

**Regional Corporate Governance Forum  
Private Sector Consultative Meeting**

**January 25, 2005  
Amman – Jordan**

**Omar M. H. Aljazy, PhD MCI Arb  
Managing Partner  
Jordanian Center for Dispute Resolution  
(JCDR)**

## **“Private Sector Initiatives Advancing Corporate Governance”**

The theme of this meeting is “Private Sector Initiatives Advancing Corporate Governance”. My purpose is to add some dimensions, both of theory and practice, to the topic, and to emphasize one aspect which has received passing attention but not, I suspect, sufficient for our purposes. That is the private sector aspect and the relevant initiatives to enhance corporate governance in Jordan.

Let me start with stating that all scientific method and therefore all scholarly method are comparative. When you go to see the doctor with a pain in your right arm he also examines your left arm. The same principle is useful in examining corporate governance in Jordan. In conducting a country assessment of corporate governance in Jordan in favour of the World Bank / Investment Climate Department, the team that conducted said assessment whom I was part of, had to compare the status of corporate governance in Jordan with International standards of corporate governance with particular reference the OECD corporate governance standards and guidelines which covered primarily:

- 1- The right of shareholders.
- 2- The equitable treatment of shareholders.
- 3- The role of Stakeholders in corporate governance,
- 4- Disclosure transparency, and
- 5- The responsibilities of the board.

The conducted assessment was designed as a diagnostic tool for assessing the strengths and weaknesses of the corporate governance framework in Jordan, initially by identifying:

- the key features of the ownership and control pattern of publicly listed companies and a description of the Jordanian capital market structure and relevant institutions, namely the Securities Commission, Amman Stock Exchange and the Depositing Directorate;
- The main elements of the legal and regulations systems effecting corporate governance, namely the Companies Law and other relevant Laws;
- Specific provisions which offer protection for shareholders, particular minorities;
- The role of stakeholders in relation to corporate governance;
- Material financial and non-financial disclosures relevant to corporate governance;
- The functions and responsibilities of the board of directors of the corporations.

The resulting assessment will contribute to the World Bank / IMF Report on Observance of Standards and Codes, an initiative of the Financial Stability Forum which seeks to develop guidelines that will contribute to the strengths of the international financial architecture. It can also be used for self assessments to domestic policy makers / standard setters.

The Financial Stability Forum has recognized the OECD principles of Corporate Governance as one of its twelve core standards.

Therefore, these have formed the conceptual framework for the assessment. The assessment provides a starting point for assessment to policy makers, advisers and standard setters, and attempts to capture both quantitative and qualitative information.

The results are intended to be the basis for an inclusive dialogue on reform within Jordan, in the first step towards identifying needs for technical assistance, and support for both institutional development and building of capacity in corporate governance reform.

The assessment was divided into five main sections:

- A- Capital Market Overview.
- B- Shareholder Protections.
- C- The Role of Stakeholders in Corporate Governance.
- D- Financial and Non-Financial Disclosure.
- E- The Governing Body.

The methodology used in conducting the assessment was based on the following:

- Examination of relevant pieces of legislation, namely: Companies Law, Banking Law, Securities Law, Competition Law, Regulations Governing the Investments of Non-Jordanians, Privatization Law, Directives for Listing Securities in Securities Market, Disclosure Directives and other relevant regulations.
- Analysis of the Jordanian Capital Market, by reviewing different statistics and charts, and
- Interviewing officials from different governmental bodies.

This assessment is considered to be one of the main initiatives taken by a team representing different walks of the private sector; the team was composed of two economists Dr. Ibrahim Saif and Dr. Ghassan Omit, a senior researcher Dr. Fares Breizat and myself a lawyer. Previous to our assessment there had been various initiatives conducted by the private sector, but unfortunately these initiatives did not rise to the level of some public sector efforts such as the Central Bank of Jordan' initiative on Corporate Governance and its production of the Banks' Directors Handbook on Corporate Governance in 2004.

Most of the private sector initiatives in this regard were materlized in seminars and workshops without resulting any comprehensive studies or assessments or producing appropriate manuals and handbooks that might be used either by shareholders or directors or any other stakeholders.

However, and if we go back to the ensuing assessment, we will find that there are several conclusions that can be drawn from this work, and can be summarized as follows:

- It has been found that there is no sufficient jurisprudence regarding lawsuits of shareholders against directors in Jordan. Although, there are few actual cases which have been brought by shareholders against directors or challenging merges.
- With reference to obtaining a clear picture of ownership, the fact that the Directives for Listing Securities in Securities Market of 2000 require the company to disclose the names of persons owning 5% or more of the company's shares, this is considered to be a good practice, since in general there is no "right to know" the identities of all the small shareholders.
- The General Assembly of a Listed Company has the right to remove the Chairman of the board of Directors or any of its members except for members representing the shares of the government or any corporate body, this is could be done during an extraordinary meeting upon assigned request of Shareholders holding at least 30% of the Company shares. In practice, such percentage is not really doable since it is really common to find that the Chairman and other Board Directors might control the majority of shares.

- There are no rules governing the composition of the Board of Directors on the balance of executive and non-executive directors and the concept of independent director is not well established in Jordan. There are no requirements for separation between the Chairman and Chief Executive; frequently the chairman and the managing director is the same person.
- The Process in appointing the members of the committees (audit committees, executive committees) is neither wholly transparent nor efficient, because when the Board of Directors decides to appoint or remove any director there is no need for any approval from the General Assembly regarding the decisions of the Board of Directors in appointing and removing any director.
- There is a certain level of transparency and credibility related by the disclosure process conducted by the Board's Directors.

Generally speaking, the legal environment in Jordan is one that is nourishing of good corporate governance. The Foundation has been laid down and there is increasingly awareness and respect for the culture of corporate governance. What we need now is for these foundations to be materlized into strong and brave initiative. Further, one should never underestimate the importance of monitoring and evaluation to verify that we are headed on the right road towards to the most suitable model of corporate governance for Jordan.