CORPORATE GOVERNANCE IN THE GCC: AN ANALYSIS OF SELECTED LISTED COMPANIES IN THE UAE

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Abstract

This paper investigates compliance of corporate governance principles by firms listed on the securities exchange in the United Arab Emirates (UAE). Even though many companies have appreciated the importance of corporate governance globally, there is limited examination of the UAE in the literature. Data for the paper has been collected from the companies listed in the securities exchange of the UAE. Other sources of data have been used to complement primary data, including websites and annual reports of these companies. The results show that there is limited compliance to Corporate Governance by a few firms in the UAE. Overall, compliance in UAE is ensured more by the banks and the financial sector. This can be attributed to regulations by the Central Bank.

1. INTRODUCTION

Compliance with good corporate governance codes is very important for the proper functioning of the company. This paper seeks to investigate the compliance of corporate governance principles by firms listed on the Securities Exchange in the United Arab Emirates (UAE). Although many companies have appreciated the importance of corporate governance globally, there is limited study and scrutiny of companies in the UAE in the literature.

The UAE economy records trade surpluses annually with a high income per capita. Its major source of wealth is oil and gas. The country has been profoundly transformed from a desert to a modern state since the discovery of oil 30 years ago. Since the inception of the stock market in the UAE, coupled with the government's initiative of privatizing large infrastructure companies, the corporate sector has seen rapid growth. The corporate sector is mainly regulated by the Securities and Commodities Authority, the Ministry of Economy and the Central Bank (IMF, 2010, 116).

The global recession of 2007-2008 exposed serious corporate governance issues in various business operations worldwide, and the corporations in the UAE were no exception. The United Arab Emirates (UAE) Commercial Companies Law of 1984 regulates corporate governance in the UAE. Further, the Security and Commodities Authority (SCA) through Decision number R/32 of 2007, specifically applies corporate governance to joint-stock companies registered in the UAE and those companies listed on the securities exchange market (Hawkanah, 2011).

There is no specific definition of corporate governance. The term is defined by the New Code of the UAE as rules, standards and procedures aimed at enhancing corporate discipline in the running of a company as required by international standards through the proper discharge of responsibilities and duties of the members of the executive management and the board of directors considering stakeholder and shareholders' equity. The code emphasizes overseeing of the functions and management of the board of directors through the formation of committees, appointment of non-executive directors and independent members, and the appointment of an independent and neutral external auditor. The auditor should not perform any administrative or consultation work as it may create a risk of self-review (Koldertsova, 2010, 23). The duties of the directors are enhanced by requiring the positions of the Chairman of the board of directors and the managing director to be held by different persons. The application and compliance with the aforementioned codes is what this paper sets out to examine.

2. LITERATURE REVIEW

2.1 Theoretical Literature

Corporate governance comprises of a number of theories, agency (Jensen and Meckling, 1976), resource dependency (Pfeffer, 1973; Pfeffer and Salancik, 1978), stewardship (Donaldson and Davis, 1991) and stakeholder (Freeman, 1984).

2.1.1 Agency Theory

One of the key corporate governance theories, the agency theory, developed by Jensen and Meckling (1976) emphasises the separation of ownership and control. According to this theory, investors are lying idle with surplus funds to invest but have technical constraints of inadequacy of capital and managerial expertise to manage the funds. They, therefore, employ the technical services of managers to invest their funds in profitable ventures and the managers get rewarded for their services.

An agency problem may arise wherein the actions of managers do not necessarily foster the interests of the owners and financiers, and, in certain cases, their actions are detrimental to the wealth of the financiers.

Managers can expropriate shareholders through prerogatives of managers, (Meckling, 1976) and various forms of wealth accumulation (La Porta et al., 2000). Firm owners can be stripped of their benefits through price transfer (Shleifer and Vishny, 1997) and at times through forceful stay on the job by managers who are no longer competent to manage the affairs of the firm, (Shleifer and Vishny, 1989).

Such problems (or issues) could be mitigated by putting in place incentives and sanctions that address the self-interest of managers and those of shareholders through a mechanism that curbs the opportunistic behaviour of executives (Roberts, 2004). Corporate governance practices are, therefore, meant to check the excesses of executives either through internal and external mechanisms that safeguard the interests of executives and shareholders properly or by direct monitoring (Gibbs, 1993; Hill et al., 1988; Walsh et al., 1990).

2.1.2 Stewardship Theory

The stewardship theory emanated from the seminal work of Donaldson and Dais (1991). This theory assumes that the interest of shareholders and that of management are aligned; hence management is motivated to take decisions that would maximize performance and the total value of the company. The stewardship theory trusts that cooperation will lead to greater utility than individualistic behaviour and, therefore, whilst the actions of management would maximize shareholder wealth, it should also meet their personal needs. The company managers protect and maximise the wealth of shareholders through firm performance that has a direct effect on maximising utility (Davis et al., 1997). To achieve this objective, shareholders need to set up appropriate governance structures and mechanisms that ensure the autonomy of management and equip them with the authority to enable them take decisions that seek to maximise organisational utility and not self-pursuing goals. Five elements of the stewardship management philosophy identified by Davis et al. (1991) are trust, empowerment, open communication, performance enhancement and long term vision. A company's lead executives (such as managing directors) who are stewards are better placed to take actions that foster the company's goals when corporate governance structures give them great authority and discretion (Donaldson and Davis, 1991).

