GOOD GOVERNANCE

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PRELUDE

The whole World is in search of "Good Governance". Countries claiming to be super powers are in great financial crisis. USA is in search of above system. Cash Stimulus was used to inject money to keep up the purchasing power of people. Sub-prime lending in a reckless manner resulted in bank failures in USA. Over 300 banks failed. UK was also affected. Global financial crises at corporate level in several countries resulted in formation of G-20. This group is led by Central Bankers of most of developed part of the world including representation from some developing countries including Saudi Arabia, India, China and some African Country. Lending institutions keep recommending "Good Governance" for countries and there is an outcry for "Corporate Governance" starting from 1990s. Leadership was provided in UK by establishment of Cadbury Committee and later by Hampfel Committee.

Growing interest in Japan, Malaysia, Hong Kong, France, USA, SARRC countries etc. has been of great interest.

CONSTITUENTS

This paper consists of the following parts:

Part I: A Brief Review of Corporate Governance
Part II: Selected Countries Experiences
Part III: World Bank Indexes
Part IV: Way Forward

A brief review in respect of each of the above is now presented.

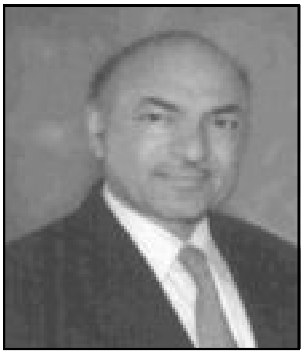
PART I: A BRIEF REVIEW OF CORPORATE GOVERNANCE

The first aspect is to understand the concept of Corporate Governance. OECD has defined Corporate Governance as under:

"Corporate Governance Comprehends that structure of relationship and corresponding responsibilities among a core group consisting of:
- Shareholders
- Board Members
- Corporate Managers

designed to best poster the competitive performance required to achieve the corporation's primary objective".

The concept of Joint Stock Companies with limited liability concept is the product of industrial and commercial revolutions which started in Europe during 16th / 17th century. The traditional model was to run the companies with a Board of Directors. (BOD). Unfortunately, the role of BOD though legally defined, could not deliver in managerial perspective in a befitting manner. The problem arose due to the fact that there was a divorce between those who contributed the capital as owners of the company and those who managed the affairs of the company through BOD. Due to several problems of low education of shareholders and routine role of BOD, the management could not deliver the goods in a befitting manner. Consequently, most of the companies should low performance. The managements were clever and benefited internally



from their various decisions and shareholders could not be beneficiaries in terms of higher dividend or other benefits through bonus shares etc. Consequently, there was a global outcry. It started with the setting up of Cadbury Committee in UK in the early part of 1990s. Four issues were addressed namely, Board of Directors, Non-Executives, Executive Directors and Reporting and Controls. There was a greater emphasis on holding regular Board Meetings, effective and full control on the Company by Board of Directors, monitoring of Executive Development and maintain a balance between authority and power.

The guidance provided was that Directors must keep the control formally in their hands. An independent professional advice is to be obtained from Non-Executive Directors who should have caliber for inclusion in BOD. The secretary of the Board should stay independent and his removal should be by the Board as whole. The Non-Executive Directors should focus their contribution on strategy, performance, key appointments and developing standards of conduct. The Executive Directors should have contact of three years with formal approval from BOD and their emoluments should be transparently disclosed and Audit Committee should be set up with clear terms of reference in black and white and deal with the matters with clarity, authority and clear-cut duties. Effective internal controls should be in operation to ensure business as a going concern.

Later in 1995 Hempel Committee was set in UK. This Committee was given two years to complete their assignment with six aspects as their scope of work namely, Principles of Corporate Governance, Application of the Principles, The Future, Directors, Directors, Remuneration and Shareholders and Annual General Meeting. They gave recommendations in January 1998 to lay sound basis for Corporate Governance.

