Islamic accountability by adopting corporate governance practices.

The present study only focuses on certain stakeholder groups; future research could usefully include other stakeholder groups such as religious scholars and institutional investors, to investigate this topic. Further interviews and/or questionnaire surveys might have offered different insights and provided a greater understanding of the issues of governance and accountability.

The current study deliberately focused on corporate governance practices and interpreted the results with regard to accountability and, in particular, Islamic accountability. Future research may also employ an institutional theoretical framework to examine corporate governance practices and whether similar or different factors influence these practices.

Future research on the three GCC countries' listed companies may consider other variables that are not included in this study, such as ownership structure, the expertise and educational background of the board members and senior management team members, and listing on foreign stock exchanges.

Lastly the Bahraini code of corporate governance was newly issued in January 2011, and thus it is very important for future research to assess the same sample of Bahraini listed companies at a different point in time (for example, 2014); the findings can be compared to see whether or not there has been a positive change in the corporate governance disclosure adopted by Bahraini listed companies.

8.8 Concluding Thoughts

In conclusion, corporate governance has become a necessary tool for improving the lateral and hierarchical forms of accountability as well as Shura and Hisba. Most of the interviewees were very keen to discuss corporate governance practices. The interviewees confirmed their belief in the importance of corporate governance and displayed an understanding of it, but this did not translate into accountability and Islamic accountability practices, especially in Saudi Arabia and Oman. Thus, there is a lack of accountability, a weak legal framework, poor protection of minority shareholders and stakeholders, and a low level of corporate governance disclosure in

Saudi and Omani companies compared to Bahraini ones. After conducting this thesis, it shows that Islam teachings meet and support corporate governance practices. Thus, my thought are that regulators in these three countries need to put more effort to promote awaremess amnogst directors of corporate governance best practice and link it to Islamic practices such as Shura and Hisba. Islam asks people to be honest and keep in mind that even if they do not see Allah, he is still watching, so, people should think about this each time they are willing to do anything in life as they will be accountable by Allah in the Day of Judgment. Therefore, we should practice the teaching of Islam in all aspects of life.

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Appendices

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PART 1
PRELIMINARY PROVISIONS

Article 1: Preamble

1. These Regulations include the rules and standards that regulate the management of joint stock companies listed in the Exchange to ensure their compliance with the best governance practices that would ensure the protection of shareholders' rights as well as the rights of stakeholders.

2. These Regulations constitute the guiding principles for all companies listed in the Exchange unless any other regulations, rules or resolutions of the Board of the Authority provide for the binding effect of some of the provisions herein contained.

3. As an exception of paragraph (b) of this article, a company must disclose in the Board of Directors` report, the provisions that have been implemented and the provisions that have not been implemented as well as the reasons for not implementing them.

Article 2: Definitions

a) Expression and terms in these regulations have the meanings they bear in the Capital Market Law and in the glossary of defined terms used in the regulations and the rules of the Capital Market Authority unless otherwise stated in these regulations.

b) For the purpose of implementing these regulations, the following expressions and terms shall have the meaning they bear as follows unless the contrary intention appears:

Independent Member [1]: A member of the Board of Directors who enjoys complete independence. By way of example, the following shall constitute an infringement of such independence:

1. he/she holds a controlling interest in the company or in any other company within that company's group.

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[1] The Board of the Capital Market Authority issued its resolution number (1-10-2010) Dated 30/3/1431H corresponding to 16/3/2010G amending the definition of "Independent Member" in paragraph (b) of Article 2 of these Regulations to include as infringements of independence the ownership of 5% or more of the company or its group by the member of the Board of Directors or a representative of a legal entity which owns 5% or more of the company or its group. The amendments shall be applied on companies that apply for listing on the Saudi Stock Exchange (Tadawul) from the date of its publication. And will be applied on companies listed on the Exchange upon the appointment of any member of the board, starting from the date of 1/1/2011.

2. he/she, during the preceding two years, has been a senior executive of the company or of any other company within that company's group.

3. he/she is a first-degree relative of any board member of the company or of any other company within that company's group.

4. he/she is first-degree relative of any of senior executives of the company or of any other company within that company's group.

5. he/she is a board member of any company within the group of the company which he is nominated to be a member of its board.

6. If he/she, during the preceding two years, has been an employee with an affiliate of the company or an affiliate of any company of its group, such as external auditors or main suppliers; or if he/she, during the preceding two years, had a controlling interest in any such party.

Non-executive director: A member of the Board of Directors who does not have a full-time management position at the company, or who does not receive monthly or yearly salary.

First-degree relatives: father, mother, spouse and children.

Stakeholders: Any person who has an interest in the company, such as shareholders, employees, creditors, customers, suppliers, community.

Accumulative Voting: a method of voting for electing directors, which gives each shareholder a voting rights equivalent to the number of shares he/she holds. He/she has the right to use them all for one nominee or to divide them between his/her selected nominees without any duplication of these votes. This method increases the chances of the minority shareholders to appoint their representatives in the board through the right to accumulate votes for one nominee.

Minority Shareholders: Those shareholders who represent a class of shareholders that does not control the company and hence they are unable to influence the company.

PART 2
RIGHTS OF SHAREHOLDERS AND THE GENERAL ASSEMBLY

Article 3: General Rights of Shareholders

A Shareholder shall be entitled to all rights attached to the share, in particular, the right to a share of the distributable profits, the right to a share of the company's assets upon liquidation; the right to attend the General Assembly and participate in deliberations and vote on relevant decisions; the right of disposition with respect to shares; the right to supervise the Board of Directors activities, and file responsibility claims against board members; the right to inquire and have access to information without prejudice to the company's interests and in a manner that does not contradict the Capital Market Law and the Implementing Rules.

Article 4: Facilitation of Shareholders Exercise of Rights and Access to Information

a) The company in its Articles of Association and by-laws shall specify the procedures and precautions that are necessary for the shareholders' exercise of all their lawful rights.

b) All information which enable shareholders to properly exercise their rights shall be made available and such information shall be comprehensive and accurate; it must be provided and updated regularly and within the prescribed times; the company shall use the most effective means in communicating with shareholders. No discrepancy shall be exercised with respect to shareholders in relation to providing information.

Article 5: Shareholders Rights related to the General Assembly

a) A General Assembly shall convene once a year at least within the six months following the end of the company's financial year.

b) The General Assembly shall convene upon a request of the Board of Directors. The Board of Directors shall invite a General Assembly to convene pursuant to a request of the auditor or a number of shareholders whose shareholdings represent at least 5% of the equity share capital.

c) Date, place, and agenda of the General Assembly shall be specified and announced by a notice, at least 20 days prior to the date the meeting;

invitation for the meeting shall be published in the Exchange' website, the company's website and in two newspapers of voluminous distribution in the Kingdom. Modern high tech means shall be used in communicating with shareholders.

d) Shareholders shall be allowed the opportunity to effectively participate and vote in the General Assembly; they shall be informed about the rules governing the meetings and the voting procedure.

e) Arrangements shall be made for facilitating the participation of the greatest number of shareholders in the General Assembly, including *inter alia* determination of the appropriate place and time.

f) In preparing the General Assembly's agenda, the Board of Directors shall take into consideration matters shareholders require to be listed in that agenda; shareholders holding not less than 5% of the company's shares are entitled to add one or more items to the agenda. upon its preparation.

g) Shareholders shall be entitled to discuss matters listed in the agenda of the General Assembly and raise relevant questions to the board members and to the external auditor. The Board of Directors or the external auditor shall answer the questions raised by shareholders in a manner that does not prejudice the company's interest.

h) Matters presented to the General Assembly shall be accompanied by sufficient information to enable shareholders to make decisions.

i) Shareholders shall be enabled to peruse the minutes of the General Assembly; the company shall provide the Authority with a copy of those minutes within 10 days of the convening date of any such meeting.

j) The Exchange shall be immediately informed of the results of the General Assembly.

Article 6: Voting Rights

a) Voting is deemed to be a fundamental right of a shareholder, which shall not, in any way, be denied. The company must avoid taking any action which might hamper the use of the voting right; a shareholder must be afforded all possible assistance as may facilitate the exercise of such right.

b) In voting in the General Assembly for the nomination to the board members, the accumulative voting method shall be applied.

c) A shareholder may, in writing, appoint any other shareholder who is not a board member and who is not an employee of the company to attend the General Assembly on his behalf.

d) Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and

ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.

Article 7: Dividends Rights of Shareholders

a) The Board of Directors shall lay down a clear policy regarding dividends, in a manner that may realize the interests of shareholders and those of the company; shareholders shall be informed of that policy during the General Assembly and reference thereto shall be made in the report of the Board of Directors.

b) The General Assembly shall approve the dividends and the date of distribution. These dividends, whether they be in cash or bonus shares shall be given, as of right, to the shareholders who are listed in the records kept at the Securities Depository Center as they appear at the end of trading session on the day on which the General Assembly is convened.

PART 3

DISCLOSURE AND TRANSPARENCY

Article 8:Policies and Procedure related to Disclosure

The company shall lay down in writing the policies, procedures and supervisory rules related to disclosure, pursuant to law.

Article 9 [2]: Disclosure in the Board of Directors' Report

In addition to what is required in the Listing Rules in connection with the content of the report of the Board of Directors, which is appended to the annual financial statements of the company, such report shall include the following:

a) The implemented provisions of these Regulations as well as the provisions which have not been implemented, and the justifications for not implementing them.

b) Names of any joint stock company or companies in which the company Board of Directors member acts as a member of its Board of directors.

c) Formation of the Board of Directors and classification of its members as follows: executive board member, non-executive board member, or independent board member.

d) A brief description of the jurisdictions and duties of the Board's main committees such as the Audit Committee, the Nomination and Remuneration Committee; indicating their names, names of their chairmen, names of their members, and the aggregate of their respective meetings.

e) Details of compensation and remuneration paid to each of the following:

[2] The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making Article 9 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from the first board report issued by the company following the date of the Board of the Capital Market Authority resolution mentioned above.

1. The Chairman and members of the Board of Directors.
2. The Top Five executives who have received the highest compensation and remuneration from the company. The CEO and the chief finance officer shall be included if they are not within the top five.

   For the purpose of this paragraph, “compensation and remuneration” means salaries, allowances, profits and any of the same; annual and periodic bonuses related to performance; long or short- term incentive schemes; and any other rights *in rem*.

f) Any punishment or penalty or preventive restriction imposed on the company by the Authority or any other supervisory or regulatory or judiciary body.
g) Results of the annual audit of the effectiveness of the internal control procedures of the company.

PART 4

BOARD OF DIRECTORS

Article 10: Main Functions of the Board of Directors

Among the main functions of the Board is the fallowing:

a) Approving the strategic plans and main objectives of the company and supervising their implementation; this includes:

  1. Laying down a comprehensive strategy for the company, the main work plans and the policy related to risk management, reviewing and updating of such policy.

  2. Determining the most appropriate capital structure of the company, its strategies and financial objectives and approving its annual budgets.

  3. Supervising the main capital expenses of the company and acquisition/disposal of assets.

  4. Deciding the performance objectives to be achieved and supervising the implementation thereof and the overall performance of the company.

  5. Reviewing and approving the organizational and functional structures of the company on a periodical basis.

b) Lay down rules for internal control systems and supervising them; this includes:

  1. Developing a written policy that would regulates conflict of interest and remedy any possible cases of conflict by members of the Board of Directors, executive management and shareholders. This includes misuse of the company's assets and facilities and the arbitrary disposition resulting from dealings with the related parties.

  2. Ensuring the integrity of the financial and accounting procedures including procedures related to the preparation of the financial reports.

  3. Ensuring the implementation of control procedures appropriate for risk management by forecasting the risks that the company could encounter and disclosing them with transparency.

