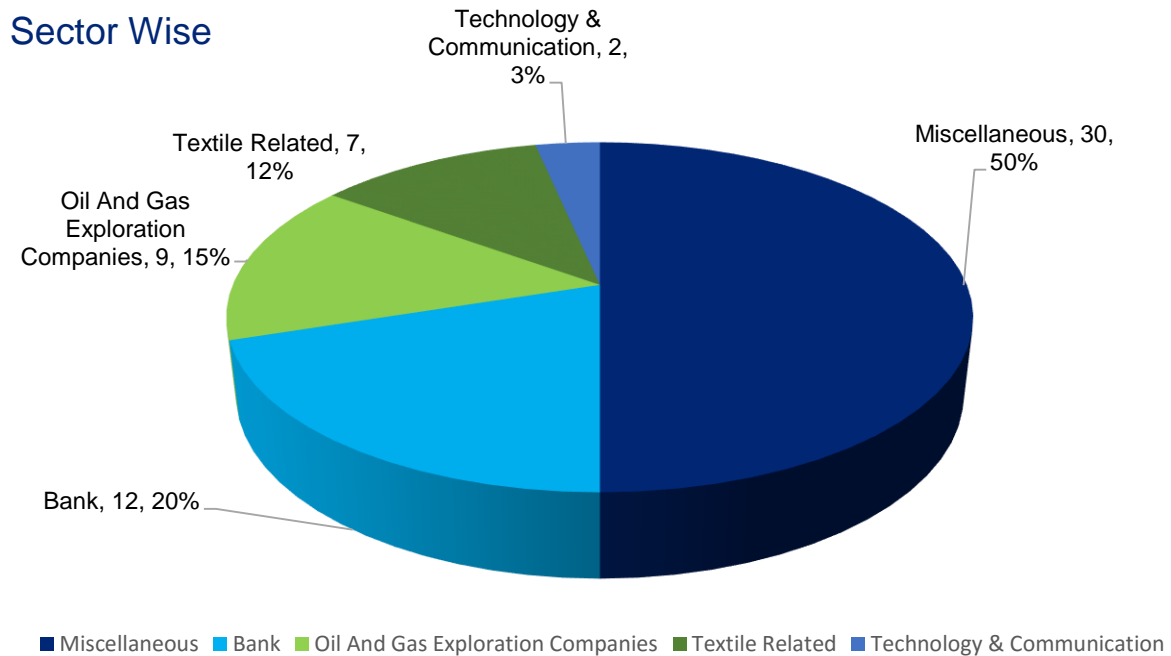


Survey on Compliance of Code of Corporate Governance, 2012

Deloitte Pakistan recently conducted a survey based on publicly available information on a selected sample of companies. The selected companies included all companies of the KSE 30 index, 10 companies from the KSE 100 index, and 10 other listed companies. This formed a well-rounded sample, as it is expected that companies that are a part of performance indices be fully compliant with good corporate governance practices. The findings proved to be quite interesting on various levels.



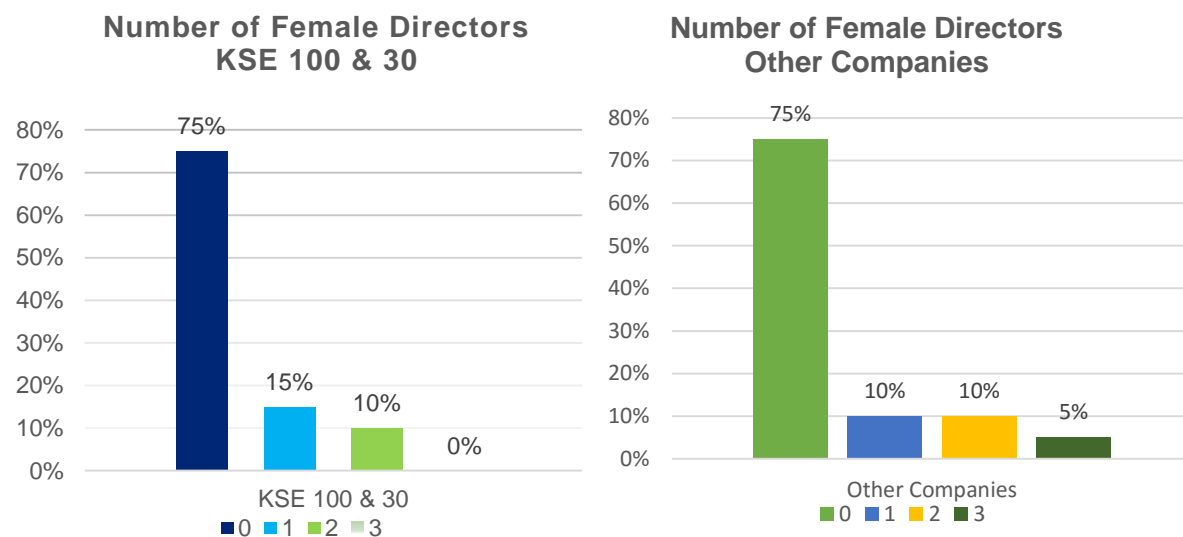
The chart above reflects the constitution of the representative sample. As is evident, there is rich mix both industry wide and performance wise to ensure depth of analysis in order to draw conclusions that would allow the reader to envision the state of corporate governance compliance in Pakistan.

