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**Session II: Corporate Governance Code**

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# <u>Implementation of a Corporate Governance Code: Importance of an Enabling Environment</u>

When it comes to Corporate Governance an enabling environment would be the key factor in allowing implementation of such practices.

Let me start by stating that change will come one way or another, those who capture the movement and understand that complying with sound Corporate Governance principles in the private sector in order to generate wealth are those who will benefit. I think all of us here would agree that the discussions over the importance of Corporate Governance are over. Now it is time to look to the future. If countries are to successfully use the private sector as an engine of economic growth, they need to create environments that nurture competitive profitable and ethically managed businesses.

Various experiences have demonstrated that business communities pass through five stages in the adoption of stronger Corporate Governance practices:

1. **Raising Awareness:** Getting the business community and government to realize the benefits of Corporate Governance.

2. **Developing National Codes:** Often the development of national codes begins with the Organisation for Economic Co-operation and Development (OECD) principles of Corporate Governance as a foundation. Building upon such a foundation, countries can develop their own codes that address local realities of doing business and adhere to international standards. Once this is achieved, later stages of Corporate Governance implementation-compliance and training can be employed.

3. **Monitoring Implementation:** Company adherence must be clarified. Merely listing the requirements is insufficient. Parallel to the development of stock markets, the development of government institutions to monitor the securities industry is vital.

4. **Training for New Responsibilities:** An extensive series of training sessions across the country for Corporate officers is required. Consequently, the business community will be capable of educating these players on their respective roles.

5. **Institutionalizing Corporate Governance:** The final stage of a nation's Corporate Governance development comes when the business community accepts it as a normal and beneficial part of doing business.

In Jordan, a country assessment on Corporate Governance has been conducted based on the OECD international Corporate Governance standards and guidelines, said assessment covered primarily:

i. The rights of shareholders;
ii. The equitable treatment of shareholders;
iii. Disclosure, transparency, and
iv. The responsibilities of the board.

In the assessment which was designed as a diagnostic tool for identifying the strengths and weaknesses of the Corporate Governance framework in Jordan, relevant pieces of legislation were examined and the Jordan capital market was closely analyzed. Accordingly, it was realized that the legal environment in Jordan has not substantially incorporated reliable solid Corporate Governance practice.

Nevertheless, the foundation has been laid and there is an increasing awareness of respecting the culture of Corporate Governance among different stakeholders. What is needed now is for the foundation to materialize into a strong and brave initiative.

It must be mentioned here that the rules governing Corporate Governance are not mandatory and are not legally binding; the rules are regulating and organizing responsible and transparent behavior in managing corporations according to the international standards and means which strike equilibrium between parties interests.

Moreover, there is no single model for Corporate Governance. Thus, it will not be implemented identically in each country. Over-regulation and inflexible rules impose limits on the convergence of Corporate Governance policies.

The reasons for divergence in Corporate Governance practices can differ widely; they can stem from differences in the legal environments, to ownership and organizational structures and cultural traditions.

Nevertheless, globalization of capital markets is the key driving for convergence in various systems. Because global providers of "patient capital" are increasingly demanding high standards of Corporate Governance, international organizations such as the World Bank and the OECD or regional ones like the Asian Development Bank have established some principles or guidelines on good practices that should be applied irrespective of national backgrounds. Indeed the OECD principles have been used as a bench mark in many national and international initiatives.

Therefore, it would be sound to say that in Jordan there is now a need to establish an incentive - compatible Corporate Governance system leading to voluntary compliance and to the development of self regulatory organizations instead of a system based on laws and judicial enforcement.

The best obvious approach to accomplish this mission is to endorse a code for Corporate Governance, the form of having voluntary codes not laws are favoured for different reasons, that can be summarized as follows:

1- Codes articulate "good" or "best" practice derived from lessons learnt around the world. Laws set Minimum standards.

2- Codes are faster to develop then passing new legislation. Because they don't undergo constitutional procedures.

3- Codes are easier and more flexible to implement. It can be altered according to the desires and needs of those concerned.

4- While, codes are voluntary, laws are Compulsory, since laws enacted through and by the legislative body of a country it is compulsory by its nature. This mean that the codes do not enjoy such power because they are not more than rules or customs that dominate between concerned people of one sector.

5- Codes are easier to review and modify. As opposed to amending laws.

6- Codes are evolutionary.

7- Codes are easier to train people especially those without legal background.

8- Codes are more accessible and easier to comprehend, where as laws give priority to legal precision.

**In conclusion the growing global consensus on what constitutes high standards of Corporate Governance that should be embedded in a code for Corporate Governance includes the following:**

1- Transparent ownership: Companies should be transparent regarding the ownership structure.

2- Shareholders' rights: Companies should ensure that all shareholders within the same class have the same voting rights.

3- Institutional investors: Companies need to recognize and accept that institutional investors are "Shareowners".

4- General shareholder meetings: The Company should not make it difficult for shareholders to cast their votes by employing costly and difficult procedures.

5- Anti-takeover defenses: The Company should avoid using Anti-takeover defenses to shield management and the board from accountability.

6- Board Size: The board should neither be too large nor too small. It should be given sufficient authority to allow it to exercise effective oversight.

7- Non-executive directors: The board should have non-executive directors as well as executive directors.

8- Independent directors: The directors should not have any material relationship with the company.

9- Written board guidelines: Companies should have written Corporate Governance codes that describe how they intend to engage in responsible business conduct.

10- Board Committees: Board Committees improve the work of the board. The Majority of the committees should be independent. Indeed, the growing global consensus is that all committee members should be independent.

11- International Financial Reporting Standards (IFRS): Companies should use internationally recognized financial reporting standards for both quarterly and annual reporting.

12- Independent audits: Companies should have an independent annual audit conducted by a reputable auditor.

13- Disclosure: companies should offer accurate, complete, and timely information about their activities.

14- Stakeholders: Companies should take into consideration that stakeholders also demand honesty, transparency, loyalty, and integrity.

Although Corporate Governance reform is costly for both domestic and international firms, it ensures sustainability for the long run and opens the door to economic growth necessary for eradicating poverty. Not to mention that a healthy business climate reduces risk and enables countries to join groups such as the World Trade Organization (WTO). Alternatively, Corporate Governance may result in higher investment ratings.

In conclusion, I would like to stress the importance of monitoring and evaluation to verify that we are headed on the right road towards the most suitable model of Corporate Governance for that Jordan should not be underestimated in this regard.

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