2.1.3 Resource Dependency Theory

The resource dependency theory stresses the importance of the board of directors in rendering valuable access to resources that would enhance the company's performance and shield it against externalities|(Pfeffer, 1973) and Pfeffer and Salancik, 1978). Companies require resources in diverse areas ranging from human, technical, informational, communicational, to financial and technological resources for their proper functioning. Accessibility to these resources enhances the performance and survival of the organization (Daily et al., 2003). Johnson et al. (1996) recognize the importance of this theory in the appointment of independent representatives in an enterprise basically as a means of being able to access resources critical to the organization's success.
Johannisson and Huse (2000) recognize the board's performance through its social and professional network. This is enhanced by the diversified background of the directors and the counsel they contribute to the organisation (Zahra and Pearce, 1989). The resource dependency theory is in support of larger boards (Provan, 1980; Booth and Deli, 1996; Dalton et al., 1999).

2.1.4 Stakeholder Theory

Unlike the narrow view of the agency theory where the manager's sole responsibility was maximising the wealth of shareholders, the stakeholder theory recognises the fact that the manager's actions affect parties other than just shareholders. The stakeholder theory, developed by Freeman (1984), stresses the need for managers to have corporate accountability to stakeholders instead of shareholders.

Stakeholders are recognised individuals or group of persons with legitimate interests in an organisation, and these interests often have intrinsic value (Donaldson and Preston, 1995). The theory is more concerned with how decision making by managers benefits all stakeholders without a single interest dominating. The stakeholder theory is similar to the resource dependency theory in that it suggests that various interest groups be represented on the organisation's board in order to ensure consensus in decisions and to avoid conflicts. The diversified board thus serves to mitigate the conflicting interest of the stakeholders and tries to enforce the cohesion necessary to achieve the objectives of the organisation (Donaldson and Preston, 1995).

The stakeholder theory has been criticised for placing a heavy burden on managers – making them accountable to the various stakeholders without a clear guideline for solving problems emanating from conflict of interest. This has, therefore, left managers with discretionary powers to choose whose interest to serve (Jensen, 2001). This theory has been further criticised for its single-valued objective of maximising stakeholder's wealth. It is true that the performance of an organisation is not measured solely by returns to stakeholders but equally by information management within the firm with specific regard to vertical communication, inter-personal relations within the organisation and the working environment. Jensen (2001) made proposals to the theory that would cater to some of its shortcomings. Therefore, the company should consider the various interest groups and individuals that are either affected by or may be affected by the organisation's policies and procedures (Frederick et al., 1992).

2.2 Empirical Literature Review

Corporate governance codes and principles have been complied with differently by various companies in different countries. Afaf Mubarak (2012), examining the depth to which national corporate governance code (CG), is complied with by companies listed in the Egyptian Securities Exchange and by Securities Exchange in the United Arab Emirates (UAE), revealed that there is more compliance of corporate governance in the UAE compared to Egypt. Examining the overall acceptance of the corporate governance code recommendations based on the compliance declarations of 408 firms listed at the Frankfurt Stock Exchange; Werder et al., (2005), showed that there was a significantly high level of Code conformity with possibility of it increasing in the future.

The effectiveness of the existing corporate governance framework in the Middle East and North Africa has not been prone to analysis (Amico, 2014) with only a few regulators in the region, such as Saudi Arabian and Omani CMAs, financial Center regulators such as the DFSA, being bold enough to take a dynamic approach, improving existing rules to fit emerging corporate realities and sound global governance practices. Kohla et. al. (2011) examined code compliance and its impact on firm performance for German corporations and observed generally high levels of code compliance. The highest compliance rates were observed in: Transparency (97.9%), Shareholders and General Meetings (95.2%), and Reporting and Auditing of the Annual Financial Statements (93.4%).

-The major determinants of code compliance for German firms were firm size and ownership concentration. Kohla et. al. (2011) observed a positive correlation between code compliance and firm size. DAX firms showed the highest level of code compliance (97 percent) while SDAX corporations had a clearly lower rate of 88 percent, while companies not included in the indices a rate of only 83 percent. Werder et al., (2005) found that the acceptance of the GCGC tends to increase with the size of the companies. Employing multiple regression analysis to 60 non-financial listed companies in Abu Dhabi securities exchange and the Dubai Financial market, Al-Mashregy (2012) found that board size and firm size had a positive significant impact on the firm's financial performance.