  4. Reviewing annually the effectiveness of the internal control

systems.

c) Drafting a Corporate Governance Code for the company that does not contradict the provisions of this regulation, supervising and monitoring in general the effectiveness of the code and amending it whenever necessary.

d) Laying down specific and explicit policies, standards and procedures, for the membership of the Board of Directors and implementing them after they have been approved by the General Assembly.

e) Outlining a written policy that regulate the relationship with stakeholders with a view to protecting their respective rights; in particular, such policy must cover the following:

   1. Mechanisms for indemnifying the stakeholders in case of contravening their rights under the law and their respective contracts.
   2. Mechanisms for settlement of complaints or disputes that might arise between the company and the stakeholders.
   3. Suitable mechanisms for maintaining good relationships with customers and suppliers and protecting the confidentiality of information related to them.
   4. A code of conduct for the company's executives and employees compatible with the proper professional and ethical standards, and regulate their relationship with the stakeholders. The Board of Directors lays down procedures for supervising this code and ensuring compliance there with.
   5. The Company's social contributions.

f) Deciding policies and procedures to ensure the company's compliance with the laws and regulations and the company's obligation to disclose material information to shareholders, creditors and other stakeholders.

Article 11 : Responsibilities of the Board

a) Without prejudice to the competences of the General Assembly, the company's Board of Directors shall assume all the necessary powers for the company's management. The ultimate responsibility for the company rests with the Board even if it sets up committees or delegates some of its powers to a third party. The Board of Directors shall avoid issuing general or indefinite power of attorney.

b) The responsibilities of the Board of Directors must be clearly stated in the company's Articles of Association.

c) The Board of Directors must carry out its duties in a responsible manner, in good faith and with due diligence. Its decisions should be based on sufficient

information from the executive management, or from any other reliable source.

d) A member of the Board of Directors represents all shareholders; he undertakes to carry out whatever may be in the general interest of the company, but not the interests of the group he represents or that which voted in favor of his appointment to the Board of Directors.

e) The Board of Directors shall determine the powers to be delegated to the executive management and the procedures for taking any action and the validity of such delegation. It shall also determine matters reserved for decision by the Board of Directors. The executive management shall submit to the Board of Directors periodic reports on the exercise of the delegated powers.

f) The Board of Directors shall ensure that a procedure is laid down for orienting the new board members of the company's business and, in particular, the financial and legal aspects, in addition to their training, where necessary.

g) The Board of Directors shall ensure that sufficient information about the company is made available to all members of the Board of Directors, generally, and, in particular, to the non-executive members, to enable them to discharge their duties and responsibilities in an effective manner.

h) The Board of Directors shall not be entitled to enter into loans which spans more than three years, and shall not sell or mortgage real estate of the company, or drop the company's debts, unless it is authorized to do so by the company's Articles of Association. In the case where the company's Articles of Association includes no provisions to this respect, the Board should not act without the approval of the General Assembly, unless such acts fall within the normal scope of the company's business.

Article 12 [3]: Formation of the Board

Formation of the Board of Directors shall be subject to the following:

a) The Articles of Association of the company shall specify the number of the Board of Directors members, provided that such number shall not be less than three and not more than eleven.

b) The General Assembly shall appoint the members of the Board of Directors for the duration provided for in the Articles of Association of the company, provided that such duration shall not exceed three years. Unless otherwise provided for in the Articles of Association of the company, members of the Board may be reappointed.

c) The majority of the members of the Board of Directors shall be non-executive members.

d) It is prohibited to conjoin the position of the Chairman of the Board of Directors with any other executive position in the company, such as the Chief Executive Officer (CEO) or the managing director or the general manager.

e) The independent members of the Board of Directors shall not be less than two members, or one-third of the members, whichever is greater.

The Articles of Association of the company shall specify the manner in which membership of the Board of Directors terminates. At all times, the General Assembly may dismiss all or any of the members of the Board of Directors even though the Articles of Association provide otherwise.

g) On termination of membership of a board member in any of the ways of termination, the company shall promptly notify the Authority and the Exchange and shall specify the reasons for such termination.

h) A member of the Board of Directors shall not act as a member of the Board of Directors of more than five joint stock companies at the same time.

i) Judicial person who is entitled under the company's Articles of Association to appoint representatives in the Board of Directors, is not entitled to nomination vote of other members of the Board of Directors.

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[3] The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making paragraphs (c) and (e) of Article 12 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from year 2009.

Article 13: Committees of the Board

a) A suitable number of committees shall be set up in accordance with the company's requirements and circumstances, in order to enable the Board of Directors to perform its duties in an effective manner.

b) The formation of committees subordinate to the Board of Directors shall be according to general procedures laid down by the Board, indicating the duties, the duration and the powers of each committee, and the manner in which the Board monitors its activities. The committee shall notify the Board of its activities, findings or decisions with complete transparency. The Board shall periodically pursue the activities of such committees so as to ensure that the activities entrusted to those committees are duly performed. The Board shall approve the by-laws of all committees of the Board, including, *inter alia*, the Audit Committee, Nomination and Remuneration Committee.

c) A sufficient number of the non-executive members of the Board of Directors shall be appointed in committees that are concerned with activities that might involve a conflict of interest, such as ensuring the integrity of the financial and non-financial reports, reviewing the deals concluded by related parties, nomination to membership of the Board, appointment of executive directors, and determination of remuneration.

Article 14 [4]: Audit Committee

a) The Board of Directors shall set up a committee to be named the "Audit Committee". Its members shall not be less than three, including a specialist in financial and accounting matters. Executive board members are not eligible for Audit Committee membership.

b) The General Assembly of shareholders shall, upon a recommendation of the Board of Directors, issue rules for appointing the members of the Audit Committee and define the term of their office and the procedure to be followed by the Committee.

c) The duties and responsibilities of the Audit Committee include the following:

1. To supervise the company's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.

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[4] The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making Article 14 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from year 2009.

2. To review the internal audit procedure and prepare a written report on such audit and its recommendations with respect to it.

3. To review the internal audit reports and pursue the implementation of the corrective measures in respect of the comments included in them.

4. To recommend to the Board of Directors the appointment, dismissal and the Remuneration of external auditors; upon any such recommendation, regard must be made to their independence.

5. To supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties.

6. To review together with the external auditor the audit plan and make any comments thereon.

7. To review the external auditor's comments on the financial statements and follow up the actions taken about them.

8. To review the interim and annual financial statements prior to presentation to the Board of Directors; and to give opinion and recommendations with respect thereto.

9. To review the accounting policies in force and advise the Board of Directors of any recommendation regarding them.

Article 15 [5]: Nomination and Remuneration Committee

a) The Board of Directors shall set up a committee to be named "Nomination and Remuneration Committee".

b) The General Assembly shall, upon a recommendation of the Board of Directors, issue rules for the appointment of the members of the Nomination and Remuneration Committee, their remunerations, and terms of office and the procedure to be followed by such committee.

c) The duties and responsibilities of the Nomination and Remuneration Committee include the following:

1. Recommend to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards; the Committee shall ensure that no person who has been previously convicted of any offense affecting honor or honesty is nominated for such membership.

2. Annual review of the requirement of suitable skills for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including, *inter alia*, the time that a Board member should reserve for the activities of the Board.

3. Review the structure of the Board of Directors and recommend changes.

4. Determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the company's interest.

5. Ensure on an annual basis the independence of the independent members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.

6. Draw clear policies regarding the indemnities and remunerations of the Board members and top executives; in laying down such policies, the standards related to performance shall be followed.

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[5] The Board of the Capital Market Authority issued resolution Number (1-10-2010) Dated 30/3/1431H corresponding to 16/3/2010G making Article 15 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 1/1/2011.

Article 16: Meetings of the Board

1. The Board members shall allot ample time for performing their responsibilities, including the preparation for the meetings of the Board and the permanent and ad hoc committees, and shall endeavor to attend such meetings.

2. The Board shall convene its ordinary meetings regularly upon a request by the Chairman. The Chairman shall call the Board for an unforeseen meeting upon a written request by two of its members.

3. When preparing a specified agenda to be presented to the Board, the Chairman should consult the other members of the Board and the CEO. The agenda and other documentation should be sent to the members in a sufficient time prior to the meeting so that they may be able to consider such matters and prepare themselves for the meeting. Once convened, the Board shall approve the agenda; should any member of the Board raise any objection to this agenda, the details of such objection shall be entered in the minutes of the meeting.

4. The Board shall document its meetings and prepare records of the deliberations and the voting, and arrange for these records to be kept in chapters for ease of reference.

Article 17: Remuneration and Indemnification of Board Members

The Articles of Association of the company shall set forth the manner of remunerating the Board members; such remuneration may take the form of a lump sum amount, attendance allowance, rights *in rem* or a certain percentage of the profits. Any two or more of these privileges may be conjoined.

Article 18. Conflict of Interest within the Board

a) A Board member shall not, without a prior authorization from the General Assembly, to be renewed each year, have any interest (whether directly or indirectly) in the company's business and contracts. The activities to be performed through general bidding shall constitute an exception where a Board member is the best bidder. A Board member shall notify the Board of Directors of any personal interest he/she may have in the business and contracts that are completed for the company's account. Such notification shall be entered in the minutes of the meeting. A Board member who is an interested party shall not be entitled to vote on the resolution to be adopted in this regard neither in the General Assembly nor in the Board of Directors. The Chairman of the Board of Directors shall notify the General Assembly, when convened, of the activities and contracts in respect of which a Board member may have a personal interest and shall attach to such notification a special report prepared by the company's auditor.

b) A Board member shall not, without a prior authorization of the General Assembly, to be renewed annually, participate in any activity which may likely compete with the activities of the company, or trade in any branch of the activities carried out by the company.

c) The company shall not grant cash loan whatsoever to any of its Board members or render guarantee in respect of any loan entered into by a Board member with third parties, excluding banks and other fiduciary companies.

PART 5
CLOSING PROVISIONS

Article 19: Publication and Entry into Force

These regulations shall be effective upon the date of their publication.

Appendix 2.2: Omani corporate governance Code

Article 1: Unless otherwise specified, the words and expressions used in this code shall have the same meaning as specified under Commercial Companies Law 1974 and Capital Market Law 1998. The following words and expressions shall carry the meanings as specified hereunder unless the context gives other meaning:

Independent Director: A director shall be independent if he or she or any of his/her first degree have not occupied any senior position (such as the Chief Executive Officer, the General Manager or similar posts) in the company for the last two years. Also he or she should not have had any relations with the company, its parent company or its affiliated or sister companies which could result in financial transactions.

Related Party: It shall include the following:

1. Any person who was director in the last 12 months in the company/ parent of the company/ subsidiaries/ fellow subsidiaries, or
2. Chief Executive Officer or any employee reporting directly to the board, or
3. Any person who holds or controls 10% or more of the voting power of the Company or any other company which is its subsidiary undertaking or parent undertaking or is a fellow subsidiary undertaking of its parent undertaking, or
4. Any person who is an associate of any natural person as mentioned under 1,2 and 3 above. Associate shall include parents, sons, daughters, spouses and business entities wherein 25% or more of the voting power is controlled collectively or individually, or
5. Any person who is an associate of any juristic person as mentioned under 1,2 and 3 above. Associate shall include parent company, subsidiaries, fellow subsidiaries and business entities wherein the concerned juristic person controls 25% or more of the voting power. It shall also include companies whose majority of the directors act as per the wishes of the concerned company.

Non-executive Director: The member of the board who is not a whole time director (employee director) and/or does not draw any fixed monthly or annual salary from the company.

Article 2: The provisions of this code shall apply to Publicly listed companies and mutual funds organised as public companies.

Composition of the board of directors

Article 3: Subject to compliance of the provisions of the Commercial Companies Law, the following shall apply:

1. The board shall be comprised of a majority of non-executive directors.
2. The roles of CEO/General Manager and chairman shall not be combined.
3. A minimum of 1/3rd of the total strength of the board (subject to a minimum of 2) shall comprise of independent directors.
4. Non-executive directors and independent directors shall be identified in the annual report. If an independent director resigns or is removed from the office, the company shall notify CMA/MSM of the reasons.

Article 4: The board shall meet at least 4 times in a year with a maximum time gap of 4 months between any two consecutive meetings. The minimum information required to be placed before the board shall be as stated in the annexure 2. The board may decide to exclude any of these matters to be placed before it if concern for confidentiality warrants so.