The Code of Corporate Governance was introduced in 2012 applicable to listed companies with a phased implementation schedule. All but one relating to mandatory training of the directors have come into force. The survey conducted contains few questions to which the responding companies are 100% compliant. There are few where there is compliance by majority i.e more than 80%. Only where compliance is below the minimum level have been analyzed.

Gender Diversity in the Board of Directors

Survey Question:

Do you have any female directors on your board?



Recent researches show that business benefit is associated with gender diversity which includes not only increased financial performance but greater customer satisfaction and greater market knowledge and reputation. Credit Suisse's recent report, The CS Gender 3000: Women in Senior Management, shows companies with greater board gender diversity display excess stock market returns. In Asia Pacific, the compound excess return since 2005 of companies with a market capitalization of less than US\$10 billion with at least one woman on the board on a sector-neutral basis was 55 per cent.

Whereas, in this survey this was one of the most interesting set of data that came across. In the companies forming part of the KSE 30, 100 index or others, 75% of the companies have no female directors and the maximum number goes up to 2 for 10%.

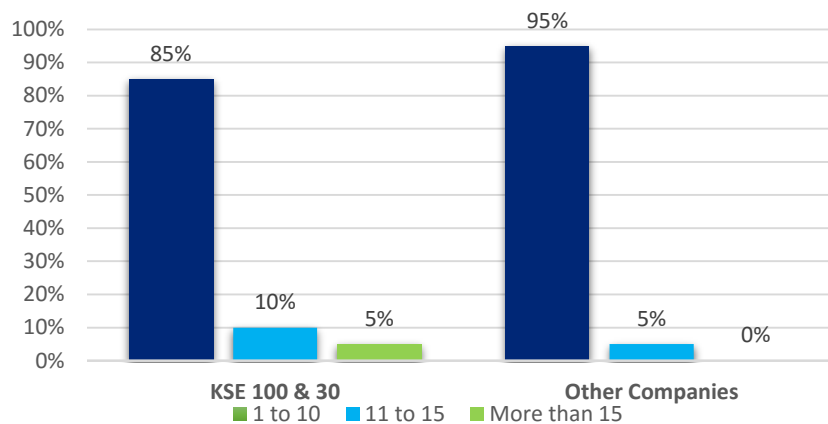
Point to ponder: is this a reflection of the patriarchal society that we are a part of or this reflects that there is a dearth of adequately qualified females in the work force?

Number of Non-Executive Directors Vs Executive Directors

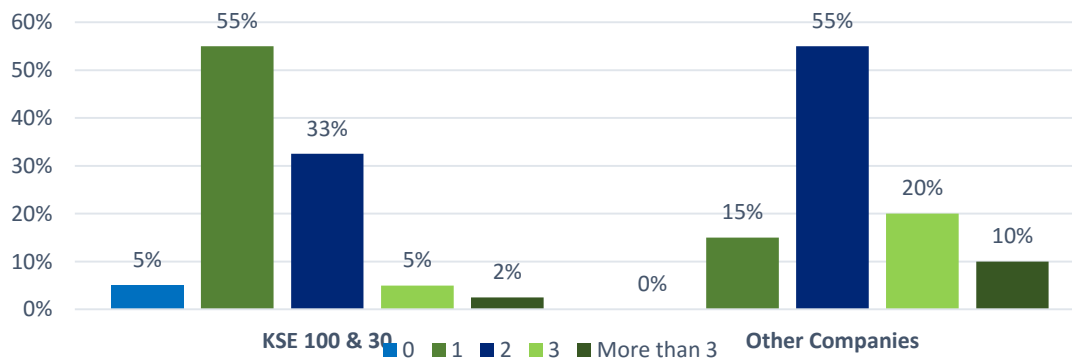
Survey Question:

Do you have Non-Executive directors on your board?

