

Master thesis

Spring semester 2009

Advisor: Claes Svensson

Authors: Hassan Cheema Majeed
Erik Johansson
Qasim Mir Nasim

International Corporate Governance Comparison – Asia and Europe / Pakistan and Sweden



LUND UNIVERSITY
School of Economics and Management

Acknowledgements

Abstract

Title: International Corporate Governance Comparison – Asia and Europe/ Pakistan and Sweden

Seminar date: 2009-06-05

Course: BUSM 37

Authors: Hassan Cheema Majeed, Erik Johansson, Qasim Mir Nasim

Advisor: Claes Svensson

Key words: Corporate Governance, Pakistan, Sweden

Purpose:

Theoretical perspectives:

Methodology:

Empirical foundation:

Conclusion:

Table of contents

- 1. Introduction**
- 2. Research Methodology**
- 3. Theoretical Background**
- 4. Analysis and Result**
- 5. Conclusion and further Consideration**

1. Introduction

1.1. Problem background

Corporate Governance has been as old as there were corporate entities. As the corporations evolved over time, the need for more capital arose. So, shareholders provided corporations with capital and consequently became owners but delegated the control to the skilled managers. Due to this separation of ownership and control, the need for a system arose that could protect the owner's interest and align the manager's interests with the shareholders' interest. Even though, the term "Corporate Governance" is in view since the 1980's but it has not enjoyed the limelight until very recent. It has emerged as an important and sensitive corporate issue especially after the mayhem created by corporate scandals from all over the globe. For over a decade, more and more attention has been gained by this vital system of directing and controlling business as a result of failures of corporate giants like WorldCom, Tyco, Parmalat etc. and especially by the legendary collapse of Enron made Corporate Governance more eminent. Such scandals from all over the world have highlighted the loopholes present in this system which is calling for more transparency and actions to avoid such mismanagement by corporations. Previously, companies used to have liberty of voluntarily following the non-binding best practices but now following codes has been made a legal duty of "comply or explain" (MacNeil, X Li - Corporate Governance, 2006).

Due to the globalization and corporate governance being a worldwide concern, a great deal of study has been made and still going on the convergence of systems towards a common unified system. Much has been written by many in regard to the convergence of stakeholder's Germanic system towards the Shareholder's Anglo Saxon system. Other argues that corporate governance is not a static thing. Rather it has elements that are country specific and that convergence is not feasible as each country has its own cultural, societal and religious variables that affect the governance practices (Hackethal et al. 2005).

The underlying study also looks at the evolution of corporate governance practices being followed by the sample countries (countries will be disclosed in problem discussion below) whereby one country's corporate governance code is influenced by Anglo-Saxon Model and the other by Germanic Model (models to be discussed later in literature review). But the primary motive of the study is not to look at the convergence possibilities of these two systems but to explore the corporate governance systems adopted by both the countries and their compliance by the selected sample companies in their annual reports. Specifically, study concentrates to explore the changing trends in corporate governance practices by companies by analyzing their annual reports. For this purpose study concentrates to look at the trends emerging in past five years in each sample country and then comparing those trends towards the end of the research. Although, inferences will be drawn for possibility of convergence or divergence based on the findings of the underlying study.

(Annual report)

The study will be carried out by making the annual reports of the sample companies as the primary source of data as this document is considered as the representative of company's and it reveals how the company wants to portray its image for all the stakeholders like creditors, employees, customers etc. and especially the investors or shareholders. As annual report is a public document, so, all stakeholders have readily access to it. Therefore, due to the convenient availability of this detailed colorful document, all stakeholders especially investors, both domestic and foreign, uses it as a fundamental starting place for investigating a

company. Also, it is very hard to get hold of first hand information from key personals of the company and not all, especially individual investors from general masses, have access to company professionals like Chief Executive Officer (CEO), Chief Financial Officer (CFO), company auditors or other important players within a company to provide them with the specific information they are looking for. It will not be wrong to say that the annual report is the most important document that depicts the state of corporate governance in a particular company.