The corporate governance framework in the Middle East and North Africa (MENA) region has developed basically due to the regulatory pressure. This goes to demonstrate that without the enforcement of a governance framework by both the private and public sectors the region faces the risk that the remaining theoretical constructs that will not lead to the emergence of a corporate governance culture commensurate with the growing sophistication of capital markets in the region (Amico, 2014).

Examining the impact of the composition of the board on corporate disclosure, Eng and Mark (2003) found that the composition of the board affected disclosure. Using a sample of 158 Singaporean listed firms, they found out that lower managerial ownership and significant government ownership were associated with increased voluntary disclosure. An increase in the number of outside directors reduces voluntary disclosure. Larger firms had greater disclosure, while firms with lower debts disclosed more information (Eng and Mark, 2003). Kohla et al. (2011) found a negative significant impact of CEO duality on firm financial performance (ROA) while Donaldson and Davis (1991) provide empirical evidence that ROE to shareholders is ameliorated by combining the role of CEO and the board chair, thus supporting the stewardship theory rather than the agency theory.

2.3 United Arab Emirates and Corporate Governance Code

In the UAE, all joint stock companies and firms listed on the stock exchange are regulated by the Corporate Governance Code introduced in 2009 by the SCA. All the companies were required to comply with the Code by 30 April, 2010. However, the Code does not apply to foreign companies, firms regulated by the Central Bank and government owned institutions. The Code is based on international standards and sets high standards of corporate governance. In a bid for companies to comply with its requirements, the SCA issued a template business plan that is comprehensively assists companies comply with the set requirements. Before making submissions of annual reports, a company is required to note the areas in the provisions of the Code not complied with and outline its course of action to rectify the identified non-compliance (Hawkanah, 2011).

The Major Provisions Of The Code Include:

- Independent directors must comprise at least one third of the board of directors, with the majority being non-executive directors.
- There must be at least one meeting held by the board of directors every two months.
- The board of directors must form relevant committees. However, the audit committee along with another committee should oversee remuneration. The committee must comprise at least three non-executive directors, with not less than two of the directors being independent. The chairman of the board may not take the membership of the committees. The audit committee must consist of at least one professional in finance and accounting.
- A compliance officer must be appointed by the board of directors.
- An internal control system must be established to evaluate risk management procedures, compliance with regulations and laws, compliance with in-house policies and procedures, and financial information review followed in preparation of financial statements (Ibid).

Any firm that fails to comply with the provisions of the Code can face financial penalties or be suspended from the stock exchange.

Immediately upon being listed, a company must notify the Capital Markets Authority (CMA) and SCA of any significant securities price effects. The CMA can, if it considers appropriate, publish such information received from a listed company in the media. However, if a company has confidential information, it can make an application to the CMA not to announce such information as long as it does not involve trading by managers or directors. In a case where a shareholder acquires a shareholding equal to or more than 5 percent of the company’s shares, the company must immediately notify the CMA and SCA. This obligation must be complied with whenever there is an increase of 1 percent or above, (Ibid).

Disclosure Obligations on Shareholders

There are different notification thresholds to be applied to individual shareholders:

- Any natural person owning, either in person or with his children (minors), 5 percent or more of a company's listed stock must notify the CMA immediately.
- In a case where a natural person owns 10 percent or more of securities in a subsidiary, allied, affiliate or parent company of a listed company, he/she has an obligation to notify the CMA immediately.
- Any bank or financial institution conducting banking business and intending to acquire 5 percent or more of the shares of a listed company must obtain approval from the UAE's central bank (Ibid).
- **Corporate Governance Practices for Central Bank (UAE) Regulated Institutions**

  Given that the SCA Corporate Governance Code is not applicable to Central Bank regulated institutions; the Central Bank has developed binding and non-binding guidelines relating to corporate governance for institutions under its regulations. The binding guidelines relate to corporate governance structures in banks while the additional non-binding recommendations are to cover directors.

The Main Guidelines Of The Central Bank Rules Include:

- The chairman should not perform executive functions
- Board functions are not supposed to overlap with general management functions. The committee for corporate governance can appoint an executive committee having specified powers, but that person is not supposed to be involved in its operations
- An independent CEO should be appointed by the board and report to the board and the chairman
- A corporate standards manual must be developed detailing the level of authority, responsibility and behavior of employees.

- It is required that senior management be approved by the Central Bank and members must have at least five years relevant experience in order to be considered.
- The internal audit department should evaluate overlapping work functions, significant losses, and conflict of interest.
- A credit committee should be formed with membership of at least 5 members having authority for loans above 1.5 percent of capital and reserves of the bank, bad debts provision, and settlements (Koldertsova, 2010:23).Corporate governance is all about ethical corporate behavior by directors or others charged with governance in the creation of wealth for all stakeholders. It is about how these persons:
    - Provide stewardship over the business of an entity to achieve corporate objectives.
    - Balance the corporate objectives with the expectations of society; and
    - Provide accountability to stakeholders (Cleyn, 011:13).