Number of Non Executive Directors



Number of Executive Directors



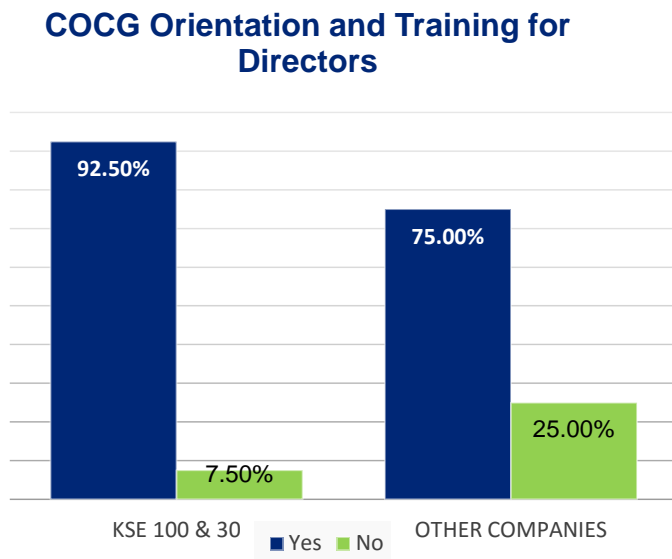
It is a widely accepted fact the contribution of a non-executive director is very valuable to the efficient working of the company. They are expected to constructively scrutinize the performance of management and help company achieve its strategic goals.

It is evident that the Board is governed by Non-executive Directors in all companies. In this case, the presence of Executive Directors as reflected below seems to be for the purpose of meeting the requirements of the Code of Corporate Governance, but with no effective decision making role.

COCG Orientation and Training for Directors

Survey Question:

Is your company complying the requirements of organizing Code of Corporate Governance orientations for the board members and Directors training program?

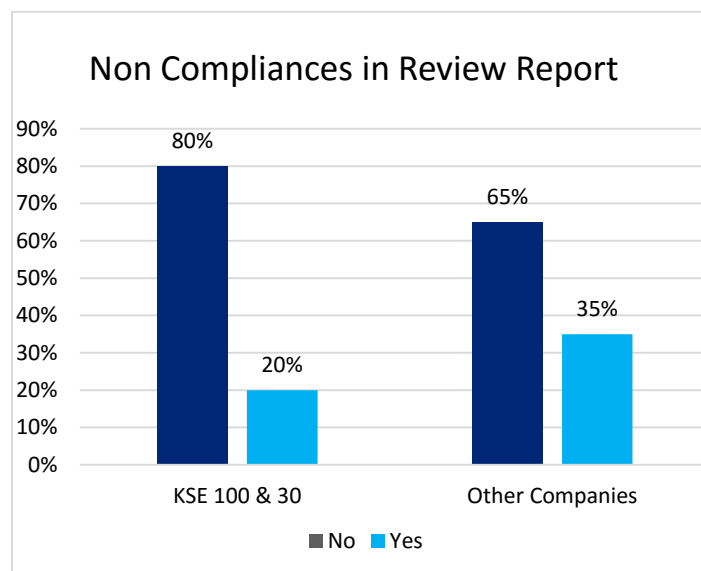


The Code of Corporate Governance has made it mandatory for directors to undergo Directors Training with any of Securities and Exchange Commission's approved training institutes. Even though the companies are making an effort to be compliant for this requirement, there is still lots of road to cover, especially for other companies not following in KSE 100 Index.

Non-compliances reported in the Review Report issued by members

Survey Question:

Any non-compliances reflected in the review report?



This is a chart of great importance for users of the financial statement because this is a clear reflection of the state of compliance with the Code of Corporate Governance amongst the listed entities. The break-down of the nature of non-compliances is enumerated below

Nature of Non Compliances	KSE 100 & 30	Other Companies
Qualification criteria for Head of internal audit not met	2	0
Requirement of Director's training program not complied with.	3	4
Casual Vacancy not filled up within the prescribed time	1	0
Policies not documented as required by CCG	2	2
Procurement Committee not formed	1	0
HR & remuneration committee not formed	0	1
Committee for investigating deviation from CCG not formed	1	0
Procedure for disclosure of interest not documented	1	0