Company Laws and Codes of Corporate Governance are the elementary documents shaping the corporate governance practices in a country. To call annual report a justified depicter of corporate governance is not wide of the mark as it is built mainly upon the standards set by codes where code, in turn, refers to company law for further enrichment and inclusion of more detailed aspects concerning different practices. Companies try their best to disclose most reasonable information in their annual reports in a way that demonstrates high levels of corporate governance as it has been observed that investors prefer to invest their money in the those companies that have superior quality of corporate governance practices. If they are not confident by the level of disclosure available to them, then, their investment can go elsewhere (ref. Arthur Levitt, former of US SEC speaks at a Manhattan Conference in December 2000). There is a positive and significant relation between quality of corporate governance practices and firm performance as it has been observed that company with a superior corporate governance system exhibits better performance (ref. (Attiya, Rubina 2007 Acase study from KSE). Board composition, ownership and shareholdings have a significant relation with firm performance while management practices have a significant relation with disclosures and transparency (Attiya, Rubina 2007).

Much has been written on the comparison of developed countries like UK and USA, UK and Europe, Japan and Europe. A lot of studies on corporate governance of Sweden along with its comparison with other developed countries have been conducted such as comparison study of Sweden and Germany, Sweden and china, Sweden and UK but very few studies compare the corporate governance systems in developed and developing country. Motivation of this study is to compare corporate governance practices in a developed country and its comparison with the corporate governance practices in a developing country where evolvement of corporate governance is in the beginning.

Another interesting phenomenon behind the selection of these two countries is the legislative system in both countries. As Pakistan is an Islamic republic and there is a strong influence of religion on the laws of country while Sweden is considered as an open system with no influence of religion on law. While cultural differences in both countries may have an impact on the corporate governance systems within two countries.

The countries we have selected are Pakistan and Sweden. It will be very interesting to observe the development of corporate governance practices of a developing country and a developed country that are also culturally and religiously very apart. Also, Pakistan's corporate governance system has major influence of Anglo Saxon Model whereas Swedish corporate governance system is skewed more towards Germanic Model. Additionally, it will be very interesting to put side by side the very open Swedish corporate governance system which is considered to be the best in the region and the Pakistani corporate governance system which has been declared best in the whole south Asia by the World Bank (*reference needed*).

Put something regarding annual reports, codes from Sweden china

1.2. Research question

- Pakistani and Swedish corporate governance systems are differently classified (or have evolved differently in past 5 years); how similar/different are they and how have the systems affected the companies' annual reports?
- How has the corporate governance evolved in a developing country (Pak) and a developed country (Swe) over past 5 years and what are the similarities and differences between them and to what extent have the two systems affected the information/ disclosures presented in the Annual Reports of companies in developed and developing countries?
- Has the corporate governance evolved differently in developing country (Pak) and a developed country (Swe) over past 5 years and what are the similarities and differences between the two corporate governance systems? To what extent have the two systems affected the information/ disclosures presented in the Annual Reports of companies in developed and developing countries?

1.3. Research purpose

The study will focus on the evolution patterns of two countries whose corporate governance systems have visible influence from two different corporate governance models (Anglo-Saxon and Germanic) and are entirely different from each other in country development level, culture, politics and religion.

The annual report's level of compatibility between the sample companies of the selected countries will be observed and the various forms of information available will be focused on to test the research questions of the study. Which practices have been changed, which are still continuing and which new practices have been incorporated or adopted by companies in their annual reports will be detected (if any). By looking at the annual reports of sample countries, the study will aim to provide the reader with the similarities and differences the country specific annual reports have and consequently the variations among countries.

Cultural and religious aspects will also be taken into account while discussing the differences present in the two systems. Like many previous comparative studies of corporate governance systems of different countries, the possibility for convergence between the basic corporate governance models (i.e. Anglo Saxon and Germanic Model) adopted and adapted by the two concerned countries will also be looked upon. However, the country specific social and religious aspects and the convergence of two systems will not be the core points of argumentation for this study.

How does the corporate governance codes of Pakistan and Sweden relate to each other, and how have major companies of the countries aligned to the codes historically?

The purpose of this study is to define the corporate governance differences and similarities of Pakistan and Sweden, where special emphasize are given continuity and changes during the last five years in Pakistan and Sweden.

1.4. Delimitation

Not all laws regarding limited companies in the two countries have been studied; focus has purely been corporate governance codes and directly related documents. The numbers of companies that have been studied are representative for the stock exchanges; all further listed companies have been disregarded due to time limitations hence quality of the study.

1.4. Outline

Chapter one, withholds the introduction and research discussion where it's defined why research is important for fulfillment of research gap in theory.

Chapter two, states the research methodology of this thesis, which is foundational of qualitative approach.

Chapter three, presentation of theoretical framework, which are used as basis for this thesis and to provide understanding for readers.

