Corporate Governance in five Arabian Gulf countries

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Abstract

In this paper we discuss the state of corporate governance in five countries, Kuwait, Bahrain, the United Arab Emirates, Qatar and Oman, of the Arabian Gulf. The countries are similar in culture and part of a locality with characteristics which make it distinctive in terms of wealth, state of social, economic and political development and their economic dependence on hydrocarbon resources. We construct a measure of corporate governance using the OECD's 2005 survey data, which included these and many other countries in the sample. We anayze the resulting measures in the light of ongoing institutional developments in each country. Our findings are that Omasn appears as a clear leader followed by Kuwait and the United Arab Emirates, based on our corporate governance measurement scale. Bahrain and Qatar rank least highly. We discuss some of the underlying reasons for these results.

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1. Introduction

The topic of corporate governance is assuming growing importance in emerging economies at the same time that financial scandals have resulted in demands for improved corporate governance practices in developed economies (Millstein, 2003). Research suggests that poor corporate governance causes poor performance and dissatisfaction among stakeholders (O'Regan et.al. 2005). The South East Asian crisis of 1997 was attributed in part to inefficient governance systems, including poor reporting practices (e.g. Kuafman, et al. 2000, Rahman, 1998; Furman and Stiglitz, 1998; Becht et al. 2002).

As defined by the OECD,

> "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance." (OECD, 1999)

Financial reporting and auditing standards and practices are considered an essential part of good governance (Saidi, 2004, 2005) In this paper, we review the present state of corporate governance in five countries, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman that lie along the western side of the Arabian Gulf. All five are members of the Gulf Confederation Council (GCC) which also includes Saudi Arabia. The geography and history of the region of which these countries are

a part has produced societies associated with a distinct but common Islamic, Arabic speaking culture (Kantor et al., 1995). Recent exploitation of local natural resources has lead to an economic transformation too rapid to accommodate changes in ownership patterns to the norms providing the context for corporate governance frameworks in countries with more developed economies. Consequently, there is an issue of how to apply the usual corporate governance analysis in this context.

Information about corporate governance regimes in the countries covered by the study is relatively scanty and what is available is dispersed among a number of sources, some of it public and some not. Among the most reliable and extensive sources of information is an OECD working paper (OECD, 2005) surveying corporate governance practices in the MENA region, including the countries studied here. Our paper relies heavily upon that source for its conceptual framework and data. The way it adds value is to (i) consider the data in the specific context of the Gulf countries, including background historic and cultural issues; (ii) formulate a measurement scale to enable easier comparisons to be made between the levels of corporate governance practice in the different countries; and (iii) relate the survey data to available anecdotal and other sources of information, including legislative enactments. Most of the data is directed towards identifying areas where the senior management of leading companies would like to see reform. The purpose of this paper is therefore to draw together as much of this data as is accessible to us at the present time and provide a basis for comparison of the countries concerned and upon which the issue of corporate governance can be debated by decision makers in private and government agencies responsible for regulating related issues in the region.

The data set is an important limitation of the paper. Accordingly, this paper should be considered to preliminary analysis of corporate governance in the Arabian Gulf countries which are subject of this analysis. Future versions of this research will include these OECD data will be triangulated with other sources of data.

To achieve our purpose, we first briefly consider the background factors of culture and recent economic developments (Section 2) and of ownership patterns (Section 3) that should be taken into consideration in applying the standard analysis of good corporate governance. Section 4 explains our approach to measuring and comparing the present state of corporate governance in the five countries and Sections 6 – 8 reports the findings, under the respective headings of shareholder protection, enterprise management and transparency. We do not present a formal review of the literature in a dedicated section because there is little published research on corporate governance relating to the countries studied. Instead we refer to the large amount of more general research on corporate governance and the relatively few studies relevant to the Gulf states as needed, throughout the paper. A recent review of corporate governance studies can be found in Farinha (2003).

2. The impact of culture and religion on corporate governance practices

An important goal of corporate governance is to maintain or enhance the value of a company by ethical means. Honesty and trust are key ingredients of an effective governance framework (OECD, 2004). These values influenced by the cultural and religious characteristics of societies, so it is worth considering briefly this dimension of context in the Gulf countries, all of which are Islamic.