The need for governance has increased as primary stakeholders have become more removed from management and the control of the entities they own. The use of outside directors in governance roles has been shown to provide protection to entity stakeholders. The growth of global capital markets and the significant frauds which are being perpetrated in these markets have put this need on a global scale. Corporate governance can counter financial statement fraud, corruption and money laundering. If investors are to invest, stamping out corruption (for example) is important. An infrastructure is, therefore, needed for regulation, corporate governance disclosure and transparency. The importance of the role of corporate governance is reflected in the IAPCs ISA 260. Auditors are required to communicate audit matters of governance interest to those charged with corporate governance on a timely basis. That the ISA requires the auditor to identify those responsible for governance, when the entity has not, emphasizes the need for governance systems to be established. It has been widely reported that had corporate governance and public governance existed in Southeast Asia, then the economic crises that occurred in 1997 could have been avoided (Wallace, 1987, 11).

Corporate governance on a national basis is appropriate when investing and financing by companies is on a national basis. However, a set of global rules should be applicable, as a minimum, to entities listing shares or obtaining financing in the public capital markets outside of their national boundaries. Requiring companies who participate in global capital markets to follow global rules will provide greater protection to global investors. Corporate governance will still be required at a national level. The use of Global Shares by global business enterprises increases the need for corporate governance rules to be global. Global shares (i.e. the same form of shares for listing in a home country and a non-home country) enable virtually seamless cross border trading. As their use becomes more widespread, global stakeholders will need higher quality global accounting, auditing and corporate governance standards. Regulators are national, not international, and so international consistency is needed to avoid regulation arbitrage. Global standards are necessary because national and international standards will not converge of their own volition. Local subsidiaries of international groups tend to be content (e.g. on cost grounds) with complying with lower local standards (e.g. accounting and auditing) and not adopting the higher standards at their parent's location (Smith, 2005, 23).

Companies in some countries (e.g. India) have been advised not to globalize until there is a framework for good corporate governance. It is, therefore, asserted that global standards are the key to the prospects of developing countries for sustainably mobilizing capital for economic growth. Developing countries can further benefit by imitating the models and systems of other countries rather than incurring the costs of developing their own models. There does not have to be a "one size fits all" approach to global standards because there are universally recognized standards that can provide benchmarks (e.g.

responsibility, accountability, fairness and transparency). If universal principles of transparency and objectivity, for example, can support international accounting and auditing frameworks, then a global corporate governance model can cater to different legal structures and cultural identities (Khan, 2009, 2012).

OECDs voluntary code provides a point of reference for multinationals, which are encouraged to:

- Contribute to economic, social and environmental progress
- Respect the human rights of those affected by their activities
- Encourage local capacity building
- Encourage human capital formation (e.g. by creating employment opportunities and through training programs)
- Refrain from seeking/accepting exemption from environmental, health and safety, equal opportunities and labor legislation, etc.
- Support and uphold good corporate governance (principles and practices)
- Abstain from improper involvement in local political activities (McGee, 2008, 67)

The development of corporate governance and its implementation needs to be at a national level because regulators are national and it is not appropriate, given the need to respect diverse cultures and legal structures, to prescribe a global standard. For example:

- There is concern in the US for increasing the shareholders' value.
- Continental Europe's economic philosophy is creating employment.
- In Japan companies work with the government towards the national strategy (Walton, 2012, 90).

Many people fear that global corporate governance standards may attempt to impose an Anglo-American business model on developing countries. Corporate governance and the composition of boards should suit the local business environment to encourage economic success. IAPC has established as a principle that auditors determine the relevant persons who are charged with governance responsibilities. However, that there may be no such persons suggests that the need for governance is not yet proven at a national level (Wallace, 1987, 56). Yet global standards are necessary because they emerge eventually by a natural process of convergence. For example, International Financial Reporting Standards (IFRSs) have been issued by the international Accounting standards board in place of separate international accounting standards (IASs) and the UK Financial Reporting Standards (FRSs) since the end of 2001. International standards are not global standards. If accounting and auditing standards have only reached an international level, then the need for corporate governance standards at the present time is only international – not global.

In the UAE, firms of all sizes and types have embraced the gradual adoption of corporate governance principles as an ingredient to improving their performance and growth. They also provide a basis for those firms that would wish to adopt their in-house governance initiatives (Hawkamah, 2011).

Sorouh, a real estate company in the UAE, was started in June 2005 with a capital investment of US$680 million. It ranked first among the firms adopting corporate governance practices. The ranking was based on volatility, liquidity and transparency. The success is attributed to improvements made by the company to its framework on corporate governance as a way of complying with the SCA standards. Two years to the dateline of compliance on corporate governance, Sorouh embraced and implemented all material requirements of the regulations. The firm issued Islamic Certificates (Sukuks) as a way of assessing business risks of investments and judging how management and the board monitor and manage risks. The firm underscored that adequate monitoring and reporting controls, risk oversight, and the proper documentation of procedures and policies are important in ensuring effective business management (Koldertsova, 2010, 54).