Article 5: Functions of the board of directors:

1 Approving the business and financial policy of the company to meet the objectives of the business and to maximize the shareholders' value.
2 Reviewing and approving the company's financial objectives, plans and actions.
3 Approving the internal regulations of the company regarding routine activities and specifying the responsibilities and the authorities of the executive management.
4 Approving and implementing the disclosure policy of the company and monitoring its compliance with the regulatory requirements.
5 Approving the delegation of power to the executive management: Delegation of power shall specify clearly the level of the approving authority and modes of tendering with appropriate limits. Circumstances under which tender other than the lowest tender can be accepted shall be clearly spelt out. The management shall record reasons in writing for ignoring the lowest bid.
6 Reviewing the company's performance to evaluate whether the business is properly managed according to the company's objective and ensuring compliance with the laws and regulations through proper internal control systems.
7 Reviewing material transactions with the related party, which are not in the ordinary course of business prior to the same being brought before the general meeting of the company.
8 Approving and implementing the disclosure policy of the company in compliance with the regulatory requirements.
9 Reviewing the company's performance to evaluate whether the business is properly managed.
10 Nominating the members of the subcommittees and specifying their roles, responsibilities and power.

11 Selecting the CEO/General Manager and other key executives and specifying their roles, responsibilities and power.
12 Evaluating the functions of the sub-committees, CEO and key employees.
13 Approving interim and annual financial statements.

14 Reporting to the shareholders, in the annual report, about the going concern status of the company with supporting assumptions and qualification as necessary.

Article 6:The board meeting and the role of the secretary:

1. The board, immediately after its composition, shall appoint a secretary to the board.
2. The secretary shall draw the minutes of the each board meeting mentioning the subjects discussed, decisions reached, names of the members present and vote cast by each member. The minutes shall bear the serial number and date.
3. The secretary of the board or any other person so authorized by the board shall make proper disclosure according to the provisions relating to disclosures under various laws and regulations.

Article 7: Audit Committee:

The board shall set up an audit committee in accordance with the following guidelines:

1. The committee shall comprise of at least 3 members (all being non- executive directors), a majority of them being independent.
2. The chairman of the committee shall be an independent director.
3. At least one member shall have finance and accounting expertise.
4. The audit committee shall meet at least 4 times a year with majority of independent directors remaining present.
5. The decision of setting up the committee shall also specify the terms of reference, place and quorum of the meeting and description of the method of discharge of the responsibilities.
6. The board shall approve the working plan of the committee prepared by it in clear terms. The plan should specify objectives, membership, powers, date of the meetings, tenure, responsibilities, liabilities and remuneration of its members. The audit committee shall have powers including the following:
    1. Seeking the presence of the finance head and head of the internal audit department as invitees in the meetings of the audit committee.
    2. Seeking information from any employee of the company.
    3. Securing the advice and attendance of outsiders with relevant expertise if considered necessary.

1. The audit committee shall hear the views of the external auditors before forwarding the annual accounts to the board for approval.
2. The audit committee shall hear the views of internal and external auditors separately, at least once every year, without the presence of the management.

Article 8: The role of the audit committee shall be as per annexure 3.

Audit and internal control

Article 9: The annual general meeting shall appoint external auditors. The following shall apply:

1. The board shall recommend the name of the auditor for election after considering the views of the audit committee.

2. The auditor shall be appointed for one financial year. The same firm shall not be appointed as external auditors for more than 4 consecutive financial years. After completion of fourth consecutive term, the firm will be eligible for reappointment as external auditors only after a cooling off period of 2 years.

3. The auditor shall not be allowed to provide non-audit services, which might affect their independence.

4. The external auditors, as part of their audit procedure, shall report to the shareholders any significant concern(s) that come to their attention on:

    1. Adequacy and efficacy of the internal control systems in place.
    2. Whether the business is a going concern. (The auditors shall express their reservations, if any, about directors' assumption of going concern)
    3. The adequacy of the systems set up by the company regarding establishing their legal requirements applicable to the company's area of operations.

5. Frauds detected or suspected by the external auditors shall be reported to the board of the company. However if the fraud is material, he shall report the fraud to respective regulators of the company.

Article 10: The directors shall, at least annually, conduct a review of the effectiveness of the company's systems of internal control and state in their report to the shareholders that they have done so.

Management:

Article 11: The executive management shall be appointed under contractual arrangement specifying the terms of the appointment.

Article 12: The board shall strive towards promoting competence in the executive management. The executive management and the board shall work under mutually trusting environment.

Article 13: The executive management shall be accountable to the board and the subcommittee of the board. Non-executive members and the chairman shall not interfere in the routine matters of the company on daily basis. The articles of the company may provide for designating an employee as managing director on whole time basis.

Article 14: The executive management shall function according to the duty cast on them as per organizational manual approved by the board specifying the full gamut of the roles and responsibilities. The board shall approve a formal and comprehensive delegation of power to the various levels of management, executive committee, sub-committees of the board and the full board.

Article 15: The executive management shall follow the instructions of the board and its sub-committees

in order to put its policies into effect.

Article 16: Without compromising the competitive advantage of the company as deemed appropriate by the management, the annual report shall contain a management discussion and analysis (MD&A) report, in addition to the director's report, containing discussions on the following matters.

1. Industry structure and development
2. Opportunities and threats
3. Analysis of segment and product wise performance
4. Outlook
5. Risks and concerns
6. Internal control systems and their adequacy
7. Discussion on financial and operational performance.

Article 17: Disclosure shall be made, by the management to the board, relating to all financial and commercial transactions, where they have personal interest (for self and relatives up to first degree) that may have potential conflict with the interest of the company at large (e.g. dealing in company's shares and commercial dealings with bodies which have shareholding of management and their relatives).

Article 18: Information like quarterly results and presentations made by company to analysts shall be put on the company's web site or may be sent to MSM in such a format so as to enable it to put on its own web site.

Rules for related party transactions:

Article 19: The related party shall not have any direct or indirect interest in the transactions with the company except as under:

The normal contracts and transactions in ordinary course of business without any differential advantage accruing to the related party. The AGM shall be notified of these transactions on ex post-facto basis every year. The normal transaction shall mean routine transactions carried out on regular basis in order to achieve the company's objectives (absence of such transactions may lead to non-attainment of the company's objective).

Contracts entered through a transparent mode of open tendering or limited tendering after obtaining and evaluating at least 3 independent bids in accordance with the guidelines prescribed by the audit committee. The best tender shall be chosen. The AGM shall be notified of these transactions on ex post-facto basis every year.

Through the procedure approved by the audit committee in case of small value transactions within the monetary limits prescribed in the procurement manual of the company.

Through prior approval of the general meeting of the company after due recommendation by the audit committee. The following shall apply:

1. The notice to the shareholders for the purpose of obtaining prior approval of the shareholders shall contain the following minimum details**:**

1. The name of the related party.
2. Nature and extent of the interest of such party in the transaction.
3. Value of the transaction.
4. Validity period of the proposed arrangement.
5. Any other relevant information
6. In the case of an acquisition or disposal of assets, an independent valuation.
7. A statement by the audit committee and the board about the suitability of the terms of the transactions.

1. The approval shall be obtained prior to start of the execution of the transaction.
2. The approval shall not be of general nature.
3. The approval shall be explicit for each transaction with full specific details.
4. The concerned related party is not allowed to participate in the voting.

Article 20: The full details of the terms of the transaction shall be sent to all the shareholders as part of the notice for general meeting with the statement form the board (other than related party) that the transaction is fair and reasonable so far as the interests of the shareholders of the company are concerned.

Article 21: The procedure prescribed under works and procurement policy of the company shall be followed. A copy of it shall be filed with CMA.

Article 22: The auditors during the subsequent year shall report about the proper discharge of the responsibilities of the related party under the contract.

Article 23: The above rules and guidelines are not meant to be exhaustive. The additional stipulations as mentioned under IAS , if any, shall also apply.

Article 24: The above stipulations are in addition to the disclosure requirements of CMA.

Article 25: Any transaction, in violation of these guidelines, shall be null and void and will not affect the shareholders adversely. The damages if any shall be born by the concerned related parties.

Report on corporate governance:

Article 26: There shall be a separate chapter on corporate governance in the annual reports of the company highlighting the non-compliance with any requirement.

Article 27: The items as detailed in annexure 4 shall be included in the report on corporate governance.

This includes a descriptive report on how the company has applied the principles of corporate governance as stated in annexure 1.

Article 28: The company shall obtain a certificate from the auditors of the company regarding report on corporate governance being free from any material misrepresentation. The certificate from the auditors shall be annexed with the report.

Annexure 1

Principles of corporate governance

1. Directors:
    1. Characteristics of the individual directors:

       The board shall strive to seek candidates possessing the following characteristics:

        1. High ethical standards and integrity in their personal and professional dealings.
        2. Posession of high intelligence and wisdom and who apply it in decision making.
        3. Capacity to read and understand financial statements.
        4. Potential to contribute towards effective stewardship of the company.
        5. Capacity to approach others assertively, responsibly and supportingly.
    2. Core compentency of the board:

       The board shall strive to achieve the following core competency, for the board as a whole, with each candidate contributing at least in one domain:

        1. Skills to motivate high performing talent.
        2. Strategic insight and ability to direct by encouraging innovation and continuously challenging the organization to sharpen its vision.
        3. Expertise in financial accounting and corporate finance.
        4. Understanding of management trends in general and concerned industry in particular.
        5. Ability to perform during periods of both short term and prolonged crises.
        6. Appropriate and relevant industry specific knowledge.
        7. Business expertise in international markets if the company operates in international markets.

2. The board shall review on annual basis the appropriate skills and characteristics required of the board members in the context of the assessment of the perceived needs of the board and recommend suitable names to the shareholders for election. Shareholders retain the power of electing any candidate to the board irrespective of whether his candidatute being recommended by the board or otherwise.

3. Comprehensive information on the affairs of the company should be made available to all directors in general and non-executive directors in particular with a view to enable them discharge their duties effectively.

4. The company should arrange a process of induction for newly appointed directors including some form of internal and extenal training particularly in the areas of financial and legal affairs.

5. The corporate frame-work should provide adequate avenues to the shareholders for effective contribution in the governance of the company without getting involved in the routine functioning of the company. The forum of general meetings should be used effectively to

communicate with the shareholders.

6. The company should be ready, where practicable, to enter into a dislogue with institutional shareholders based on mutual understanding of objectives.

7. Annual and interim financial statements, price sensitive public reports and the reports to the regulators prepared by the board should contain balanced and understandable assessment.

8. The board should be consciously aware of its responsibility for preparing the accounts which, in no case, is less onerous than the reporting responsibilities of extenal auditors.

9. The board should ensure effective internal control in all areas of company's operations including financial, operations related, compliance and risk management.

10. The board should, in consultation with the audit committee, adopt a transparent policy in the matter of relationship with the external auditors specially in the area of award of consultancy assignments. The guiding principle should be preservance of independence in absolute sense as well as in the eyes of the investing public.

11. Every public company shall establish, maintain and enforce written policies, procedures and systems of supervision (related to fair disclosure) reasonably designed to:

    1. Ensure the fair and timely release of material information about the company,
    2. Ensure that the information it releases about the company is honest, correct, straightforward, and reasonably complete,
    3. Ensure that the information it releases does not intentionally or unintentionally mislead investors, and
    4. Prevent dealing in the shares of the company on the basis of undeclared or unrevealed information, by those who are, by virtue of their position, aware of such information.

    1. The company should develop a transparent and credible policy for determining the remuneration of directors and key executives. Performance related elements of remuneration should form a significant portion of the total remuneration package of the CEO, executive directors and key executives.

13\. The board should approve a proper "delegation of power" to executives at different levels of managerial hierarchy, which in their judgement is best suited considering the nature and scale of operations of the company. The manual on delegation of power should cover entire range of functions like administrative powers, financial powers and personnel powers etc.

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Annexure 2

Minimum information to be placed before the board

1. Capital and operating budgets and any updates.
2. Quarterly results of the company.
3. Minutes of the meetings of the audit committee and other committees of the board.
4. Information on recruitment, resignation, removal and remuneration of key executives.
5. Show cause or penalty notices which are material.
6. Serious accidents, dangerous occurrences and pollution problems.
7. Material default in financial obligations to or by the company.
8. Issues involving possible public or product liability claims of substantial nature.
9. Joint venture agreements.
10. Transactions involving substantial payment towards intellectual property/ goodwill/ brand equity.
11. Any significant industrial relations problem including new wage agreement.
12. Sale of investments, assets and divisions which are not in the normal course of business.
13. Non-compliance with any regulatory requirement.
14. Details of any foreign exchange exposure and steps taken to hedge the risks.