Empirical evidence from surveys suggest that overt economic behaviour, opinions and business values are insignificantly different between users of accounting information, whether or not they are Muslim or Non-Muslim (Sulaiman, 2001) This may reflect the inability of survey instruments to it pick up subtle patterns traceable to cultural and religious differences or it may result from the acceptance of universal, capitalist rules. Whatever the reason for the way people might think and act in the Gulf countries, the issues involved in good corporate governance are really concerned with how they ought to behave rather than necessarily how they may behave in practice.

The evidence for religion having an impact on attitudes toward corporate governance practices is largely anecdotal or assumed on general grounds of belief (e.g. Gellis, Giladi and Friedman, 2002) In Islam there is held to be no distinction between religious and secular affairs (Cambridge History of Islam, 1979; Baydoun and Willett, 1995, 1997) and it might therefore be supposed that voluntary, ethical restraints supported by community social pressure and the fear of retribution would act to encourage ethical behaviour. Considerations of this nature suggest the need for clear rules and certainty of effective penalty to encourage adherence to codes of conduct. In the Gulf countries, the Islamic Sharia provides a common starting point for such codes of conduct, to reflect the cultural and religious characteristics of the region (Islam and Hussain, 2003). As in corporate governance in general, core values of honesty, integrity, trust and justice are basic to ethical behaviour in the Islamic Sharia (e.g. De Somogyi, 1962; Gambling and Karim 1991).

Recent economic developments take place within this historic and cultural setting. The last decade has been a period of high economic growth for the Gulf countries. Prosperity from the exploitation of oil resources has created new

investment opportunities funded by increased savings (see, e.g. IMF, 2005). The resulting increased flow of funds into the banking system and corporations (Islam, and Hussain, 2003) has lead to demands from lenders and investors to raise standards of corporate governance (Joshi and Wakil, 2004; Hussain and Mallin, 2002; Saidi, 2005). This, together with the objective of becoming a regional financial and commercial center, membership of the World Trade Organisation (WTO), access to international capital to fund additional growth and the globalization of business is leading local regulatory agencies in association with international agencies to consider the design of new regulatory frameworks to improve corporate governance practices (Hawser, 2005) [2,3]. The governments of the Gulf countries are generally encouraging the private sector to play a more significant role in the development of their economies and have initiated policies of privatization of much of their government owned industrial sector (Al Yafi, 2005). Sound corporate governance is held to be necessary to enhance the role of the private sector in economic development and attract foreign investment. (Al Yafi, 2005). Saidi (2004) argues that "The values of corporate governance – transparency, accountability, and responsibility – offer the key for the modernization of the countries of the Middle East and North Africa". High standards of financial reporting and auditing practices therefore lie at the heart of improved corporate governance in the Gulf countries.

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2 Oman was the first country in the region to issue in 2002 a code of corporate governance of Muscat Securities Market listed companies. This was complemented by the issuance of circular number 1/2003 (Sourial, undated)

3 In the UAE, the Hawkama (Governance) Institute was set up in 2006 by the Dubai International Financial Centre (DIFC) in association with a number of international agencies as a part of a coordinated strategy towards the harmonisation of corporate governace standards in the GCC.

3. Ownership structure

Another contextual factor in the study of corporate governance in the Gulf countries that needs brief mention is the ownership structure of businesses. Corporate governance models are held to be conditional upon the mode of ownership. Models of corporate governance throughout the world take one of four main forms:[4] State ownership and control, family ownership and control; bank-centered ownership; and control by dispersed shareholders. The best approach to corporate governance and the elements that are of most importance depends on which of these models holds.

As in much of the developing world, Gulf institutions are still quite immature. In most businesses there are a few controlling shareholders and family ownership is predominant. The majority of large as well as small companies are family businesses (Saidi, 2004). For historical reasons peculiar to the region, there is also significant State involvement in the control of firms (Union of Arab Banks, 2003).The diverse shareholder ownership common in Western countries and the resulting separation of ownership and control, which highlights stewardship and monitoring aspects of non executive directors' functions is thus absent from GCC countries. The Middle East ownership concentration ratio by country is high and maintained by practices such as making rights issues to existing shareholders and issuing invitations to wealthy, influential families to subscribe to shares in new IPOs (Musa, 2002).