As a way of ensuring that employees have the ability of whistle-blowing, the firm established an Employee Disclosure

Policy as per its Code of Conduct. Through this avenue, employees concerns regarding breach of ethical conduct could be raised. This policy and guidelines were established to empower employees in reporting misconduct while, at the same time, offering them security as the allegations were investigated. The firm also formed an investigation system that ensured independence and neutrality (Ibid).

In order to ensure that employees did not abuse the privilege of access to stock-price information, it came up with an Insider Share Dealing Policy which spelled out the prohibitions in relation to insider trading and lay restrictions on the firm's securities. Regarding risk management, the firm implemented a comprehensive risk management system to formalize established risk management initiatives. It employed international best practices using the Risk Management model of Australia/New Zealand which is seen by experts as one of the most effective models. The model spells out the approaches to implementing a comprehensive framework for assessing and controlling risk. It presents management with a reasonable assurance that strategic and divisional objectives will be met within an acceptable level of risk. The managing director and the chief executive officer are both charged with the responsibility for implementing the risk management framework, while the board is in charge of approving the risk policy, reviewing how effective the risk management process is and determining the firm's tolerance for risk (Ibid).

To guarantee proper management of the company's risks, an audit and governance committee was formed to increase public confidence in the credibility and objectivity of published financial information including unaudited interim statements, assist directors (particularly non-executive directors) in meeting their responsibilities in respect of financial reporting and strengthen the independent position of a company's external auditor by providing an additional channel of communication. The committee should comprise of a majority of the non-executive directors, independent of management. The notion that the non-executive members of the audit committee can be suitably independent may be difficult to achieve. The relationship between the audit committee and the external auditor should be close such that the auditor should have unrestricted access to the committee. The auditor should present to this committee her findings regarding any fraud involving the management (Ibid).

The Abu Dhabi Commercial Bank (ADCB) was formed in1985 from a merger of three banks - the Federal Commercial Bank, Khalij Commercial Bank, and Emirates Commercial Bank. Soon after, a new management team was appointed and a governance committee formed due to internal control concerns. The committee established new practices that enabled the board effectively to oversee and control the running of the firm. The bank's board of directors underscored the long-term importance of implementing the best governance practices in order to guarantee financial soundness. The bank was guided by the principles of responsibility, accountability, transparency and fairness (Hawkamah, 2011).

The board formed an audit and compliance committee to oversee and uphold the integrity of financial statements and manage the relationships with the internal and external audit. It was in charge of developing and monitoring internal controls, ensuring compliance with regulatory and legal requirements and the bank's code of conduct. Through these policies and procedures, the firm's control environment has been enhanced enabling the bank to receive an award of excellence in corporate governance from the Hawkamah Institute of Corporate Governance (Ibid).

The UAE government has shown commitment in fighting corruption. It has put varied mechanisms including ratifying the UN convention on corruption, signing the Arab Anti-corruption and Integrity Network, and creating a federal authority to oversee the use of public funds known as State Audit Institution (SAI). The SAI issued a guide on best practices in January 2011, focusing on corruption and fraud in SOEs which was developed following the UN anti-corruption recommendations. Currently, there are no regular audits of the public procurement processes or state spending, and there is limited access to information by media. The

SAIs should spearhead adoption of governance practices in SOEs. In the UAE, the Hawkamah Institute has collaborated with SAIs to assist them include corporate governance in their audits (Siegel, 2008, 79).

A study by McKinsey showed that 25% of private equity firms record a performance that is more than their stock market indices over time. They termed this governance arbitrage. The success of these firms is attributed to devotion to create effective boards based on corporate governance practices (Smith, 2005, 45).

3. METHODOLOGY

Primary data were collected for the purpose of this study. A well-structured open ended questionnaire was administered to over 30 companies across 9 sectors using convenient sampling method. The convenient sampling method was used because the questionnaire had many questions and entailed a long response time (2-3 hours) so it required authorities who were willing to give off such amount of time in order to respond and so priority was given to such companies. The questionnaire has been appended to this work for verification.

The authors have employed qualitative techniques for the analysis of this study due to the type of questions asked and, more importantly, the responses given. A scale, developed and used for analysis, has been included in the appendix.

Table1: Sectorial Distribution of Companies

Sector	Number of companies
Consumer	4
Industrial	4
Real Estate	2
Health Care	2
Communication	2
Insurance	6
Construction	7
Energy	2
Financial	1

4. RESULTS AND DISCUSSION

This section presents and discusses the results obtained from the survey conducted.

4.1 **General Analysis across Sectors**

Data from thirty companies listed on the Abu Dhabi Security Exchange and from various other sectors was analyzed. Field results show that most firms (91%) across all sectors are substantially owned and controlled by the government with shareholders having substantial rights. The rest are either partially owned or not controlled at all by the government. The majority of the listed firms have few foreign investors. All firms except two have a professional manager with no relation with the CEO. The two firms are private and do not have government control. The biggest creditors to the firms across all sectors are mainly government-owned. Only 17% have a creditor belonging to the same business group as the firm. All firms except one in the insurance sector had a labor union.