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Annexure 3

The Role of the Audit Committee

1. Considering the name of the auditor in the context of their independence (particularly with reference to any other non audit services), fee and terms of engagement and recommending its name to the board for putting before AGM for appointment.
2. Reviewing audit plan and results of the audit and as to whether auditors have full access to all relevant documents.
3. Checking financial fraud particularly fictitious and fraudulent portions of the financial statement. They should put in place an appropriate system to ensure adoption of appropriate accounting policies and principles leading to fairness in financial statements.
4. Oversight of the internal audit function in general and with particular reference to reviewing of scope of internal audit plan for the year, reviewing the reports of internal auditors pertaining to critical areas, reviewing the efficacy of the internal auditing and reviewing as to whether internal auditors have full access to all relevant documents.
5. Oversight of the adequacy of the internal control system through the regular reports of the internal and external auditors. They may appoint external consultants if the need arose.
6. Oversight of financial statements in general and with particular reference to review of annual and quarterly financial statements before issue, review of qualifications in the draft financial statements and discussion of accounting principles. In particular, change in accounting policies, principles and accounting estimates in comparison to previous year, any adoption of new accounting policy, any departure from International Accounting Standards (IAS) and non-compliance with disclosure requirements prescribed by CMA should be critically reviewed.
7. Serving as a channel of communication between external auditors and the board and also internal auditors and the board.
8. Reviewing risk management policies and looking into the reasons of defaults in payment obligations of the company, if any.
9. Reviewing proposed specific transactions with related parties for making suitable recommendations to the board and setting rules for entering into small value transactions with related parties without obtaining prior approval of audit committee and the board.

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Annexure 4

Suggested List of items to be covered in report on corporate governance

1. Company's philosophy on code of governance and a descriptive report on how the company has applied the principles of corporate governance as stated in annexure 1.

2. Board of Directors:

Composition and category of directors for example executive, non-executive, independent and nominee director (with institution represented as Lender or as equity investor).
Attendance of each director at the board meetings and the last AGM.
Number of other boards or board committees he/she is a member or chairperson.
Number of board meetings held and dates of the meetings.

3. **Audit Committee and other committees:**

   1. Brief description of terms of reference
   2. Composition, name of members and Chairperson
   3. Meetings and attendance during the year

4. Process of nomination of the directors:

5. Remuneration matters:

   1. Details of remuneration to all directors and top 5 officers individually including salary, benefits, perquisites, bonuses, stock options, gratuity and pensions etc
   2. Details of fixed component and performance linked incentives along with the performance criteria
   3. Service contracts, notice period and severance fees.

6. Details of non-compliance by the company:

Penalties, strictures imposed on the company by MSM/CMA or any statutory authority, on any matter related to capital markets, during the last three years.

7. Means of communication with the shareholders and investors:

   1. Whether half-yearly results were sent to the each shareholder.
   2. Name of the web-site where these were posted
   3. Whether the web-site of the company displays official news releases
   4. Presentations made to institutional investors or to the analysts
   5. Whether MD&A is a part of annual report or not.

8. **Market price data:**
    1. High / low during each month in the last financial year.
    2. Performance in comparison to broad based index of MSM (relevant sector)
    3. Distribution of shareholding
    4. Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity.

9. Specific areas of non-compliance with the provisions of corporate governance and reasons.

10. Professional profile of the statutory auditor.

11. Any other important aspect.

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Appendix 2.3: Bahraini corporate governance Code

Corporate Governance Principles

Principle 1 The Company Shall be Headed by an Effective, Collegial and Informed Board

1.1 The Board's Role and Responsibilities. All directors should understand the board's role and responsibilities under the Company Law, in particular:

- the board's role as distinct from the role of the shareholders (who elect the board and whose interests the board serves) and the role of the officers(whom the board appoints and oversees), and
- the board's fiduciary duties of care and loyalty to the company and the shareholders (see Principle 2 below).

The board's role and responsibilities include but are not limited to the overall business performance and strategy for the company; causing financial statements to be prepared which accurately disclose the company's financial position; monitoring management performance; convening and preparing the agenda for shareholder meetings; monitoring conflicts of interest and preventing abusive related party transactions; and assuring equitable treatment of shareholders including minority shareholders.

The directors are responsible both individually and collectively for performing these responsibilities. Although the Board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

Recommendation: When a new director is inducted, the chairman of the board, assisted by company legal counsel or compliance officer, should review the board's role and duties with that person, particularly covering legal and regulatory requirements and this Code.

Recommendation: The company should have a written appointment agreement with each director which recites the directors' powers and duties and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.

Recommendation: The board should adopt a formal board charter or other statement specifying matters which are reserved to it, which

should include but need not be limited to the specific requirements and responsibilities of directors.

1.2 The Board's Decision-Making Process. The board should be collegial and deliberative, to gain the benefit of each individual director's judgment and experience. The chairman should take an active lead in promoting mutual trust, open discussion, constructive dissent and support for decisions after they have been made. The board should meet frequently but in no event less than four times a year, all directors should attend the meetings whenever possible and the directors should maintain informal communication between meetings.

The chairman should ensure that all directors receive an agenda, minutes of prior meetings, and adequate background information in writing before each board meeting and when necessary between meetings. All directors should receive the same board information. At the same time, directors have a legal duty to inform themselves and they should ensure that they receive adequate and timely information and should study it carefully.

Recommendation: The board should have no more than 15 members, and should regularly review its size and composition to assure that it is small enough for efficient decision making yet large enough to have members who can contribute from different specialties and viewpoints. The board should recommend changes in board size to the shareholders when a needed change requires amendment of the company's Memorandum of Association.

Recommendation: Potential non-executive directors should be made aware of their duties before their nomination, particularly as to the time commitment required. The Nominating Committee should regularly review the time commitment required from each non-executive director and should require each non-executive director to inform the Committee before he accepts any board appointments to another company. One person should not hold more than three directorships in public companies in Bahrain with the provision that no conflict of interest may exist, and the board should not propose the election or reelection of any director who does.

1.3 Directors' Independence of Judgment. Every director should bring independent judgment to bear in decision-making. No individual or group of directors should dominate the board's decision making and no one individual should have unfettered powers of decision. **Executive directors** should provide the board with all relevant business and financial information within their cognizance, and should recognize that their role as a director is different from their role as an officer. **Non-executive directors** should be fully independent of management and should constructively scrutinize and challenge management including the management performance of executive directors.

Recommendation: At least half of a company's board should be non-executive directors and at least three of those persons should be independent directors as determined under Appendix A. (Note the exception for controlled companies in 1.4 below.)

Recommendation: The chairman of the board should be an independent director and in any event should not be the same person as the CEO, so that there will be an appropriate balance of power and greater capacity of the board for independent decision making.

Recommendation: The board should review the independence of each director at least annually in light of interests disclosed by them and the criteria in Appendix A. Each independent director shall provide the board with all necessary and updated information for this purpose.

Recommendation: To facilitate free and open communication among independent directors, each board meeting should be preceded or followed with a session at which only independent directors are present, except as may otherwise be determined by the independent directors themselves.

1.4 The Board's Representation of all Shareholders. Each director should consider himself as representing all shareholders and should act accordingly. The board should avoid having representatives of specific groups or interests within its membership and should not allow itself to become a battleground of vested interests. If the company has a controlling shareholder (or a controlling group of shareholders acting in concert), the latter should recognize its or their specific responsibility to the other shareholders, which is direct and is separate from that of the board of directors. In companies with a controlling shareholder, at least one-third of the board should be independent directors. Minority shareholders should generally look to independent directors' diligent regard for their interests, in preference to seeking specific representation on the board.

Recommendation: In companies with a controlling shareholder, both controlling and non-controlling shareholders should be aware of controlling shareholders' specific responsibilities regarding their duty of loyalty to the company and conflicts of interest (see Principle 2 below) and also of rights that minority shareholders may have to elect specific directors under the Company Law or if the company has adopted cumulative voting for directors. The chairman of the board should take the lead in explaining this with the help of company lawyers.

1.5 Directors' Access to Independent Advice. The board shall ensure that individual directors have access to independent legal or other professional advice at the company's expense whenever they judge this necessary to discharge their responsibilities as directors and this should be in accordance with the company's policy approved by the board.

Individual directors should also have access to the company secretary, who should have responsibility for reporting to the board on board procedures. Both the appointment and removal of the company secretary should be a matter for the board as a whole, not for the CEO or any other officer.

Recommendation: Whenever a director has serious concerns which cannot be resolved concerning the running of the company or a proposed action, he should consider seeking independent advice and should ensure that the concerns are recorded in the board minutes and that any dissent from a board action is noted or delivered in writing. Upon resignation, a nonexecutive director should provide a written statement to the chairman, for circulation to the board, if he has any such concerns.

1.6 Directors' Communication with Management. While management members are not entitled by right to attend board meetings, the board should encourage participation by management regarding matters the board is considering, and also by management members who by reason of responsibilities or succession, the CEO believes should have exposure to the directors.

Recommendation: Non-executive directors should have free access to the company's management beyond that provided in board meetings. Such access should be through the Chairman of the Audit Committee or CEO. The board should make this policy known to management to alleviate any management concerns about a director's authority in this regard.

1.7 Committees of the Board. The board should create specialized committees when and as such committees are needed. In addition to the Audit, Remuneration and Nominating Committees described elsewhere in this Code, these may include an Executive Committee to review and make recommendations to the whole board on company actions, or a Risk Committee to identify and minimize specific risks of the company's business. The board or a committee may invite non-directors to participate in a committee's meetings so that the committee may gain the benefit of their advice and expertise in financial or other areas. Committees must act only within their mandates and therefore the board must not allow any committee to dominate or effectively replace the whole board in its decision-making responsibility. Committees could be combined provided that no conflict of interest might arise between the duties of such committees.

Recommendation: Every committee should have a formal written charter similar in form to the model charters which are set forth in Appendices B, C and D below for the Audit, Nominating and Remuneration Committees.

1.8 Evaluation of the Board and Each Committee. At least annually the board shall conduct an evaluation of its performance and the performance of each committee and each individual director. The MOIC may issue non-mandatory templates to assist with such evaluation. The evaluation process shall include:

- assessing how the board operates, especially in light of Principle 1 of this Code,
- evaluating the performance of each committee in light of its specific purposes and responsibilities, which shall include review of the self-evaluations undertaken by each committee,
- reviewing each director's work, his attendance at board and committee meetings, and his constructive involvement in discussions and decision making, and
- reviewing the board's current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and a view toward planned and progressive refreshing of the board.

Recommendation: While the evaluation is a responsibility of the entire board, it should be organized and assisted by an internal board committee and, when appropriate, with the help of external experts.

Recommendation: The board should report to the shareholders, at each annual shareholder meeting, that evaluations have been done.

Principle 2 The Directors and Officers Shall have Full Loyalty to the Company

2.1 Personal Accountability. Each director and officer should understand that under the Company Law he is personally accountable to the company and the shareholders if he violates his legal duty of loyalty to the company, and that he can be personally sued by the company or the shareholders for such violations.

The duty of loyalty includes a duty not to use property of the company for his personal needs as though it was his own property, not to disclose confidential information of the company or use it for his personal profit, not to take business opportunities of the company for himself, not to compete in business with the company, and to serve the company's interest in any transactions with the company in which he has a personal interest. He should be considered to have a “personal interest” in a transaction with the company if:

- he himself, or

- a member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters), or

- another company of which he is a director or controlling shareholder,

is a party to the transaction or has a material financial interest in the transaction. (Transactions and interests which are de minimis in value should not be included.)

2.2 Avoidance of Conflicts of Interest. Each director and officer should make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the company.

2.3 Disclosure of Conflicts of Interest. Each director and officer shall inform the entire board of conflicts of interest as they arise and abstain from voting on the matter in accordance with the relevant provisions of the Company Law. This disclosure shall include all material facts in the case of a contract or transaction involving the director or officer. The directors and officers must understand that any approval of a conflict transaction is effective **only** if all material facts are known to the authorizing persons and the conflicted person did not participate in the decision.

Recommendation: The board should establish formal procedures for:

- periodic disclosure and updating of information by each director and officer on his actual and potential conflicts of interest, and

- advance approval by disinterested directors or shareholders of all transactions in which a company director or officer has a personal interest. The board should require such advance approval in every case.