Kuwait, Saudi Arabia and the UAE were part of a sample of five countries, including also the non-GCC countries of Lebanon and Jordan, studied by the Union of Arab Banks (2003) in research into governance practices in public listed

4There is no single model for good corporate governace, although there are some common elements amongs the different models that exsit. (OECD, 2004, p.13)

companies. Among the findings of the study were the facts that: substantial family corporate holdings compose the bulk of ownership and control of companies; boards of directors are dominated by controlling shareholders, their friends and relatives; there is rarely any separation between ownership and management, with shareholders dominating the decision-making process of a corporation; there are few independent directors on boards; in most companies the chairman of the board is also the CEO; and there is a general lack of transparency and disclosure. Based on this study Yasin and Shehab (2004) concluded that the high concentration in corporate ownership undermines the principles of good corporate governance. This assessment is consistent with the finding of World Bank 2003 report on corporate governance in the Middle East North Africa (MENA) region.

These points do not necessarily create significant managerial problems from the shareholders point of view, as long as companies are wholly family owned, although broader questions of responsibility to society in general might be raised. Controlling shareholders can monitor management practices to ensure goal alignment and that their needs are protected. However, as funding beyond growth in earnings is sought to take advantage of increased international trade resulting from natural resource exploitation, the need to enlarge the shareholder base causes the problems of management to become more important. Executive authority is vested in families or their nominees but they may no longer automatically represents the shareholder constituency. Potential equity investors are aware of the dominance of the majority shareholders and, in an efficient international capital market, charge higher returns for increased risk. In these circumstances, as the shareholder base changes, perceptions of what is the most appropriate corporate governance models also changes. In a recent forum for leading family businesses, it

was concluded that "corporate governance is the most important element in a restructuring formula for family businesses that intend to go public" (*Khaleej Times*, 3 January, 2006).

4. Method of analysis and summary of results

We assess the relative strength of corporate governance practices in the five Gulf countries by two means. First, the framework for the analysis is based upon a survey carried out by the OECD. Second, we supplement the analysis by data from other sources, in particular current developments in the regulatory environment of the countries concerned.

Practices that affect the standard of corporate governance fall into three main categories, based upon the OECD framework: Shareholder rights and obligations, internal enterprise processes, including management structures and reward systems; and the extent to which reliable information is publicly available about enterprise management and its effectiveness, i.e. transparency. We subsume the survey categories of board members, executive compensation and special committees under 'internal processes' for this purpose. We also combine the disclosure and external audit categories under the transparency heading (pp. 12-13, OECD, 2004).

To apply the OECD survey data in our analysis of the five gulf countries, we adopt a numerical scoring system under each category of governance, as indicated in Table 1. The OECD survey applied five categorical assessments of the various attributes of corporate governance embodied in responses to survey questions, describing whether the attributes are absent, required by statute or a

regulatory agency, recommended, voluntary or advisory. We interpret these assessments and the type of question asked to produce a measurement scale for each attribute that can be used to compare standards of corporate governance at different levels of aggregation of the data. In effect we assume the properties of an extensive scale for the purpose of averaging the scores but mainly use the information produced by these calculations for ranking the countries, i.e. mostly, only the ordinal properties of the constructed scale are considered. The scores for each survey item are averaged across sub-sets of questions, representing single concepts of corporate governance ('issues' in the OECD working paper), into sub-categories ('areas') under each of the main categories of shareholder participation, internal processes and transparency. There is no sub-category in the case of shareholder rights, three for management processes (boards, reward systems and special committees) and two for transparency (disclosure and audit). Details of how the categories, sub-categories and concepts are constructed from the OECD survey and the definitions of the scores assigned to each question response are shown in Table 1.

[TABLE 1 ABOUT HERE]

The result of applying the scoring system produced the scores shown in Table 2 for the three main components of corporate governance, shareholder rights, internal processes and transparency. The overall ranking on our corporate governance measurement scale is: Oman first, Kuwait second, UAE third, Bahrain fourth and Qatar fourth. The ranking changes across the differing components of corporate governance, for instance Oman ranks second under the headings of transparency and shareholder rights while Kuwait and the UAE rank first under these respective

categories. Generally Bahrain and Qatar tend to score at the lower end of the scale under all three categories. The way we have constructed the measurement scale, referring to averages of the scores at the next level of analysis down at each particular level, allows us to trace the reasons for these relative positions at the different levels of detail indicated in Table 1. This has the effect of making the average scores marginally dependent upon the classification of the questions into categories and concept headings. However, this has little effect on the overall result as can be seen by comparing the rankings based upon the overall totals divided by the total number of questions with the rankings based upon the procedure of averaging successive levels of analysis (i.e. the rankings are identical). In the following three sections we discuss, in turn, the results produced by the scoring system in the three major categories of shareholder rights, internal processes and transparency.