All firms except five uphold the principle of one-share one-vote. In the majority of firms voting by mail is not allowed and there are restrictions to anyone acting as a proxy in shareholders' meetings. 68% of the firms across all sectors provide shareholders with adequate information on the agenda items of the shareholders' meeting. The rest do not. In 94% of the firms, adequate time is given for asking questions and placing issues at the shareholders' meeting; while in 6% of them no adequate time is given. In 69% of the listed firms shareholders' priority subscription right in the issuance of shares or convertible bonds is adequately protected in the company's articles of incorporation or in the process of shareholder approval.

In 53% of the firms there is no information to show whether related-party transactions are fully discussed with adequate information given at the shareholders' meeting. The rest give adequate information. In 41% of the firms, it is not difficult to know how much equity ownership the major shareholders control.

While in 55% of the firms there is no information available to determine the ease of knowing major shareholder ownership. As for the remaining 4%, it is difficult to know the shareholding of the majority shareholders.

For 94% of all the firms, director candidates are not disclosed before the shareholders' meeting; only 6% of them disclose. As regards cumulative voting, only 6% of the firms introduced and exercised it at least once. 27% of the firms have introduced it but not exercised it. The rest of the firms opted out. It is generally shown that director candidates proposed by the management of the firms do get elected at the shareholders' meetings. There is a very small chance of their not getting elected.

The majority of the firms hold their annual shareholders' meetings for 2 to 3 hours. On an average, 7 shareholders do attend the shareholders' meeting. In most of the firms, information on related party transactions as well as directors' selling or buying shares in the company is not provided. 60% of the firms provide resume/background of directors on their websites while 40% do no. 50% of the firms provide information on directors' remuneration on the web with 2% providing it in their annual reports and the rest do not. All the firms in the industrial and energy sectors use the web to provide this information. 40% of listed firms do not provide information on fees paid to auditors, advisors and other related parties. 33% provide the information on the web. The rest include it in their annual reports. The majority of the firms provide information on major contingent liabilities in their annual reports. Only 6% of the firms do not provide information on risk management policies. The rest provide either through the web or annual reports and none through regulatory reports. Significant change in ownership is majorly reported on the web. 50% of the firms provide information on governance structures and policies through the web and the other 50% do not provide it. The firms do not disclose semi-annual reports but some provide quarterly reports.

Most of the firms have a web-site that is very informative both in the local language and in English. While the majority of the firms apply accounting standards similar to the relevant international standards, a number of them reported some relaxation to conformity to international standards. The composition of the board across the sectors averaged 5 members with firms in the construction industry reporting just one director in management. 50% of the firms have a foreigner on their board while the other half does not. Only one firm in the industrial sector had a CEO serving as the board Chairman. This is against the CG code. 16% of the firms have a current or former officer of a major creditor financial institution on their board. Only 10% of the firms have a labor representative or labor-recommended director sitting on their board. Half of the firms have an officer of an affiliate company sitting on their board while the other half does not. 50% of the firms have a senior manager from a supplier or customer company sitting on their board. 12% of the firms have someone from a law/accounting/consulting firm that provides professional services to them sitting on the board.

A high proportion of firms do not report having independent directors meeting formally or informally without management to discuss corporate matters. The majority agree to have independent directors alter or add to the board meeting agenda set by the CEO. 43% of the firms agree to independent directors participate actively in board discussions while 57% do not agree. 76% of the firms reported agenda items being disapproved often at the board meetings by independent directors, 27% recorded that it occurred sometimes while for 7 % it was a rare experience. With regard to recording the individual director's position in the minutes of the board meeting, 40% of the firms never had that experience, 30% experienced it sometimes, 23% rarely, while 7% had never kept the records.

The firms recorded an average term for independent directors at 9 years. The lowest term was recorded in the financial sector at 4 years, while the highest was in the communication sector at 16 years. Only 23% of the firms have an audit committee comprising of an average 20% independent directors. In all the firms, there is none with a compensation committee. Only 13% of the firms have a nomination committee. The majority of the respondents did not have information regarding the effectiveness and independence of the audit committee. Of the few who responded, the majority showed that the committee had a person with accounting/finance expertise, the board was chaired by a genuine independent director, minutes were taken for each meeting, each committee member's remuneration was approved separately at the shareholders meeting, and that there were written rules governing audit function. However, external auditors were hardly autonomously selected and the internal auditor was hardly appointed and supervised by the committee.

There was some level of evaluation of the director's performance across all sectors with 50% doing it routinely and the other 50% occasionally. None recorded the absence of evaluation measures. 50% of the firms review the CEO's compensation on a routine basis and the other 50% do it sometimes. 90% of the firms did not have a stock option scheme for the CEO while 10% had some plan. In general, the firms do not provide education or training opportunities for directors beyond what is mandatory. 83% showed no contact person was designated for support besides the directors, while the remaining 17% had a contact person. None of the firms has an outside director compensation scheme. In general, the majority of the firms showed that there was lack of a formal mechanism for evaluating the performance of directors. 83% of the firms have a partial insurance cover for personal liability. There is an average of 1,500 employees in each firm. However, the communication sector records the highest number of employees, averaging 5,500 and the lowest being in the financial sector at 200 employees.