Chapter four, presentation of findings and state collected data in determined order.

Chapter five, continuation of chapter four where collected data and findings are concluded into new knowledge and issues are created to further researches on the area.

2. Research Methodology

2.1. Selection of Methodology

As mentioned earlier, the aim of the study is to create a fair and good view of the research area. It was possible to use either qualitative or quantitative research approach for the thesis. After carefully looking at the purpose of our research and by answering questions like "How has the phenomenon of corporate governance evolved in a country over last five years?" "Which changes have emerged and which practices have been continued?" "What

amendments were introduced into corporate governance codes in a year-by-year manner?” “How do the corporate governance systems differ among the two countries?” “What is the uniqueness of the corporate governance systems of each country?” “Which country is doing better/ lagging behind at a certain aspect?” etc., the decision ended with qualitative research approach. As it is apparent from the above mentioned questions that the aim of the investigation, for the initial part of research, is the way the process of corporate governance has evolved in the sample countries individually by looking at the practices of the sample of companies and consequently making a comparative analysis of each country’s corporate governance system towards the later part of this study, qualitative approach of methodology is chosen to capture the entire scope of the study. If a quantitative approach was chosen, it would have limited the study in depth ness and rather emphasized a larger number of research objects. (put something inductive deductive thing/qualitative quantitative thing)

2.2. Preconceptions

In comparison of the two chosen countries, the authors were under the conception that Sweden as country and its companies have a more developed corporate governance code and its implementation than Pakistan as a country and its companies have. In amount of information disclosure, Sweden is regarded as the country that discloses most of relevant information to this study.

2.3. Research approach

As our aim of study is to conduct a comparison between two countries, much is done before on this issue but this study is more focused to analyze two systems from an existing as well as a future shareholder perspective, so in general sense it is a study from an investor’s point of view. That is the reason primary data in this study is from annual report, as annual report addresses the current shareholders and future shareholders (investors) mainly along with other stakeholders. Selection of key variables for this purpose is the most crucial part of the study. Study is focusing on the investor’s perspective and thus variables are selected from an investor’s point of view. In this regard FTSE and ISS study and work for creating corporate governance index has been taken into consideration. FTSE has proven international index expertise as one of the global leaders in index provision, with 2.5 trillion dollars benchmarked against its indices.¹ ISS is the premier corporate governance services provider, with research capabilities covering the FTSE GEIS index universe.² FTSE and ISS decided to engage in a joint global corporate governance ratings and index project early in 2004 and announced their collaboration at the end of February 2004. The indices were launched in December 2004.³ Key dimensions in consideration while conducting this research are as follows.

This study will approach the both corporate governance systems through four main areas:

- minority shareholder protection
- structure and responsibilities of the board

¹ FTSE ISS corporate Governance Index Series: April 2005.

² FTSE ISS corporate Governance Index Series: April 2005.

³ FTSE ISS corporate Governance Index Series: April 2005.

- accounting and auditing
- transparency of ownership and control

Each main area is followed by varying sub variables that are adapted in accordance to their relevance. Emphasize will be given to change and continuity through five year of company adoption and change⁴.

2.3.1. Minority shareholder protection

The different minority shareholder rights and protection will be examined. The study will focus on how national corporate governance codes define rights of the minority shareholders. As a second phase the selection of companies will be examined how their procedures are followed according to national recommendations. Aspects of focus are: proxy rights, single class shares, special voting majorities at special occasions etc⁵.

2.3.2. Structure and responsibilities of the board

This section will focus on structure and responsibilities of the board with chosen sub variables. Examination of board structure, where different aspects are regarded independence of the board members, employment, business relations including family and close personal relations. Other responsibilities that are given the board of a company are number of meetings, number of meeting of other committees under the board e.g. remuneration-, nomination, and audit-committee. Re-election of the board members and remuneration are also issues that are given focus.⁶

2.3.3. Accounting and auditing

Here will statements regarding accounting and auditing being examined, disclosures of accounting principles, annual audit reports, independency of auditor, and issues regarding the audit committee⁷.

2.3.4. Transparency of ownership and control

The ownership of a company should be disclosed with information of cross-holdings, the shareholdings of board and executive management will be regarded in this section⁸.