[TABLE 2 ABOUT HERE]

5. Shareholder rights and obligations

Table 3 shows the results of the scoring system applied to the shareholder rights category. It is important to note that this category of corporate governance practices includes the obligations of shareholders as well as their rights. Some shareholders may be able to oppress others and mechanisms need to be in place to prevent his occurring. This is potentially an important aspect of governance in the Gulf countries because of their enterprise ownership structures. The OECD survey contains questions assessing the obligations of institutional investors to disclose

certain information about their interests in enterprises that addresses this issue, for instance.

[TABLE 3 ABOUT HERE]

In this category of corporate governance practices the UAE rises to the top of the list of Gulf countries and Kuwait falls to fourth place. No significance can be attributed to the change in the relative ordering of Oman and the UAE in this case, as the overall average for this category of corporate governance, i.e. the total scores divided by the total number of questions for the category, place Oman first and the UAE second. Nevertheless, it remains that Oman and the UAE have the two highest scores in this category and that Kuwait falls to either fourth or fifth in the ranking, depending upon the measure used. Oman scores highly across most of the sub-categories except for the investor obligations concept. This is a concept under which Kuwait also has low score, while the UAE has a relatively high score.

The main reason for the relatively low score of Kuwait in this category is based upon responses to the voting rights sub-category of questions. These questions formed a large block of sixteen items in the OECD survey and Kuwait falls mostly in the "Absent or not required" response. Low scores we given on such issues as restrictions on foreign shareholdings, the use of proxies and the right to question executives in general meetings, for example.

The concepts or issues on which the UAE scored highly relative to Oman were participation and investor obligations. The UAE has a higher score than Oman with respect to the right to place items on the agenda at general meetings and on the issue of blocking share trades in the period leading up to general meetings. The

UAE does more than Oman with respect to the making of disclosures by institutional investors about their voting intentions and resolving shareholder conflicts of interest. The Abu Dhabi Securities Market (ADSM), current working paper (Foster, 2006) on a set of mandatory and voluntary rules and guidelines for corporate governance for listed companies includes provisions to strengthen shareholder rights with regard to the appointment of the board and the approval of major related party transactions. It also includes provisions for shareholder voting on board rotation, appointment rights and remuneration.

Qatar receives low scores in the shareholder category because it does not provide avenues for redressing the violation of shareholder rights and places few obligations on institutional investors that might serve to protect less powerful shareholder groups. Bahrain scores more highly under this category than elsewhere, particularly in the voting rights area where, compared to Kuwait for example, it does more to restrict the potential abuse of proxy votes.

6. Internal process

Table 4 shows the scores for each country for internal processes under the three sub-categories of board management, reward systems and special committees in Panels A, B and C respectively. In this category Oman is a clear leader (Panel D). From this Table it can be seen that Oman uniformly receives the highest score in all sub-categories and that Kuwait scores more highly than the UAE. The latter scores poorly relative to Kuwait under the heading of reward systems, due to its disclosure concept score. It also outranks the UAE under the special committees heading due to a lower score relating to the area of audit committees.

[TABLE 4 ABOUT HERE]

The low scores for the UAE, and the lower scores for both Bahrain and Qatar in this category, are caused by the lack, in the three countries, of procedures for addressing the governance issues relating to reward systems and special committees. Only Oman and Kuwait clearly require or encourage disclosures relating to executive compensation. Requirements for audit committees and committees to oversee compensation and board nominations are almost entirely absent from governance processes in Qatar. We assume that the 'not available' response in the survey for Bahrain on this point is equal to an 'absent' response for scoring purposes. The UAE has provisions relating to audit committees but not to the other types of special committee. While there are differences in board management practices the aggregate differences are marginal. The commonalities here are in what all the five countries do not do, for example none require the separation of the roles of chief executive and chairperson of the board.