It is indicated that employment best practices are mainly applied at managerial and supervisory level while the other employees do not have self-directed teams, problem-solving cycles, job rotation and training and compensation schemes. None of the firms has a joint labor management committee.

There is a sense of understanding of the importance of corporate governance and some level of compliance to the code of corporate governance. Some of the areas of compliance include disclosure of affiliation, remuneration and responsibility of the board of directors and the top members of management. Almost all the firms disclose information on the role and responsibility of the audit committee and policy disclosures. There seems to be a general concern regarding shareholders' interests and at a lower degree for those of other stakeholders, such as employees. The findings show that more details regarding the board of directors and top management are included in the company annual reports with most of them providing the information on their websites, suggesting a wider disclosure of corporate governance. It can be generally seen that companies with no government influence do not adopt the corporate governance principles.

The following paragraphs – table 2 to 10 - give a sectorial analysis of some core corporate governance principles vis-à-vis the compliance or deviation from complying on a Likert scale of 5 to 1, with 5 = very good, 4=good, 3=fair, 2 = poor and 1= very poor.

NB: For part of the key (A3, B1, C6) refer to Appendix 3.

Table 2: An Analysis of the Consumer Sector

	Corporate Governance Performance Scores (4)							
	A3	B1	B4	B6	B7	B8	C3	C6
Compliance Measures								
Ownership	Poor							
Board Structure (Independence)							poor	
Shareholder disclosure (personal, 5%+ if related)		v. good						
Appointment of senior management staff			poor					
Functioning of internal audit department						good		good

Publicity and communication standards				poor				
Reporting official statement					good			

NB: The figure in brackets represents the number of companies used for analysis in this sector. From Table 2 above, it is seen that ownership procedures and structures in the consumer sector are very poor. The structure and independence of the board is also very poor as well the appointment of senior management and publicity and communication of minutes and reports of the company. However, shareholders within the consumer sector often disclose information concerning their shares and those of related parties if it goes up to 5% and above. The audit department is functioning very well with proper checks and audits while most companies make public the financial statement and official report quarterly.

Table 3: An analysis of the Industrial Sector

	Corporate Governance Performance Scores (4)							
	A3	B1	B4	B6	B7	B8	C3	C6
Compliance Measures								
Ownership	Poor							
Board Structure (Independence)							poor	
Formation of Audit Committee						good		
Shareholder disclosure (personal, 5%+ if related)		good						
Appointment of senior management staff			poor					
Functioning of						good		good

internal audit department								
Publicity and communication standards				poor				
Reporting official statement					good			

NB: The figure in brackets represents the number of companies used for analysis in this sector.

Table 3 above shows that ownership structure is poor. This means the ownership principles are far from being complied with. The structure and independence of the board is also very poor as is the appointment of senior management and publicity, and communication of minutes and reports of the company. However, shareholders within the industrial sector often disclose information concerning their shares and those of related parties if it goes up to 5% and above. The audit department is functioning very well with proper checks and audits while companies make public the financial statements and official reports quarterly.

Table 4: An analysis of the Real Estate Sector

	Corporate Governance Performance Scores (2)							
	A3	B1	B4	B6	B7	B8	C3	C6
Compliance Measures								
Ownership	fair							
Board Structure (Independence)							fair	
Shareholder disclosure (personal, 5%+ if related)		good						
Appointment of senior management staff			poor					
Functioning of internal audit department						good		good

Publicity and communication standards				poor				
Reporting official statement					good			

NB: The figure in brackets represents the number of companies used for analysis in this sector.

From table 4, it is evident that the ownership structure and procedure is fair compared to the consumer sector. The structure and independence of the board is fair as well the appointment of senior management and publicity and communication of minutes and reports of the company. However, shareholders within the consumer sector often disclose information concerning their shares and those of related parties if it goes up to 5% and above. The audit department is functioning very well with proper checks and audits while companies make public the financial statement and official report quarterly.

Table 5: An analysis of the Health Sector

	Corporate Governance Performance Scores (2)							
	A3	B1	B4	B6	B7	B8	C3	C6
Compliance Measures								
Ownership	poor							
Board Structure (Independence)							fair	
Shareholder disclosure (personal, 5%+ if related)		good						
Appointment of senior management staff			poor					
Functioning of internal audit department						good		
Publicity and communication standards				poor				
Reporting official					fair			

statement								

It is evident from the above table that the ownership structure and procedure is in poor line with most of the other sectors compared to the consumer sector. The structure and independence of the board is fair as well the appointment of senior management and publicity and communication of minutes and reports of the company. However, shareholders within the health care sector often disclose information concerning their shares and those of related parties if it goes up to 5% and above. The audit department is functioning very well with proper checks and audits while companies make fairly public the financial statement and official report quarterly.