2.4 Disclosure of Conflicts of Interest to Shareholders. The company shall disclose to its shareholders in the Annual Report any abstention from voting motivated by a conflict of interest and shall disclose to its shareholders any authorization of a conflict of interest contract or transaction in accordance with the Company Law.

Principle 3 The Board Shall Have Rigorous Controls for Financial Audit and Reporting, Internal Control, and Compliance With Law

3.1 Audit Committee. The board shall establish an audit committee of at least three members of which the majority should be independent including the Chairman. The committee shall:

- review the company's accounting and financial practices,

- review the integrity of the company's financial and internal controls and financial statements,

- review the company' s compliance with legal requirements, and
- recommend the appointment, compensation and oversight of the company's outside auditor.
- Recommend the appointment of the internal auditor .

3.2 Audit Committee Charter. The audit committee shall adopt a written charter which shall, at a minimum, state the above purposes and the other matters in Appendix B.

Recommendation: A majority of the audit committee should have the financial literacy qualifications stated in Appendix B.

Recommendation: The board should adopt a "whistleblower" program under which employees can confidentially raise concerns about possible improprieties in financial or legal matters. Under the program concerns may be communicated directly to any audit committee member or, alternatively, to an identified officer or employee who will report directly to the Audit Committee on this point.

3.3 CEO and Chief Financial Officer Certification of Financial Statements. To encourage management accountability for the financial statements required by the directors, the company's CEO and chief financial officer shall state in writing to the audit committee and the board as a whole that the company's interim and annual financial statements present a true and fair view, in all material respects, of the company's financial condition and results of operations in accordance with applicable accounting standards.

Principle 4 The Company Shall have Rigorous Procedures for Appointment, Training, and Evaluation of the Board

4.1 Nominating Committee. The board shall establish a Nominating Committee of at least three members which shall:

- identify persons qualified to become members of the board of directors or Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the company considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit Committee in accordance with Principle 3.1 above ,
- make recommendations to the whole board of directors including recommendations of candidates for board membership to be included by the board of directors on the agenda for the next annual shareholder meeting.

The committee should include only independent directors or, alternatively, only non-executive directors of whom a majority is independent directors and the chairman is an independent director. This is consistent with international best practice and it recognizes that the Nominating Committee must exercise judgment free from personal career conflicts of interest.

4.2 Nominating Committee Charter. The Nominating Committee shall adopt a formal written charter which shall, at a minimum, state the above purposes and the other matters in Appendix C.

4.3 Board Nominations to Shareholders. Each proposal by the board to the shareholders for election or reelection of a director shall be accompanied by a recommendation from the board, a summary of the advice of the Nominating Committee, and the following specific information:

- the term to be served, which may not exceed three years (but there need not be a limit on reelection for further terms),
- biographical details and professional qualifications,
- In the case of an independent director, a statement that the board has determined that the criteria in Appendix A have been met,
- any other directorships held,
- particulars of other positions which involve significant time commitments, and
- details of relationships between:
- the candidate and the company, and
- the candidate and other directors of the company.

Recommendation: The chairman of the board should confirm to shareholders when proposing **re-election** of a director that, following a formal performance evaluation, the person's performance continues to be effective and continues to demonstrate commitment to the role. Any term beyond six years (e.g. two three-year terms) for a director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board. Serving more than six years is relevant to the determination of a non-executive director's independence, as stated in Appendix A.

4.5 Induction and Training of Directors. The chairman of the board shall ensure that each new director receives a formal and tailored induction to ensure his contribution to the board from the beginning of

his term. The induction should include meetings with senior management, visits to company facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and independent auditors and legal counsel. All continuing directors should be invited to attend orientation meetings and all directors shall continually educate themselves as to the company's business and corporate governance.

Recommendation: Management, in consultation with the chairman of the board, should hold programs and presentations to directors respecting the company's business and industry, which may include periodic attendance at conferences and management meetings. The Nominating Committee shall oversee directors' corporate governance educational activities.

Principle 5 The Company Shall Remunerate Directors and Officers Fairly and Responsibly

5.1 Remuneration Committee. The board shall establish a remuneration committee of at least three members which shall:

- review the company's remuneration policies for the board of directors and senior management, which should be approved by the shareholders and

- make recommendations regarding remuneration policies and amounts for specific persons to the whole board, taking account of total remuneration including salaries, fees, expenses and employee benefits.

- Remunerate board members based on their attendance and performance.

The committee may be merged with the nominating committee.

5.2 Remuneration Committee Charter. The committee shall adopt a written charter which shall, at a minimum, state the above purposes and other matters in Appendix D.

Recommendation: The committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director. This is consistent with international best practice and it recognizes that the remuneration committee must exercise judgment free from personal career conflicts of interest.

5.3 Standard for All Remuneration. Remuneration of both directors and officers should be sufficient enough to attract, retain and motivate persons of the quality needed to run the company successfully, but the company should avoid paying more than is necessary for that purpose.

5.4 Non-Executive Directors' Remuneration. Remuneration of non-executive directors shall not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.

5.5 Officers' Remuneration. Remuneration of officers should be structured so that a portion of the total is linked to company and individual performance and aligns their interests with the interests of the shareholders. Such rewards may include grants of shares, share options and other deferred stock-related incentive schemes, bonuses, and pension benefits which are not based on salary. If an officer is also a director, his remuneration as an officer should take into account compensation received in his capacity as a director. All share incentive plans should be approved by the shareholders.

Recommendation: All performance-based incentives should be awarded under written objective performance standards which have been approved by the board and are designed to enhance shareholder and company value, and under which shares should not vest and options should not be exercisable within less than two years of the date of award of the incentive.

Recommendation: All plans for performance-based incentives should be approved by the shareholders, but the approval should be only of the plan itself and not of the grant to specific individuals of benefits under the plan.

Principle 6 The Board Shall Establish A Clear and Efficient Management Structure

6.1 Establishment of Management Structure. The board shall appoint officers whose authority shall include management and operation of current activities of the company, reporting to and under the direction of the board. The officers shall include at a minimum:

- a CEO (see “Terms Used in This Code” at the end of this Code),
- a chief financial officer,
- a corporate secretary,
- an internal auditor,

and shall also include such other officers as the board considers appropriate.

6.2 Titles, Authorities, Duties and Reporting Responsibilities. The board shall adopt by-laws prescribing each senior officer's title, authorities, duties and internal reporting responsibilities. This should be

done with the advice of the Nominating Committee and in consultation with the CEO, to whom the other officers should normally report. These provisions shall include but should not be limited to the following:

- the CEO shall have authority to act generally in the company's name, representing the company's interests in concluding transactions on the company's behalf and giving instructions to other officers and company employees,

- the chief financial officer shall be responsible and accountable for the complete, timely, reliable and accurate preparation of the company's financial statements, in accordance with the accounting standards and policies of the company; and for presenting the board with a balanced and understandable assessment of the company's financial situation, and

- the corporate secretary's duties shall include arranging, recording and following up on the actions, decisions and meetings of the Board and of the shareholders (both at annual and extraordinary meetings) in books to be kept for that purpose,

- The internal auditor's duties shall include providing an independent and objective review of the efficiency of the company's operations. This would include a review of the accuracy and reliability of the company's accounting records and financial reports as well as a review of the adequacy and effectiveness of the company's risk management, control, and governance processes.

Recommendation: The board should also specify any limits which it wishes to set on the authority of the CEO or other officers, such as monetary maximums for transactions which they may authorize without separate board approval.

Recommendation: The corporate secretary should be given general responsibility for reviewing the company's procedures and advising the board directly on such matters. Whenever practical, the corporate secretary should be a person with legal or similar professional experience and training.

Recommendation: At least annually the board shall review and concur in a succession plan addressing the policies and principles for selecting a successor to the CEO, both in emergencies and in the normal course of business. The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.

Principle 7 The Company Shall Communicate With Shareholders, Encourage Their Participation, and Respect Their Rights

7.1 Conduct of Shareholders' Meetings. The board shall observe both the letter and the intent of the Company Law's requirements for shareholder meetings. Among other things:

- notices of meetings must be honest, accurate and not misleading. They should clearly state and, where necessary, explain the nature of the business of the meeting,

- meetings should be held during normal business hours and at a place convenient for the greatest number of shareholders to attend,

- notices of meetings should encourage shareholders to participate by proxy and should refer to procedures for appointing a proxy and for directing the proxy how to vote on a particular resolution. The proxy agreement shall list the agenda items and shall specify the vote (such as “yes,” “no” or “abstain),

- notices should ensure that all material information and documentation is provided to shareholders on each agenda item for any shareholder meeting, including but not limited to any recommendations or dissents of directors,

- the board should propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not “bundled” together,

- in meetings where directors are to be elected or removed the board should ensure that each person is voted on separately, so that the shareholders can evaluate each person individually,

- the chairman of the meeting should encourage questions from shareholders, including questions regarding the company's corporate governance guidelines,

- the minutes of the meeting must be made available to shareholders upon their request as soon as possible but not later than 30 days after the meeting, and

- Disclosure of all material facts must be made to the shareholders by the Chairman prior to any vote by the shareholders.

Recommendation: The company should require all directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the chairs of the audit, remuneration and nominating committees are ready to answer appropriate questions regarding matters within their committee's responsibility (it being understood that confidential and proprietary business information may be kept confidential).

Recommendation: The company should require its outside auditor to attend the annual shareholders' meeting and be available to answer shareholders' questions concerning the conduct and conclusions of the audit.

Recommendation: A company should maintain a company website. The company should dedicate a specific section of its website to describing shareholders' rights to participate and vote at each shareholders' meeting, and should post significant documents relating to meetings including the full text of notices and minutes. The company may also consider establishing an electronic means for shareholders' communications including appointment of proxies. For confidential information, the company should grant a controlled access to such information to its shareholders.

Recommendation: In notices of meetings at which directors are to be elected or removed the company should ensure that:

- where the number of candidates exceeds the number of available seats, the notice of the meeting should explain the voting method by which the successful candidates will be selected and the method to be used for counting of votes, and

- the notice of the meeting should fairly represent the views of candidates.

7.2 Direct Shareholder Communication. The chairman of the board (and other directors as appropriate) shall maintain continuing personal contact with major shareholders to solicit their views and understand their concerns. The chairman should ensure that the views of shareholders are communicated to the board as a whole. The chairman should discuss governance and strategy with major shareholders. Given the importance of market monitoring to enforce the “comply or explain” approach of this Code, the board should encourage investors, particularly institutional investors, to help in evaluating the company's corporate governance.

7.3 Controlling Shareholders. In companies with one or more controlling shareholders, the chairman and other directors shall actively encourage the controlling shareholders to make a considered use of their position and to fully respect the rights of minority shareholders.

Principle 8 The Company Shall Disclose its Corporate Governance

8.1 Disclosure under the Company Law. In each company:

- the board shall adopt written corporate governance guidelines covering the matters stated in this Code and other corporate governance matters deemed appropriate by the board. Such guidelines shall include or refer to the principles and numbered directives of this Code,

- the company shall publish the guidelines on its website, if it has a website,

- at each annual shareholders' meeting the board shall report on the company's compliance with its guidelines and this Code, and explain the extent if any to which it has varied them or believes that any variance or noncompliance was justified, and

- at each annual shareholders' meeting the board shall also report on further items listed in Appendix E. Such information should be maintained on the company's website or held at the company's premises on behalf of the shareholders

- the MOIC may issue a template as a guide for a company's annual meeting corporate governance discussion .

Recommendation: The board shall establish a corporate governance committee of at least three independent members which shall be responsible for developing and recommending changes from time to time in the company's corporate governance policy framework.

Principle 9 Companies Which Refer to Themselves as "Islamic" Must Follow the Principles Of Islamic Shari'a

9.1 Companies which are guided by the principles of Islamic Shari'a have additional responsibilities to their stakeholders. Companies which refer to themselves as "Islamic" will be subject to additional governance requirements and disclosures to provide assurance to stakeholders that they are following Shari'a Principles. In ensuring compliance with Shari'a principles, each company should establish a Shari'a Supervisory Board consisting of at least three Shari'a scholars.

Recommendation: In addition to its duties outlined in Principle 3 and Appendix B, the Audit Committee shall communicate and co-ordinate with the Company's Corporate Governance Committee and the Shari'a Supervisory Board ("SSB") (where applicable) to ensure that information on compliance with Islamic Shari'a rules and principles is reported in a timely manner.