PART II: SELECTED COUNTRIES EXPERIENCES

Following the lead provided by UK, South Asian and African countries also followed the suit and started developing Corporate Governance Standards to pave the way for sound Corporate Management for the benefit of stakeholders. Some selected countries experiences are briefly shared below:

HONG KONG

Accounting profession in Hong Kong has great impact from UK. Some Working Groups were set up. The report of the first Working Group on Corporate Governance was released in 1995 and thee report of the Second Working Group was released in January 1998. The following ten (10) point Code was issued for compliance:

Box No. 1

1. Compliance Matters to be identified.
2. Board Same family members not to have more than 50%.
3. CFO Mandatory.
4. AGM Attendance record was made mandatory.
5. Board Meeting Four Compulsory every year. Six preferred.
6. Auditors Other Fees Separate disclosure.
7. Annual Report Separate Disclosure: Corporate Governance.
8. Audit Committee Be established with defined functions.
9. Interim Report Be released Scope: Balance sheet, income and cash flow.
10. Auditors To review No. 9 above.

MALAYSIA

Two separate Codes of Ethics for Directors and Company secretaries were issued. The five point Code of Ethics for Board of Directors emphasized on introductory Aspects, Principles, Objectives, Definition, Code of Conduct for Corporate Governance. Four parts constituted Code of Ethics for Company Secretaries namely, Introductory Aspects, Principles, Objectives and five point Code of Conduct.

SOUTH AFRICA

The Kings Report on Corporate Governance was published by the Institute of Directors in South Africa on November 19, 1994 and detailed recommendations were released for implementation. This produced productive results.

PAKISTAN

The first Code of Corporate Governance was released by Securities & Exchange Commission of Pakistan with the assistance from the Institute of Chartered Accountants of Pakistan and other stakeholders with the mission that sound Corporate Practices will be developed and implemented. Currently it is applicable to listed companies, banking companies, DFIs, NBFIs, Insurance Companies, Mutual Funds, Unit Trust, and Company Corporations held or controlled by the Government. Constituents of the Code of Corporate Governance include Director, CFO and Secretary, Corporate and Financial Reporting Framework and Audit Committee. The crying need is to legislate through amendments to be incorporated in the Companies Ordinance, 1984 so that its application can be made across the board in a full-fledged manner for the benefit of stakeholders.

PART III: WORLD BANK INDEXES

The World Bank has developed the following two Indexes in respect of: Corporate Governance Index (CGI):
1. Overall Corporate Governance Index (Box 2) [CGI]
2. World Governance Index (Box 02) [WGI]

CGI was 90.8% as the highest for Germany and 24.3% as the lowest for Bangladesh. Pakistan earned 31.3% showing big gap to be bridged. Accordingly, all stakeholders e.g corporate management, professional institutes (Institute of Chartered Accountants of Pakistan, Institute of Cost & Management Accountants of Pakistan, Institute of Chartered Managers and Secretaries Corporate, Pakistan Institute of Corporate Governance etc.------), Securities & Exchange Commission of Pakistan, Government of Pakistan Professional Educational Institutions, Stock Exchanges and other stakeholders must rise to the occasion and ensure sound Corporate Management for solid corporate governance.

BOX NO. 2
OVERALL CORPORATE GOVERNANCE INDEX

S. No.	Country	CGI (out of 100)
1.	Germany	90.8
2.	United States	89.8
3.	Singapore	80.9
4.	Hong Kong	69.2
5.	Malaysia	66.7
6.	India	55.4
7.	South Korea	55.4
8.	Thailand	49.7
9.	Philippines	48.9
10.	Indonesia	44.7
11.	Vietnam	38.1
12.	China	35.3
13.	Pakistan	31.3
14.	Bangladesh	24.3

WORLD GOVERNANCE INDEX (WGI)

For developing the above Index (box 3) the following three constituents were considered:

A. REGULATION

Regulatory Framework exists in all countries of the World. However, the quality of the framework, the policy package it offers and the implementation of the legal provisions contained in it and their effectiveness or otherwise are evaluated. Out of 100, Pakistan earned 28.6%. This speaks volumes of the fact that there is considerable room for improvement.