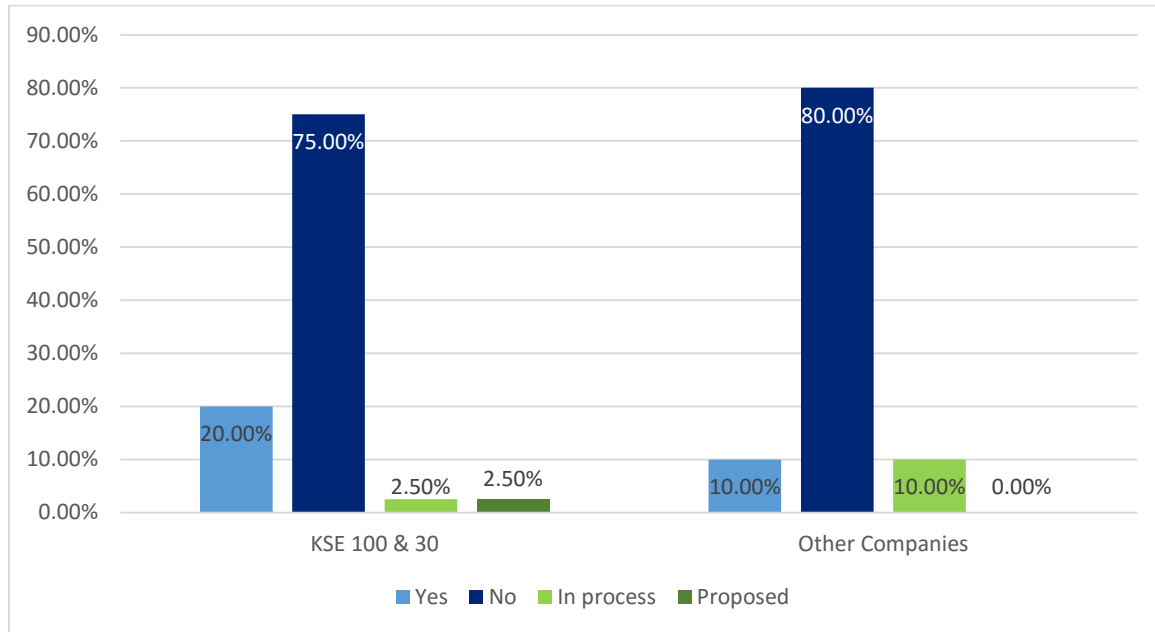
As is evident from the table, the non-compliances refer to procedural matters not being followed. While the nature of non-compliances apparently seem innocuous, an analysis of their impact has not been carried out

Point to ponder: Great stress seems to be laid on fulfilling procedural requirements but the effectiveness of the procedure is not tested.

Board Evaluation Process

Survey Question:

How many companies have evaluated board performance?

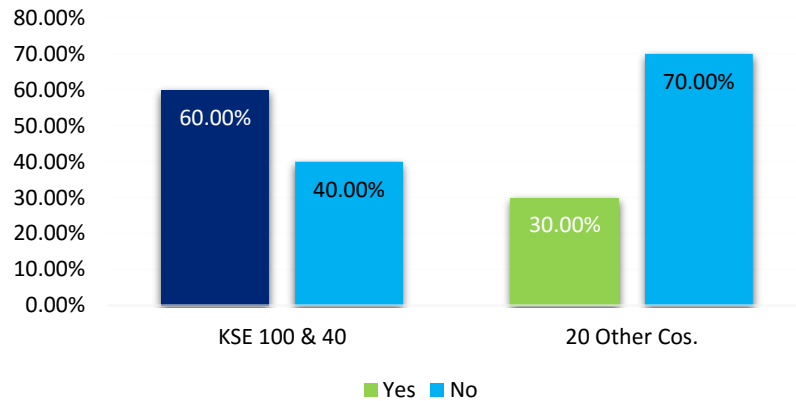


The 'No's seem to take up all the space. In 75% of KSE index companies and 80% of other companies, the Board evaluation process has not been initiated at all. There is no accountability if the members of the Board do not meet the prescribed criteria. This is especially alarming since the Board is responsible for taking/ratifying major decisions that shape the future of the business.

Directors Profile

Survey Question:

Companies publish directors' profile in annual report?