Anecdotal evidence suggests that company's directors in the some of the Gulf countries spend insufficient time on board work to be effective. In an environment where majority control is limited to a relatively small number of people, boards are often submissive to the CEO and are not 'engaged'. Boardroom passivity is widespread. Shareholders usually have no voice in the nomination of directors. Moreover, directors are poorly informed on company matters and poorly prepared for board discussions. For instance, the results of a recent survey conducted by the Dubai Chamber of Commerce and Industry in the United Arab

Emirates, which covered a number of aspects of corporate governance revealed a gap between rhetoric and reality. Reporting the results, it was stated that “awarness of corporate responsibility at management levels are high ….however, .. it becomes increasingly aaparent that companies are saying one thing and doing another” (DCCI, 2006, p.10).

Company law reforms in Bahrain contain provisions that cover basic corporate governance principles (Hussain and Mallin, 2002). The Disclosure standards issued by the Bahrain Monetary Agency regulate the practices of boards affecting lending to senior management; compliance and risk management; and for enhancing general corporate governance practices. In Oman the 2002 Code of Corporate Governance specifies the role and responsibilities of board of directors, including a provision, the only one among the Gulf states, that the role of the CEO and chairman of the board shall not be combined.

One of the main concerns facing Gulf companies is to find qualified and experienced independent non executive directors. Joshi and Wakil (2004) argue that in small countries such as the Kingdom of Bahrain it is not easy to find non-executive directors who are genuinely independent. This shortage prevents non-executive directors making a significant contribution to corporate governance in the Emirate.

7. Transparency

Corporate governance scores under the heading of transparency are given in Table 5. Kuwait ranks first under this heading, scoring marginally higher than Oman under the disclosure sub-category. The UAE scores relatively highly under all the

Audit Committee concepts, falling back somewhat in the scores relating to the disclosures of ownership interests. Both Qatar and Bahrain have low scores for most of the disclosure concepts.

The main differences, in this category, as is implicit in much of the above discussion, is between the three countries of Oman, Kuwait and the UAE on the one hand and Bahrain and Qatar on the other. The UAE's lower score on the disclosure scale compared to Kuwait and Oman is due to a large extent to the nil score for the single question issue of whether disclosures are made concerning the ethical stance of corporations. The disclosures required or encouraged in the case of both Bahrain and Qatar, however, are significantly less than in the case of the other three gulf countries.

[TABLE 5 ABOUT HERE]

The context of the scores under the disclosure category of the transparency is that none of the Gulf states have their own set of accounting standards. The commercial laws in these countries require, however, certain groups of companies to follow generally accepted accounting practice. This stands in contrast to the situation in neighbouring Saudi Arabia, where the Saudi Organization for Certified Public Accountants (SOCPA) has been the most active organisation in the GCC with regard to the setting of accounting and auditing standards.

While the UAE commercial law requires companies to follow generally accepted accounting practice it falls short of defining a particular set of practices or standards to be followed. In the case of banks the Federal Law of February 1999

requires all banks to follow the International Accounting Standards in the preparation of their accounts starting from 1999. The listing requirements for trading in the UAE have been tightened up since the establishment of the Dubai Financial Market (DFM).

Oman adopted IASs in 1996 as national accounting standards by Sultanate Decree. In Qatar, the commercial code is the only source of accounting regulation in this country. The Companies Law No.5 (2002) requires companies to prepare audited annual financial statements including cash flows. The Central Bank of Qatar regulates accounting and auditing for financial institutions operating in the country.

As in other countries in the Gulf region, business organisations in Kuwait, borrowed rules and regulations from other Arab countries (e.g. Shuaib (1978). IFRSs are now used in Kuwait. These are adopted as national standards with explanatory material added.

In Bahrain, the Ministry of Commerce and Industry is the accounting regulatory authority responsible of setting accounting and auditing principles and standards. The Commercial Companies Law requires all companies to prepare a set of financial statements including a directors' report in accordance with IFRSs. Joshi and Ramadan (2002) examined the degree of adoption of IFRSs by small and closely held firms in Bahrain. They reported that 86% of the 36 companies which responded to their questionnaire applied IFRSs and that these companies considered IFRSs relevant to them. They also found that external auditors exerted the greatest influence on getting IFRSs adopted. Al-Bastaki and Joshi (1999) concluded that the adoption of IFRSs in Bahrain is one of the most effective strategies in enhancing the accountancy profession in that country.