Recommendation: The Board shall set up a Corporate Governance Committee (see also Principle 8). In this case the Committee shall comprise at least three members to co-ordinate and integrate the implementation of the governance policy framework. This Corporate Governance Committee shall comprise at a minimum of:

i. an independent director to chair the Corporate Governance Committee. The Chairman of the Corporate Governance Committee should not only possess the relevant skills, such as the ability to read and understand financial statements, but should also be able to coordinate

and link the complementary roles and functions of the Corporate Governance Committee and the Audit Committee;

ii. a Shari'ah scholar who is an SSB member for the purpose of leading the Corporate Governance Committee on Shari'ah-related governance issues (if any), and also to coordinate and link the complementary roles and functions of the Corporate Governance Committee and the SSB; and

iii. an independent director who can offer different skills to the committee, such as legal expertise and business proficiency, which are considered particularly relevant by the BOD for cultivating a good corporate governance culture, and deemed “fit and proper” by the concerned supervisory authorities, where applicable.

Recommendation: The Corporate Governance Committee shall be empowered to:

i. Oversee and monitor the implementation of the governance policy framework by working together with the management, the Audit Committee and the SSB; and

ii. Provide the BOD with reports and recommendations based on its findings in the exercise of its functions.

Appendices

Appendix A Independent Director

Determination by the Board. Under this Code an “independent director” is a director whom the board has specifically determined has no material relationship which could affect his independence of judgment, taking into account all known facts. The board should consider that, although a particular director meets the formal requirements, he may not be independent owing to specific circumstances of the person or the company, ownership structure of the company, or for any other reason. The board's determination should be a good faith finding after diligent review and full discussion.

Formal Requirements. ”Independent director” means a director of the company who, or whose family shareholders either separately or together with him or each other, does not have any material pecuniary relationships or transactions with the company (not counting director's remuneration for this purpose) and in particular who, during the one year preceding the time in question met all the following conditions:

(i) was not an employee of the company,

(ii) did not:

a) make to, or receive from, the company payments of more than 31,000 BD or equivalent (not counting director's remuneration),

b) own more than a 10% share or other ownership interest, directly or indirectly, in an entity that made to or received from the company payments of more than such amount,

c) act as a general partner, manager, director or officer of a partnership or company that made to or received from the company payments of more than such amount,

d) have any significant contractual or business relationship with the company which could be seen to materially interfere with the person's capacity to act in an independent manner,

(iii) did not own directly or indirectly (including for this purpose ownership by any family member or related person) 5% or more of the shares of any type or class of the company,

(iv) was not engaged directly or indirectly as an auditor or professional advisor for the company, and

(v) was not an associate of a Director or a member of senior management of the company.

Appendix B Audit Committee

Committee Purposes

The Committee's purposes shall include those stated in Section 3.1 of the Corporate Governance Code.

Committee Membership and Qualifications

The Committee shall have at least three members. Such members must have no conflict of interest with any other duties they have for the company.

A majority of the members of the committee including the Chairman shall be independent directors under the criteria stated in Appendix A to the Corporate Governance Code and non-executives if the board chooses to appoint non-board members (experts) in the committee.

The board must satisfy itself that at least a majority of the committee has recent and relevant financial ability and experience, which includes:

- an ability to read and understand corporate financial statements including a company's balance sheet, income statement and cash flow statement and changes in shareholders' equity,

- an understanding of the accounting principles which are applicable to the company's financial statements,

- experience in evaluating financial statements that have a level of accounting complexity comparable to that which can be expected in the company's business,

- an understanding of internal controls and procedures for financial reporting, and

- an understanding of the audit committee's functions and importance.

Committee Duties and Responsibilities

In serving those purposes the Committee shall:

- be responsible for the selection, appointment, remuneration, oversight and termination where appropriate of the outside auditor, subject to ratification by the company's board and shareholders. The outside auditor shall report directly to the committee,

- make a determination at least once each year of the outside auditor's independence, including:

- determining whether its performance of any non-audit services compromised its independence (the committee may establish a formal policy specifying the types of non-audit services which are permissible), and

- obtaining from the outside auditor a written report listing any relationships between the outside auditor and the company or with any other person or entity that may compromise the auditor's independence,

- review and discuss with the outside auditor the scope and results of its audit, any difficulties the auditor encountered including any restrictions on its access to requested information and any disagreements or difficulties encountered with management,

- review and discuss with management and the outside auditor each annual and each quarterly financial statements of the company including judgments made in connection with the financial statements,

- review and discuss and make recommendations regarding the selection, appointment and termination where appropriate of the head of internal audit and the budget allocated to the internal audit and compliance

function, and monitor the responsiveness of management to the committee's recommendations and findings,

- review and discuss the adequacy of the company's internal auditing personnel and procedures and its internal controls and compliance procedures, and any risk management systems, and any changes in those,

- oversee the company's compliance with legal and regulatory requirements, and

- review and discuss arrangements under which company employees can confidentially raise concerns about possible improprieties in financial reporting or other matters, and ensure that arrangements are in place for independent investigation and follow-up regarding such matters.

Committee Structure and Operations

The committee shall elect one member as its chair.

The committee shall meet at least four times a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire board.

The committee may meet without any other director or any officer of the company present. Only the committee may decide if a non-member of the committee should attend for a particular meeting or a particular agenda item. It is expected that the outside auditor's lead representative will be invited to attend regularly but this shall always be subject to the committee's decision.

The committee shall report regularly to the full board on its activities.

Committee Resources and Authority

The committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, accounting or other advisors as it deems necessary or appropriate, without seeking the approval of the board or management. The company shall provide appropriate funding for the compensation of any such persons.

Committee Performance Evaluation

The committee shall prepare and review with the board an annual performance evaluation of the committee, which shall compare the committee's performance with the above requirements and shall recommend to the board any improvements deemed necessary or

desirable to the committee's charter. The report may be in the form of an oral report made at any regularly scheduled board meeting.

Appendix C Nominating Committee

Committee Purposes

The committee's purposes shall include those stated in Section 4.1 of this Code.

Committee Duties and Responsibilities

In serving those purposes with respect to board membership:

- the committee shall make recommendations to the board from time to time as to changes the committee believes to be desirable to the size of the board or any committee of the board,

- whenever a vacancy arises (including a vacancy resulting from an increase in board size), the committee shall recommend to the board a person to fill the vacancy either through appointment by the board or through shareholder election,

- in performing the above responsibilities, the committee shall consider any criteria approved by the board and such other factors as it deems appropriate. These may include judgment, specific skills, experience with other comparable businesses, the relation of a candidate's experience with that of other board members, and other factors,

- the committee shall also consider all candidates for board membership recommended by the shareholders and any candidates proposed by management,

- the committee shall identify board members qualified to fill vacancies on any committee of the board and recommend to the board that such person appoint the identified person(s) to such committee, and

- assuring that plans are in place for orderly succession of senior management.

In serving those purposes with respect to officers the committee shall:

- make recommendations to the board from time to time as to changes the committee believes to be desirable in the structure and job descriptions of the officers including the CEO, and prepare terms of reference for each vacancy stating the job responsibilities, qualifications needed and other relevant matters,

- recommend persons to fill specific officer vacancies including CEO considering criteria such as those referred to above,

- design a plan for succession and replacement of officers including replacement in the event of an emergency or other unforeseeable vacancy, and

- If charged with responsibility with respect to company' s corporate governance guidelines, the committee shall develop and recommend to the board corporate governance guidelines, and review those guidelines at least once a year.

Committee Structure and Operations

The committee shall elect one member as its chair.

The committee shall meet at least twice a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire board.

Committee Resources and Authority

The committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting or search firms used to identify candidates, without seeking the approval of the board or management. The company shall provide appropriate funding for the compensation of any such persons.

Performance Evaluation

The committee shall preview and review with the board an annual performance evaluation of the committee, which shall compare the committee's performance with the above requirements and shall recommend to the board any improvements deemed necessary or desirable to the committee's charter. The report may be in the form of an oral report made at any regularly scheduled board meeting.

Appendix D Remuneration Committee

Committee Purposes

The committee's purposes shall include those stated in Section 5.1 of the Corporate Governance Code.

Committee Duties and Responsibilities

In serving those purposes the committee shall consider, and make specific recommendations to the board on, both remuneration policy and individual remuneration packages for the CEO and other senior officers. This remuneration policy should cover at least:

- The following components:
- salary,
- the specific terms of performance-related plans including any stock compensation, stock options, or other deferred-benefit compensation,
- pension plans,
- fringe benefits such as non-salary perquisites, and
- termination policies including any severance payment policies; and
- Policy guidelines to be used for determining remuneration in individual cases, including on:
- the relative importance of each component,
- specific criteria to be used in evaluating an officer' s performance.

The committee shall evaluate the CEO's performance in light of corporate goals and objectives and may consider the company's performance and shareholder return relative to comparable companies, the value of awards to CEOs at comparable companies, and awards to the CEO in past years.

The committee should also be responsible for retaining and overseeing outside consultants or firms for the purpose of determining director or officer remuneration, administering remuneration plans, or related matters.

Committee Structure and Operations

The committee shall elect one member as its chair.

The committee shall meet at least twice a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire board.

Committee Resources and Authority

The committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting or

compensation firms used to evaluate the compensation of directors, the CEO or other officers, without seeking the approval of the board or management. The company shall provide appropriate funding for the compensation of any such persons.

Performance Evaluation

The committee shall preview and review with the board an annual performance evaluation of the committee, which shall compare the committee's performance with the above requirements and shall recommend to the board any improvements deemed necessary or desirable to the committee's charter. The report may be in the form of an oral report made at any regularly scheduled board meeting.

Appendix E Corporate Governance Disclosure

The company shall disclose the following items, in addition to any disclosures required by applicable industry regulatory bodies:

Ownership of Shares

1. Distribution of ownership by nationality

2. Distribution of ownership by size of shareholder

3. Ownership by Government

4. Names of shareholders owning 5% or more and, if they act in concert, a description of the voting, shareholders' or other agreements among them relating to acting in concert, and of any other direct and indirect relationships among them or with the company or other shareholders

Board, Board Members and Management

1. Board's functions — rather than a general statement (which could be disclosed simply as the board's legal obligations under the law) the 'mandate' of the board should be set out

2. The types of material transactions that require board approval

3. Names, their capacity of representation and detailed information about the directors, including directorships of other boards, positions, qualifications and experience (should describe each director as executive or non-executive)

4. Number and names of independent members

5. Board terms and the start date of each term

6. What the board does to induct/educate/orient new directors

7. Director's ownership of shares

8. Election system of directors and any termination arrangements

9. Director's trading of company shares during the year

10. Meeting dates (number of meetings during the year)

11. Attendance of directors at each meeting

12. Remuneration of individual members, divided into sitting fees and other remuneration (split between performance and non-performance based). Also not only the remuneration, but the remuneration policy

13. List of senior managers and profile of each

14. Shareholding by senior managers

15. Remuneration paid to each person in the executive management divided in each case into salaries, perquisites, bonuses, gratuities, pensions and any other components

16. Details of stock options and performance-linked incentives available to executives

17. Whether the board has adopted a written code of ethical business conduct, and if so the text of that code and a statement of how the board monitors compliance

Committees

1. Names of the board committees

2. Functions of each committee

3. Members of each committee divided into independent and non-independent

4. Minimum number of meetings per year

5. Actual number of meetings

6. Attendance of committees'members

7. Members' remuneration (by member)

8. Work of committees and any significant issues arising during the period

Corporate Governance

1. Separate section in the Annual Report

2. Reference to corporate governance code (CGC) and its principles

3. Changes on the CGC took place during the year

Auditors

1. The charters and a list of members of the Audit (external and internal; financial and non-financial), Nominating and Remuneration Committees of the board.

2. Audit fees

3. Non-Audit services provided by the external and fees

4. Reasons for any switching of auditors and reappointing of auditors

Other

1. Related party transactions

2. Approval process for related party transactions

3. Means of communication with shareholders and investors

4. Separate report on Management Discussion and Analysis is included in the Annual Report — in particular, this should identify and comment on the management of principal risks and uncertainties faced by the business.