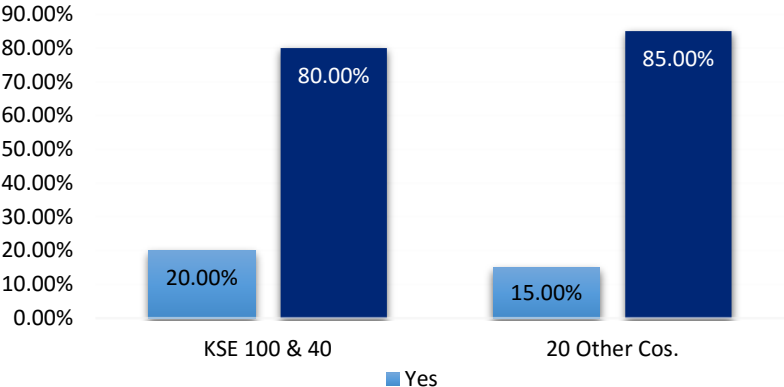


There seems to be no real reason why this should not be published. In a time when information is readily available at a touch of a button, it is surprising that companies should shy away from disclosing information that is spread around the net. We feel that the major possible reason is that the directors do not possess the desired level of profile, therefore the company is reluctant to share the same. What little we have seen of the shareholders during interactions, they are more interested in the bottom line rather than the person who actually drives the process and hence, the management is under no pressure to disclose this information in the annual report.

Sustainability Report

Survey Question:

How many companies have issued sustainability report?



This seems to be the latest fag on the block but since there is no legislation enforcing preparation and publication of this information, the companies are not under any obligation to present this information. As a matter of principle, sustainability reporting requires disclosure of a lot of information that is not readily available in the local environment. There also seems to be a lack of tangible measure against which the information can be compared. The lack of such reporting is also attributable to the fact that there are no preparers of such information and there are no means of providing an assurance and management feels that there is no value added without assurance.

Annexure 1:

Survey on Code of Corporate Governance			
Questionnaire	Response	40 Companies	
		KSE 100 Index Companies	20 Other Cos.
1.1.1 How many Companies comply with the Code of Corporate Governance?	Yes	100.00%	100.00%
	No	0.00%	0.00%
1.1.2. How many directors do you have on your board?	7	27.50%	45.00%
	8 to 10	45.00%	45.00%
	More than 10	27.50%	10.00%
1.1.3 Do you have any female directors on your board?	0	75.00%	75.00%
	1	15.00%	10.00%
	2	10.00%	10.00%
	3	0.00%	5.00%
1.1.4 Do you have Non Executive directors on your board?	1 to 10	85.00%	95.00%
	11 to 15	10.00%	5.00%
	More than 15	5.00%	0.00%
1.1.5 How many Executive directors do you have on your board?	Less than 1/3rd	95%	80%
	1/3rd or more	5%	20%
1.1.6 Does your company have an audit committee	Yes	97.50%	100.00%
	No	2.50%	0.00%
1.1.7 Does your company have majority of non-executive directors in this committee?	Yes	97.50%	100.00%
	No	2.50%	0.00%
1.1.8. Is the audit committee chaired by a non-executive chair?	Yes	100.00%	100.00%
	No	0.00%	0.00%
1.1.9. Do you have Remuneration Committee?	Yes	100.00%	100.00%
	No	0.00%	0.00%
1.1.10. Are the Chairman and the CEO positions held by different people in your company?	Yes	95.00%	100.00%
	No	5.00%	0.00%
1.1.11. Is your company Complying the requirements of organizing code of corporate governance orientations for board members and Directors training program?	Yes	92.50%	75.00%
	No	7.50%	25.00%
1.1.12. Does your company have an internal auditor/audit department?	Yes	100.00%	100.00%
	No	0.00%	0.00%
1.1.13. Is IAS/IFRS, fully implemented in spirit and in form in your company as required by	Yes	100.00%	100.00%
	No	0.00%	0.00%
1.1.14. How many independent directors are on board?	0	10.00%	5.00%
	1	42.50%	65.00%
	2	22.50%	15.00%
	3	7.50%	5.00%
	More than 3	17.50%	10.00%
1.1.15 Any non compliances reflected in the review report?	Yes	20.00%	35.00%
	No	80.00%	65.00%
1.1.15 What is the nature of non compliances?		2	0
		4	4
		3	4
		1	0
		2	2
		1	0
		0	1
		1	0
		1	0
1.1.16 How many companies have evaluated board performance?	Yes	20.00%	10.00%
	No	75.00%	80.00%
	In process	2.50%	10.00%
	Proposed	2.50%	0.00%
1.1.17 Companies publish directors profile in annual report?	Yes	60.00%	30.00%
	No	40.00%	70.00%
1.1.18 How many companies have issue sustainability report?	Yes	20.00%	15.00%
	No	80.00%	85.00%