The lack of a well developed national accounting system and good system of disclosure in the GCC (e.g. Shankaraiah and Rao, 2004; Union Arab Bank report, 2003, Al Qahtani, 2005) has opened the door for abuses and frauds. A link between this and poor corporate governance in the region is suggested as a cause. There is a lack of transparency in financial reporting, and these companies have ineffective and inefficient internal control systems (e.g. Baydoun and Willett, 2000). Only in Oman is there a call to disclose the ownership structure of companies and Bahrain is the only county that has provisions requiring the disclosure of concentrated voting rights.

8. Conclusion

Western models of corporate governance tend to be dominated by either a focus on ‘shareholder’ or ‘stakeholders’. In the Anglo-American environment, corporate governance is primarily concerned with maximizing shareholder value, whilst in Continental Europe and Japan, corporate governance attempts to consider the interests of a wide range of “stakeholder groups, such as investors, employees, suppliers, customers and managers” (Hoffman, 2007). Whilst these models are more usually a response to the nature of different ownership structures, the fundamental premise of most models of corporate governance is that of rationality. Here, the assumption is that models of corporate governance should assume that actors will behave according to self interest, which includes “their reputation, future incomes, and their prospects in the job market” (Marnet, 2006). Thus, Western models have not determined an optimal approach to corporate governance.

A robust, consistent corporate governance regime in the Gulf countries is still being developed. Regulators, investors, companies' managers, and the professional accounting bodies need to support new initiatives in corporate governance if the region is to enhance further its competitiveness and to become a truly regional financial and commercial center. The challenge is to develop effective corporate practices which will also facilitate innovation and support business operations. Ensuring greater transparency and a high level of disclosure to address the problems of information asymmetry is crucial if shareholders are to influence the decision making process in their companies. Central to corporate governance systems in the Gulf countries is the establishment of the necessary implementation mechanisms, taking into account the requirements of a dynamic economy and the need to promote confidence and stability in the region. In order to ensure that effective monitoring take place, laws and legal regulations in the Gulf will have to address a number of issues, among them: disclosure of affiliate and family relationships, enforcement and a culture of independent non-executive directors

Rule based corporate governance system is my be an appropriate path for Gulf countries to take, due to market imperfections and failures that hinder financial market discipline and the general development of the financial sector. The legal and regulatory environments of corporate governance in such countries tend to play a greater role as a mechanism through which shareholders and creditors can impose discipline on corporate managers. (OECD, MENA Report, p6). Finally, adopting best international practice in financial measurement and disclosure is also important to transparency and thus effective corporate governance in the Gulf countries, However, this should not involve simply adopting international accounting standards without considering local distinguishing factors.

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Table 1

Relationship of measurement scale to OECD survey questions

Details of system used to measure levels of corporate governance

Categories used in OECD Survey		Score
Responses	Absent or not required	0
	Advisory, the company is encouraged to comply with regulations	1
	Voluntary, provision is recommended but not obliged to comply	2
	Recommended, deviation is required to be explained	3
	Statutory or required by financial exchange	4

Main category	Sub-category	Concept	Number of questions	Reference to OECD questions
Shareholders		Participation	5	1 - 5
		Voting rights	16	6 - 21
		Equity	1	22
		Obligations	6	23 -28
			28	
Management processes	Boards	Nomination process	2	1,2
		Election process	1	3
		Independence	6	4 - 9
		Qualifications	3	10 - 12
		Conflicts of interest	7	13 - 19
		Duties	10	20 -29
			29	
	Executive compensation	Components defined	2	1, 2
		Disclosure	5	3 - 7
		Notice	3	8, 9, 12
		Performance related	1	10
		Comparisons	1	11
		Equity	1	13
			13	
	Special committees	Compensation committee	9	1 - 9
		Nomination committee	3	10 - 12
		Audit committee	7	13 - 19
			19	
Transparency	Disclosure	Financial	1	1
		Ownership	2	2, 3
		Risk	1	4
		Materiality	4	5 - 8
		Governance	1	9
		Ethics	1	10
			10	
	External audit	Appointment	1	1
		Compliance	1	2
		Independence	2	3 - 4
		Rotation	1	5
		Qualifications	2	6, 7
		Disclosure	1	8
			8	
			107	