5. Review of internal control processes and procedures

6. Announcements of the results in the press should include at least the followings:

a. Balance sheet, income statement, cash flow statement, statement of comprehensive income and changes in shareholders' equity

b. Auditor

c. Auditor's signature date

d. Board approval date

Set out directors responsibility with regard to the preparation of financial statements

Conflict of Interest — any issues arising must be reported, in addition describe any steps the board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.

Board of Directors — whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution.

Terms Used in this Code

In this Code the following terms have the following meanings:

Remuneration means all types of compensation including but not limited to salary, fee and non-cash benefits such as grants of stock, stock options or pension benefits.

Executive director means a director who is an officer or employee, or is otherwise involved in day-today management , of either:

- the company,
- another company which is a controlling shareholder of the company,
- another company of which the company is a controlling shareholder,
- another company which is controlled by a controlling shareholder of the company.

Non-executive director means any director who is not an executive director.

Independent director means a non-executive director who is independent as stated in Appendix A.

CEO means a company's chief executive officer. The board shall determine that person's actual title, which may be “CEO,” “Chief Executive Officer,” “President,” “Managing Director,” or another title.

Controlling shareholder means any shareholder who holds 10% or more of the share capital or is able to exercise (or control the exercise of) 10% or more of the voting power in the company.

Appendix 6.1: Semi-Structured Interview Questions

Companies Directors, CEO, Board members (executive and non-executives)

General Questions:

1. How do you define and what is your understanding of corporate governance?

2. What is your Arabic translation for corporate governance?

3. Are you aware of any international codes of corporate governance and which ones?

4. Is corporate governance important to your company and why?

Corporate Governance practices:

5. How many directors are there on your board and why? Does this allow for enough discussion of the issues to enable effective monitoring and control of the company?

6. How many independent non-executive directors are there in your company and why? How are the independent non-executive directors elected and appointed and is that appropriate? What discussions do they get involved in?

7. What are the responsibilities of independent non-executive directors? Do they meet separately as a group and what do they discuss?

8. How long do directors serve on your board and is this appropriate? How many boards do independent and executive's directors sit on and how many should they sit on and why?

9. How does your board make decisions and what information and discussion take place? (Why is it done in this way? Do you consult other people? Who are they?)

10. Is your CEO also the Chairman of the board and what are your views on the separation of the CEO and Chairman? Is it important for an independent director to be chairman and why?

11. What types of information do board members get both in advance of board meeting and at meetings? (Equal, accurate, timely and cost efficient access to relevant information about the company). Who comes to board meeting and presents and why?

12. How regular are your board meetings and why? Does this allow for enough discussion and understanding of the issues to enable effective monitoring and control of the company?

13. Do all directors always attend the meetings? If they miss meetings how do they input into discussions and decisions?

14. Do all directors make an effective contribution to board discussions or do some dominate the meeting? (Do they come prepared for discussion? Do they read the agenda?)

15. How does the board monitor and control management? Is this done through board meetings? Do independent directors meet staff independently and why? How are directors actions monitored?

16. What board sub committees do you have? How are members of these committees selected and is this appropriate? (Skills, experts, relationship, other) How often do your sub-committees meet and is this enough or too much?

17. What information does audit committee get and who does it meet with, and what does it do?

18. Who are your major shareholders? Do they sit on the board? Do they influence managers actions? How does your company protect any minority shareholders?

19. Who are your company stakeholders? Do they have representatives on the board and is this good or bad? What involvement do your stakeholders have in the running of the company and why?

20. How do your company treat and what relationships do you have with each stakeholder group and can you give any examples?

21. How does your company communicate with stakeholders? What is your company's policy on disclosure of governance practices? Do you think stakeholders are satisfied and get enough information and are involved in decisions? How can regulator protect and improve stakeholder relationships with company?

Accountability

22. What is your understanding of accountability?

23. To what extent do you think that your country regulations described accountability well? Do you think that the law and judicial system in your country is adequate and How and why? (Provide an appropriate environment for accountability practice)

24. Do you think adopting good corporate governance system is required for accountability? And why?

25. What is your definition of Islamic accountability? Does Islamic accountability have any impact on your company's practices or corporate governance practices and if so, how and why?

26. Is Shura practiced in your company? If so can you give examples?

27. Does your company practice Hisba? Can you give examples of that ?

28. Is there a conflict between Islam and corporate governance and if so or if not, Why?

Independent

General questions:

1. How do you define and what is your understanding of corporate governance

2. what is your Arabic translation for corporate governance?

3. Are you aware of any international codes of corporate governance and which ones?

4. Is corporate governance important to your company and why?

Corporate Governance practices:

5. How many directors are there on your board and why? Does this allow for enough discussion of the issues to enable effective monitoring and control of the company?

6. How many independent non-executive directors are there on your boards and why? How did you and how do other independent directors get selected and appointed and is that appropriate? What discussions do you get involved in?

7. What are your responsibilities as an independent director? Do you meet separately with other independent directors as a group and what do you discuss?

8. How long do directors serve on your boards and is this appropriate? How many boards do you sit on as an independent and executive's directors and how many should they sit on and why?

9. How does your board make decisions and what information and discussion take place? (Why is done in this way? do you consult other people? Who are they?)

10. Is your CEO also the Chairman of the board and what are your views on the separation of the CEO and Chairman? Is it important for an independent director to be chairman? why?

11. What different of information do board members get both in advance of board meeting and at meetings? (Equal, accurate, timely and cost efficient access to relevant information about their company). Who comes to board meeting and presents and why?

12. How regular are your board meetings and why? Does this allow for enough discussion and understanding in the issues to enable effective monitoring and control of the company?

13. Do all directors attend the meetings and if any miss meetings how do they input into discussions and decisions?

14. Do at all other directors make an effective contribution to board discussions or do some dominate the meeting? (Do they come prepared for discussion? Do they read the agenda?)

15. How does the board monitor and control management? Is this through board meeting? Do independent director meet staff independently and why? How are directors actions monitored?

16. What board sub committees do you have? How are members of these committees selected and is this appropriate? How often do your sub-committees meet and is this enough or too much?

17. What information does audit committee get and who does it meet with, and what does it do?

18. Who are your major shareholders? Do they sit on the board? Do they influence manager's actions? How does your company protect any minority shareholders?

19. Who are your company stakeholders? Do they have representatives on the board and is this good or bad? What involvement do your stakeholders have in the running of your company and why?

20. How does your company treat different stakeholders and can you give any examples?

21. How does your company communicate with stakeholders? What is your company's policy on disclosure of governance practices? Do you think stakeholders are satisfied and get enough information and are involved in discussions? How can regulator protect and improve stakeholder relationships with companies?

Accountability

22. What is your understanding of accountability?

23. To what extent do you think that your country regulations described accountability well? Do you think that the law and judicial system in your country is adequate and How and why? (Provide an appropriate environment for accountability practice)

24. Do you think adopting good corporate governance system is required for accountability? And why?

25. What is your definition of Islamic accountability? Does Islamic accountability have any impact on your company's practices or corporate governance practices and if so, how and why?

26. Is Shura practiced in your company? If so can you give examples?

27. Does your company practice Hisba? Can you give examples of that ?

28. Is there a conflict between Islam and corporate governance and if so or if not, Why?

Regulaters

General questions:

1.How do you define and what is your understanding of corporate governance?

2.What is your Arabic translation for corporate governance?

3.Are you aware of any international codes of corporate governance and which ones?

4.Is corporate governance important and why?

Corporate Governance practices:

5. How many directors should there be on the board and why? How many should there be for enough discussion of the issues to enable effective monitoring and control of companies?

6. How many independent non-executive directors should there be on a company's board and why? How should they be selected and appointed and is that appropriate? What discussions should they be involved in?

7. What are the responsibilities of independent non-executive directors? Should they meet separately as a group and what should they discuss?

8.How long should directors serve on the boards and is this appropriate? How many boards should independent and executive directors sit on and why?

9. How should boards make decisions and what information and discussion should take place?

10.What are your views on the separation of the CEO and Chairman? Is it important for an independent director to be chairman?

11. What types of information should board members get both in advance of board meeting and at meetings? (Equal, accurate, timely and cost efficient access to relevant information about their company). Who should attend board meetings and make presentation and why?

12. How regular are should board meetings be and why? Does this allow for enough discussion and understanding of the issues to enable effective monitoring and control of companies?

13. Should all directors attend all the meetings and if any miss meetings how should they input into discussions and decisions?

14. To what extent do you think that directors make an effective contribution to board discussions and are some boards dominated by particular directors? (Do they come prepared for discussion? Do they read the agenda?)

15. How should the board monitor and control management? Is this done through board meetings? Should independent director meet staff independently and why? How should directors' actions be monitored?

16. What sub-committees are necessary to make sure there is an effective system of CG and why? What is their role? How should the members of these committees be nominated? How often should sub-committees meet and why?

17. What information should audit committee get and who should they meet with, and what should they do?

18. Should major shareholders sit on boards? Should and do they have influence over managers' actions? How should companies protect minority shareholders?

19. Who are the stakeholders of companies? Should they have representatives on the board and is this good or bad? What involvement should stakeholders have in the running of companies and why?

20. How should companies treat each stakeholder group and can you give any examples?

21. How should companies communicate with stakeholders? What should be companies' policies on disclosure of governance practices? Do you think stakeholders are satisfied and get enough information and are involved in decisions? How can you as a regulater protect and improve stakeholders' relationships with companies?

Accountability

22. What is your understanding of accountability?

23. To what extent do you think that your country regulations described accountability well? Do you think that the law and judicial system in your country is adequate and How and why? (Provide an appropriate environment for accountability practice)

24. Do you think adopting good corporate governance system is required for accountability? And why?

25. What is your definition of Islamic accountability? Does Islamic accountability have any impact on your company's practices or corporate governance practices and if so, how and why?

26. Is Shura practiced in your country's companies? If so can you give examples?

27. Does company in your country practice Hisba? Can you give examples of that ?

28. Is there a conflict between Islam and corporate governance and if so or if not, Why?

Other

General questions:

1. How do you define what is your understanding of corporate governance?

2. What is your Arabic translation for corporate governance?

3. Are you aware of any international codes of corporate governance and which ones?

4. Is corporate governance important and why?

Corporate Governance practices:

5. How many directors should there be on the board and why? How many should there be for enough discussion of the issues to enable effective monitoring and control of companies?

6. How many independent non-executive directors should there be on a company's board and why? How should they be selected and appointed and is that appropriate? What discussions should they be involved in?

7. What are the responsibilities of independent non-executive directors? Should they meet separately as a group and what should they discuss?

8. How long should directors serve on the board and is this appropriate? How many boards should independent and executive directors sit on and why?

9.How should board make decisions and what information and discussion should take place?

10. What are your views on the separation of the CEO and Chairman? Is it important for an independent director to be chairman?

11. What types of information should board members get both in advance of board meeting and at meetings? (Equal, accurate, timely and cost efficient access to relevant information about their company). Who should attend board meetings and make presentation and why?

12. How regular are should board meetings be and why? Does this allow for enough discussion and understanding in the issues to enable effective monitoring and control of companies?

13. Should all directors attend all the meetings and if any miss meetings how should they input into discussions and decisions?

14. To what extent do you think that directors make an effective contribution in board discussions and are some boards dominated by particular directors? (Do they come prepared for discussion? Do they read the agenda?)

15. How should the board monitor and control management? Is this done through board meeting? Should independent director meet staff independently and why? How should directors' actions be monitored?

16. What sub-committees are necessary to make sure there is an effective system of CG and why? What is their role? How should the member of these committees be nominated? How often should sub-committees meet and why?

17. What information should audit committee get and who should meet it with, and what should it do?

18. Should major shareholders sit on the boards? Should and do they have influence over managers' actions? How should companies protect minority shareholders?

19. Who are the stakeholders of companies? Should they have representatives on the board and is this good or bad? What involvement do you and other stakeholders have in the running of companies and why?

20. How should companies treat each stakeholder group and can you give any examples?

21. How should companies communicate with stakeholders? What should be companies' policies on disclosure of governance practices? Do you think stakeholders are satisfied and get enough information and are involved in decisions? How can regulator protect and improve stakeholders' relationships with companies?

Accountability:

22. What is your understanding of accountability?

23. To what extent do you think that your country regulations described accountability well in your country relevant regulations? Do you think that the law and judicial system in your country is adequate and How and why? (Provide an appropriate environment for accountability practice)

24. Do you think adopting good corporate governance system is required for accountability? And why?

25. What is your definition of Islamic accountability? Does Islamic accountability have any impact on company's practices or corporate governance practices and if so, how and why?