B. CORRUPTION

Corruption exists all over the world. However, hardly anyone agrees that it exists in their country. It is generally agreed that corruption is, globally speaking, a fact of life. The misfortune is that in some countries corruption is a way of life. This approach needs to be discouraged and uprooted. A Hadith of Holy Prophet Mohammad (PBUH) reads as under: “The giver and taker of corrupt money is destined to hell”. Corruption has no moral or ethical justification. Transparency International releases Corruption Perception Index (CPI) on an annual basis. The recent one is CPI 2009 which has ranked 180 countries of the world. The least corrupt country was New Zealand (9.30 out of 10) and the highest corrupt country earned 1.00 out of 10. (Somalia). The overall calculated average is 4.02 and Pakistan earned 2.40 securing 139th position out of 180 countries. This shows high level of corruption and we need to take a positive feedback. Based on above World Governance Index, corruption was 21.3 percent in Pakistan.

C. RULE OF LAW

Rule of Law is a first pre-requisite for attracting investment from home and abroad. Sunshine legislation must exist as a product of democratic set up and strict implementation is the crying need of today. Our humble submission is that we, constituting as all stakeholders, must address this serious issue and ensure strict compliance in the true and genuine spirit of implementation. Moral reformation is a strong logistic to respect of rule of law. Strong belief in “Hereafter” is the crying need for being a true Muslim. The World Governance Index for Pakistan was 19.5% out of 100. This is a wakeup call for all of us to rise to the challenge and ensure a sound framework for Rule of Law and its strict implementation.

BOX NO. 3
WORLD GOVERNANCE INDEX

Country	Regulation	Corruption	Rule of Law
Block A	**%**	**%**	**%**
Hong Kong	99.0	92.3	90.5
Singapore	95.5	96.1	95.2
Germany	92.7	93.2	94.3
United States	90.8	91.3	91.9
Bock B			
Taiwan 79.6	70.0	70.5	
South Korea	78.6	68.1	74.8
Malaysia67.0	62.3	65.2	
Thailand 56.3	44.0	52.9	
Sri Lanka	51.5	57.5	55.7
Philippines	50.5	22.2	33.8
Block C			
India	46.1	47.3	56.2
China	45.6	30.9	42.4
Vietnam	43.7	27.1	27.1
Cambodia	35.9	28.0	38.6
Papu New Guinea	30.1	9.2	21.0
Block D			
Pakistan	28.6	21.3	19.5
Bangladesh	20.9	9.7	24.8
Laos	15.0	13.0	17.1
Myanmar	1.5	1.4	5.2

PART IV: WAY FORWARD

1. Guidance may be sought from Cadbury Committee. This includes key fundamental principles of Corporate Governance with emphasis of openness (Transparency), integrity and accountability, similarly, three fundamental principles of Corporate Governance need to be adopted by us for the public sector as published in the International Federation of Accountants Study. These include openness, integrity and accountability.

2. Seven (07) principles of public life taken from the first report of the Committee on Standards in public life published in UK in May 1995 is given the following box:

BOX NO. 4
THE SEVEN PRINCIPLES OF PUBLIC LIFE

1.SELFLESSNESS:	Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.
2. INTEGRITY:	In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
3. OBJECTIVITY:	Holders of public office should not place themselves under any financial or other obligation to outside individuals or organizations that might influence them in the performance of their official duties.
4. Accountability:	Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
5. Openness:	Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
6. Honesty:	Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
7. Leadership:	Holders of public office should promote and support these principles by leadership and example.

3. Wherever Code of Corporate Governance is applicable in Pakistan at present, there is a need to monitor the implementation.

4. The Securities & Exchange Commission of Pakistan (SECP) may kindly move amendments relating to incorporating legal provisions relating to sound Code of Corporate Governance through changes in the Companies Ordinance, 1984. Home work in this respect needs to be undertaken at the earliest so that the Parliament of Pakistan may consider these amendments and bring Pakistan in line with a sun-shine legislation in the comity of the nations in the world relating to sound Corporate Governance in Pakistan.

5. Only professionally qualified persons should be appointed to handle corporate management affairs.

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