Table 6: An Analysis of the Communication Sector

	Corporate Governance Performance Scores (2)							
	A3	B1	B4	B6	B7	B8	C3	C6
Compliance Measures								
Ownership	poor							
Board Structure (Independence)							fair	
Shareholder disclosure (personal, 5%+ if related)		good						
Appointment of senior management staff			poor					
Functioning of internal audit department						good		fair
Publicity and communication standards				fair				
Reporting official statement					good			

Judging from the above table, it is evident that the ownership structure and procedure is in poor line with most of the other sectors compared. The structure and independence of the board is fairly appointed as well the appointment of senior management and publicity and communication of minutes and reports of the company. However, communication within the health care sector often discloses information concerning their shares and those of related parties if it goes up to 5% and above. The audit department is functioning very well with proper checks and audits while companies make fairly public the financial statement and official report quarterly.

Table 7: An analysis of the Insurance Sector

	Corporate Governance Performance Scores (6)							
	A3	B1	B4	B6	B7	B8	C3	C6
Compliance Measures								
Ownership	fair							
Board Structure (Independence)							fair	
Shareholder disclosure (personal, 5%+ if related)		good						
Appointment of senior management staff			poor					
Functioning of internal audit department						good		fair (1)
Publicity and communication standards				fair				
Reporting official statement					good			

NB: The figures in brackets represent the number of companies used for analysis in this sector.

From table 7, it is evident that the ownership structure and procedure is fair with most of the other sectors compared. The structure and independence of the board is fairly appointed as well the appointment of senior management and publicity and communication of minutes and reports of the company. However, communication within the insurance sector often discloses information concerning their shares and those of related parties if it goes up to 5% and above. The audit department is functioning very well.

Table 8: An analysis of the Construction Sector

	Corporate Governance Performance Scores (7)							
	A3	B1	B4	B6	B7	B8	C3	C6
Compliance Measures								
Ownership	poor							
Board Structure (Independence)							fair	
Shareholder disclosure (personal, 5%+ if related)		V. good						
Appointment of senior management staff			poor					
Functioning of internal audit department						good		
Publicity and communication standards				fair				
Reporting official statement					good			

Table 8, evidently portrays that the ownership structure and procedure is fair with most of the other sectors compared. The structure and independence of the board is fairly appointed as well the appointment of senior management and publicity and communication of minutes and reports of the company. However, communication within the construction sector often discloses information concerning their shares and those of related parties if it goes up to 5% and above. The audit department is functioning very well with proper supervision.

Table 9: An analysis of Corporate Compliance with the Energy Sector

	Corporate Governance Performance Scores (2)							
	A3	B1	B4	B6	B7	B8	C3	C6
Compliance Measures								
Ownership	fair							
Board Structure (Independence)							fair	
Shareholder disclosure (personal, 5%+ if related)		good						
Appointment of senior management staff			poor					
Functioning of internal audit department						v. good		good
Publicity and communication standards				fair				
Reporting official statement					good			

Table 9 above shows the ownership structure and procedure of selection is fair compared with most of the other sectors. The structure and independence of the board is fairly appointed as well the appointment of senior management and publicity and communication of minutes and reports of the company. However, communication within the energy sector often disclose information concerning their shares and those of related parties if it goes up to 5% and above. The audit department is functioning very well with proper financial and timely reporting.

Table 10: An analysis of the Financial Sector regarding Corporate Governance Compliance	**Corporate Governance Performance Scores (1)**							
	A3	B1	B4	B6	B7	B8	C3	C6
Compliance Measures								
Ownership	fair							
Board Structure (Independence)							fair	
Shareholders disclosure (personal, 5%+ if related)		good						
Appointment of senior management staff			poor					
Functioning of internal audit department						v.good		blank
Publicity and communication standards				poor				
Reporting official statement					good			

NB: The figures in brackets represent the number of companies used for analysis in this sector.

From Table 10 above it is evident that the ownership structure and procedure is fair with most of the other sectors compared. The structure and independence of the board is fairly appointed as well the appointment of senior management and publicity and communication of minutes and reports of the company. However, communication within the insurance sector often discloses information concerning their shares and those of the related parties if it goes up to 5% and above. The audit department is functioning very well.

5. CONCLUSION AND POLICY IMPLICATION

This paper sets out to investigate the compliance of corporate governance principles by firms listed by Securities Exchange in the United Arab Emirates (UAE). Even though many companies have appreciated the importance of corporate governance globally, there is limited examination of the UAE in the literature. Primary data for this paper were collected from the companies listed in the securities exchange of the UAE. Other sources of information have been used including websites and annual reports of these companies.

Convenient sampling method was used and detailed descriptive statistics employed for the analysis. From the results, there is limited compliance to Corporate Governance by few firms in the UAE. Overall compliance in UAE is more fairly enforced by companies in the financial, insurance, energy and real estate sectors.

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