Table 2

Overall scores and ranking of Gulf countries by levels of corporate governance												
	Internal processes		**Shareholders**		**Transparency**		**Average**	**Rank based upon average score**	**Totals**	**Average**	**Rank based on total score**
Bahrain	0.69	5	2.75	3	1.83	4	1.76	4	164	1.53	4
Kuwait	1.32	2	2.20	4	3.50	1	2.34	2	210	1.96	2
Oman	1.73	1	2.76	2	3.42	2	2.64	1	263	2.46	1
Qatar	0.79	4	1.30	5	1.33	5	1.14	5	132	1.23	5
UAE	1.03	3	3.15	1	2.58	3	2.25	3	197	1.84	3
Average	1.11		2.43		2.53		2.03				

Table 3

Details of shareholder rights scores								
Shareholders	**Participation**	**Voting rights**	**Equity**	**Obligations**	**Average score**	**Rank based upon average score**	**Total score**	**Rank based on total score**
Bahrain	2.40	3.25	4.00	1.33	2.75	3	76	2
Kuwait	2.40	1.75	4.00	0.67	2.20	4	48	5
Oman	2.60	3.44	4.00	1.00	2.76	2	78	1
Qatar	3.20	2.00	0.00	0.00	1.30	5	48	5
UAE	4.00	2.44	4.00	2.17	3.15	1	76	2

Table 4

Details of internal processes scores

Panel A: Board management

	Nomination	Election	Independence	Qualifications	Conflict	Duties	Average	Rank	Totals	Rank
Bahrain	2.00	4.00	1.33	0.00	2.29	2.80	2.07	5	60	5
Kuwait	4.00	4.00	0.00	1.33	1.14	4.00	2.41	2	64	2
Oman	4.00	4.00	1.17	0.00	3.71	3.10	2.66	1	76	1
Qatar	4.00	4.00	0.67	0.00	2.29	3.20	2.36	3	64	2
UAE	3.50	4.00	0.33	0.00	2.86	2.70	2.23	4	60	5

Panel B: Reward systems

	Clear definitions	Disclosure	Minimum holding periods for shares	Performance based pay	Bench marking	Equity	Average	Rank	Totals	Rank
Bahrain	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5	0	5
Kuwait	0.00	1.60	0.00	0.00	0.00	0.00	0.27	2	8	2
Oman	4.00	2.20	1.33	0.00	0.00	0.00	1.26	1	23	1
Qatar	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5	0	5
UAE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5	0	5

Panel C: Special committees

Boards	Compens-ation	Nomination	Audit	Average	Rank	Totals	Rank
Bahrain	0.00	0.00	0.00	0.00	5	0	5
Kuwait	0.11	0.33	3.43	1.29	1	26	2
Oman	0.00	0.00	3.86	1.29	1	27	1
Qatar	0.00	0.00	0.02	0.02	5	1	4
UAE	0.00	0.00	2.57	0.86	3	18	3

Panel D: Internal processes aggregated

	Average	Rank	Totals	Rank
Bahrain	0.69	5	60	5
Kuwait	1.32	2	98	2
Oman	1.73	1	126	1
Qatar	0.79	4	66	4
UAE	1.03	3	78	3

Table 5

Details of transparency scores

Panel A: Disclosure

Boards	Financial disclosure	Ownership disclosure	Risk disclosure	Material information	Governance disclosures	Disclosures on ethical behaviour	Average	Rank	Totals	Rank
Bahrain	4.00	2.00	0.00	0.00	0.00	0.00	1.00	4	8	4
Kuwait	4.00	2.00	4.00	4.00	4.00	4.00	3.67	1	36	1
Oman	4.00	2.00	3.00	4.00	4.00	4.00	3.50	2	35	2
Qatar	4.00	0.00	0.00	0.00	0.00	0.00	0.67	5	4	5
UAE	3.00	0.50	3.00	1.50	3.00	0.00	1.83	3	16	3

Panel B: External Auditor

	Auditor appointment	Standard compliance	Auditor Independence	Auditor rotation	Auditor qualifications	Materiality disclosures	Average	Rank	Totals	Rank
Bahrain	4.00	4.00	2.00	0.00	2.00	4.00	2.67	4	20	4
Kuwait	4.00	4.00	4.00	0.00	4.00	4.00	3.33	1	28	1
Oman	4.00	4.00	4.00	4.00	0.00	4.00	3.33	1	24	2
Qatar	4.00	0.00	4.00	4.00	0.00	0.00	2.00	5	16	5
UAE	4.00	3.00	3.50	3.00	3.50	3.00	3.33	1	27	3