26. Is Shura practiced in your country's company? If so can you give examples?

27. Does company in your country practice Hisba? Can you give examples of that?

28. Is there a conflict between Islam and corporate governance and if so or if not, Why?

Appendix 7.1: Details of corporate governance disclosure index

N	Items	All Companies	Saudi	Oman	Bahrain
Board of directors					
1	General statement of board's function	57	4	28	25
2	Board formation and classification	105	43	39	23
3	Board Members Names	107	43	39	25
4	Board members ages	3	1	0	2
5	City and/or country	8	2	2	4
6	Directors qualifications	27	5	7	15
7	Work experience of directors	37	4	12	21
8	Year members elected	63	16	24	23
9	Name and number of other boards member sit on)	103	43	36	24
10	Board term and the start date of each term	64	20	21	23
11	Information regarding induction of new directors	21	0	3	18
12	Election system of directors and any termination arrangements	79	19	35	25
13	Types of material transactions that require board approval	17	2	1	14
14	Director's ownership of shares	67	43	1	23
15	Director's trading of company shares during the year	65	43	1	21
16	Remuneration of directors (individual members or as a whole)	104	43	39	22
17	Board approval date	107	43	39	25
18	Comment on the management of principal risks and uncertainties faced by the business	95	43	35	17
19	Review of internal control processes and procedures	97	43	38	16
20	Board secretary's name	26	7	9	10
21	Board secretary's age	1	1	0	0
22	Board secretary's education	12	4	2	6
23	Board secretary's work experience	14	3	4	7
24	Year board secretary apointed	14	3	5	6
25	Number of board meetings held	107	43	39	25
26	Date of board meetings	90	32	39	19
27	Location	3	0	0	3
28	Attendance of each director at board meetings	105	43	38	24
29	Minimum number of meetings per year	22	1	7	14

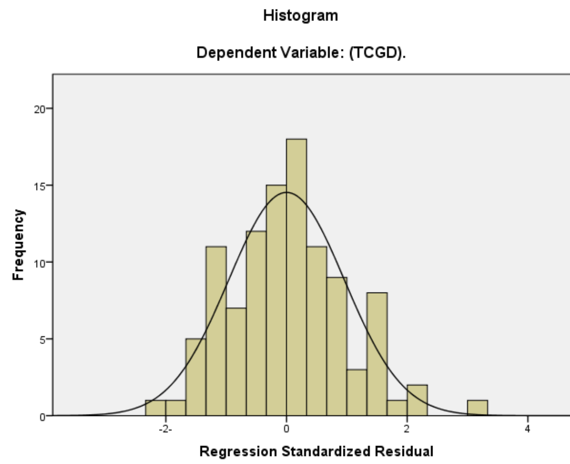
CEO					
30	Name	91	34	32	25
31	Age	3	1	1	1
32	City and/or country of residence	5	1	1	3
33	Main education	40	3	15	22
34	Work experience	45	2	19	24
35	Responsibilities and tasks	33	1	15	17
36	Employment year	38	5	15	18
37	Other positions in the company	46	23	7	16
38	Memberships of other boards	27	8	5	14
39	Salary and other compensation	100	43	38	19
Senior mangament (not CEO or Board members)					
40	List of other senior managers	69	25	23	21
41	Ages	3	1	1	1
42	City and/or country of residence	2	1	1	0
43	Educational background	35	3	14	18
44	work experience	39	2	16	21
45	Shareholdings by senior managers	57	42	1	14
46	Remuneration paid to each	100	43	38	19
47	Details of stock options and performance-linked incentives available to executives	86	43	27	16
Board committees					
Audit Committee					
48	Functions of the committee	105	43	38	24
49	Membership composition	103	43	35	25
50	Committee member's names	105	43	39	23
51	Number of meetings	105	43	39	23
52	Minimum number of meetings per year	22	1	4	17
53	Attendance of committee members	83	22	39	22
54	Members' remuneration	97	41	38	18
55	Work of committees and any significant issues arising during the period	16	8	4	4
Nomination committee					
56	Functions of the committee	64	42	6	16
57	Membership composition	65	43	6	16
58	Committee member's names	64	43	6	15
59	Number of meetings	63	42	6	15
60	Minimum number of meetings per year	11	1	0	10
61	Attendance of committee members	41	20	6	15
62	Members' remuneration	55	40	6	9
63	Work of committees and any significant issues arising during the period	6	3	0	3

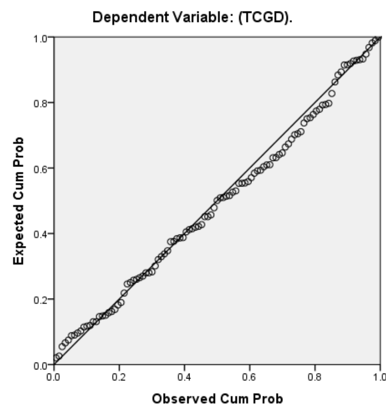
	Remuneration Committee				
64	Functions of the committee	61	42	2	17
65	Membership composition	61	43	1	17
66	Committee member's names	60	43	2	15
67	Number of meetings	58	42	1	15
68	Minimum number of meetings per year	11	1	0	10
69	Attendance of committee members	36	20	1	15
70	Members' remuneration	52	40	2	10
71	Work of committees and any significant issues arising during the period	6	3	0	3
	Executive Committee				
72	Functions of the committee	53	25	11	17
73	Membership composition	58	26	14	18
74	Committee member's names	58	26	15	17
75	Number of meetings	57	26	14	17
76	Minimum number of meetings per year	12	1	1	10
77	Attendance of committee members	46	13	16	17
78	Members' remuneration	52	24	15	13
79	Work of committees and any significant issues arising during the period	4	2	0	2
	Shariah Board Committee				
80	Functions of the committee	7	3	0	4
81	Membership composition	4	1	0	3
82	Committee member's names	8	1	0	7
83	Number of meetings	5	2	0	3
84	Minimum number of meetings per year	0	0	0	0
85	Attendance of committee members	5	1	0	4
86	Members' remuneration	2	0	0	2
87	Work of committees and any significant issues arising during the period	4	1	0	3
	Corporate Governance Committee				
88	Functions of the committee	14	4	0	10
89	Membership composition	15	4	0	11
90	Committee member's names	15	4	0	11
91	Number of meetings	14	3	0	11
92	Minimum number of meetings per year	8	0	0	8
93	Attendance of committee members	14	3	0	11
94	Members' remuneration	11	4	0	7
95	Work of committees and any significant issues arising during the period	1	0	0	1

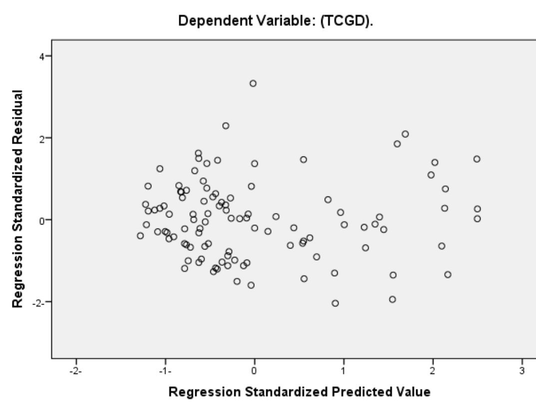
Risk Committee					
96	Functions of the committee	12	2	4	6
97	Membership composition	13	2	4	7
98	Committee member's names	13	2	4	7
99	Number of meetings	12	1	4	7
100	Minimum number of meetings per year	5	0	0	5
101	Attendance of committee members	11	1	3	7
102	Members' remuneration	10	2	4	4
103	Work of committees and any significant issues arising during the period	2	0	2	0
Investment Committee					
104	Functions of the committee	12	5	1	6
105	Membership composition	12	5	1	6
106	Committee member's names	11	5	1	5
107	Number of meetings	11	5	1	5
108	Minimum number of meetings per year	5	0	0	5
109	Attendance of committee members	8	3	0	5
110	Members' remuneration	9	5	1	3
111	Work of committees and any significant issues arising during the period	1	0	0	1
Information Related to Auditors					
112	Audit firm	107	43	39	25
113	Audit fees	42	2	33	7
114	Year audit firm elected	47	22	16	9
115	Reasons for switching auditors or reappointment of auditors	24	13	5	6
116	Non-audit services and fees	34	1	24	9
117	Auditor's signature date	107	43	39	25
Shareholding Information and Investor Rights					
118	Distribution of shareholding and number of shareholders	50	1	26	23
119	Distribution of ownership by nationality	27	1	4	22
120	Government ownership	13	1	3	9
121	Names of shareholders owning 5% or more	52	8	22	22
122	The date of the AGM	62	14	34	14
123	Location of the AGM	4	3	1	0
124	Attendance of directors at the AGM	35	0	35	0

Corporate Behavior and Responsibility					
125	Market price data (high / low during each month)	40	0	39	1
126	Performance of the company's share price in comparison to broad based index	26	0	25	1
127	Means of communication with shareholders and investors (web site, Address, Contact information)	70	12	39	19
128	Related party transactions	84	43	18	23
129	Approval process for related party transactions	43	11	9	23
130	Company Philosophy on code of governance	81	18	38	25
131	Details of non compliance	103	42	38	23
132	Any punishment or penalty imposed by regulators	71	36	33	2
133	Whether the board has adopted a written Code of ethical business conduct	30	6	2	22
134	Whislebloing policy	25	3	1	21
135	Social responsibility information	58	28	10	20

Appendix 7.2: Regression diagnostics







Appendix 7.3: Regression Using VCGD and TCGD using natural logarithm for market capitalisations (Model 7) (Model 8) Respectively:

(Model 7)

Coefficients							
	Unstandardized Coefficients		Standardized Coefficients	T	Sig	Collinearity Statistics	
	B	Std.Error	Beta			Tolerance	VIF
Constant	0.039	.084		.466	**.642**		
B.Size	.011	.006	.200	2.013	**.047***	.736	1.359
B.meeting	.002	.003	.062	.727	.469	.881	1.135
P.Ind	.035	.041	.088	.852	.396	.559	1.788
Ln Size	.000	.007	.004	.029	.977	.747	1.339
AUD	.006	.021	.024	.280	.780	.868	1.152
IND	.071	.024	.285	2.972	**.004****	.699	1.431
Oman	-.004	.027	-.018	-.138	.891	.469	2.134
Bahrain	.095	.026	.394	3.679	**.000****	.647	1.546
Model Summary	**R**	**R Square**	**Adjusted R Square**	**Std. Error**	**F Value**	**F.Sig.**	**Durbin-Watson**
	0.647	.418	.370	.08001	8.629	**0.000****	2.133

Note: *= p≤ 0.05 and **= p≤0.01; VCGD. = Percentage of voluntary disclosure, Ln size= company size, B.Meeting = Board Meeting, B.size = Board Size, P.ind. =Proportion of independent, AUD = external Auditor, IND= industrial sector.

(Model 8)

Coefficients							
	Unstandardized Coefficients		Standardized Coefficients	T	Sig	Collinearity Statistics	
	B	Std.Error	Beta			Tolerance	VIF
Constant	0.039	.084		.466	**.642**		
B.Size	.010	.004	.182	2.427	**.017***	.736	1.359
B.meeting	.001	.003	.027	.418	.677	.881	1.135
P.Ind	.041	.032	.101	1.287	.201	.559	1.788
Ln Size	.003	.005	.061	.609	.544	.747	1.339
AUD	.012	.016	.047	.731	.467	.868	1.152
IND	.057	.018	.225	3.106	**.002****	.699	1.431
Oman	-.031	.021	-.148	-1.477	.143	.469	2.134
Bahrain	.140	.020	.568	7.029	**.000****	.647	1.546
Model Summary	**R**	**R Square**	**Adjusted R Square**	**Std. Error**	**F Value**	**F.Sig.**	**Durbin-Watson**
	0.817	.668	.640	.006125	24.134	**0.000****	1.997

Note: *= p≤ 0.05 and **= p≤0.01; VCGD. = Percentage of voluntary disclosure, Ln size= company size, B.Meeting = Board Meeting, B.size = Board Size, P.ind. =Proportion of independent, AUD = external Auditor, IND= industrial sector.