2.4. Scientific approach

2.5. Choice of theories

2.5.1. National codes of Corporate Governance

⁴ Jackson and Moerke

⁵ Robert W. McGee, Corporate Governance in Asia: A comparative study, 2008

⁶ Robert W. McGee, Corporate Governance in Asia: A comparative study, 2008

⁷ Robert W. McGee, Corporate Governance in Asia: A comparative study, 2008

⁸ Robert W. McGee, Corporate Governance in Asia: A comparative study, 2008

Presentation of the national corporate governance codes of Pakistan and Sweden, the presented material is only relevant to the study and biased to fit the methodology main areas as and research purpose.

2.5.2. Earlier research of Pakistani corporate governance system

Presentation of earlier studies of Pakistan corporate governance system, development and categorization, historical heritage and similarities.

2.5.3. Earlier research of Swedish corporate governance system

Presentation of earlier studies of Swedish corporate governance system, development and categorization, historical heritage and similarities.

2.5.4. Earlier research of methodology main areas

Presentation of earlier research regarding minority shareholder rights, structure and responsibilities of the board, accounting and auditing, and transparency of ownership and control.

2.6. Selection of choices and criticism

2.7. Approach of data collection

As mentioned above, the primary sources of data are Company laws and codes of corporate governance of respective countries and annual reports of sample the companies, hence the decision of the archival research as the primary research approach for the research. This approach is based on the existing documents and data sources whereby an exhaustive investigative work is done to skim out the necessary information on which inferences and conclusion can be drawn⁹. Apart from the above mentioned data sources, related articles and surveys conducted by World Bank, IMF, Corporate Governance related bodies, organizations and individuals is used to support the findings from data analysis phase. For this purpose, in addition to above mentioned research approach, secondary analysis of survey data will be conducted¹⁰, which is common for most of the research methods.

A quantitative approach could be conducted with different approaches with various degrees of reliability. This study is based on government directed committees' documents, national laws and annual reports from listed limited companies, by theory called official documents of private and governmental kind. These types of documents are regarded as non-affected of personal values and preconceptions of the researcher. These types of non-reactive documents let the researcher to almost full extent to disregard the reactive effects that validity constraint might cause¹¹.

2.7.1. Gathering of data

⁹ Bryman, 1995

¹⁰ Bryman, 1995

¹¹ Bryman & Bell, *Företagsekonomiska forskningsmetoder*, 2003

Research is only fruitful if some concrete inferences and conclusions can be made. It is even more important that the research end products are based on authentic and reliable data. As the aim is determining the changes that have occurred in corporate governance practices in both countries over the past five years, the focus will be on annual reports for the past five years for the sample of listed companies. Respective codes of corporate governance and to some extent company law of the sample countries if direct relation to studied corporate governance aspects could be found.

The sources of information are fairly straightforward, however the decision of a representative sample is harder to justify. There're two codes of corporate governance used in the study, one for each country. However to build a representative foundation of major companies in both countries with a qualitative method minimize the number of representatives. The option of selecting a larger sample of companies was also considered but by keeping the time constraint associated to the research, this option was disregarded. With the final choice of method with four companies the sample will represent each country's companies with a broad focus on to fully evaluate the corporate governance reports and alignment of the companies. The annual reports are fairly straightforward, however should not be non-considered regarding objectiveness of the documents due to the authors independence and preconceptions¹².

2.7.2. Selection of research objects

Which companies to select for the sample is the next challenge. Selecting four companies from numerous companies and sectors listed on stock exchanges and generalizing unbiased inferences from the corresponding data for the whole system is delicate. As the decided size of the sample is four for each country, company should be from different industry sectors. The sample selection based on investor's darling sector and companies i.e. sectors and companies with highest market capitalization at the beginning of 2009 on each stock exchange. Therefore, firstly, four sectors having highest turnover over the stock exchanges have been selected which in the case of Pakistan are cement, fertilizer, textile composite, and power generation & distribution¹³. In the case of Sweden the sectors represented are industry, material, transportation and telecom¹⁴. The selection have no financial sector representation as the financial institutions are monitored by the State Banks of respective countries and are subject to separate law i.e. not subject to company law.

Additionally, government owned companies and subsidiary or associated companies of foreign entities have also been left out as they doesn't are true representatives of national system. Disregarded are also companies listed on multiple stock exchanges. The representative companies of each sector chosen are the companies with highest market capitalization. In certain cases, company next to the leader has been selected due to unavailability of data for past five years. By following the above mentioned method of selection, the sample should be the right representative data for the whole system as a sector leader best represents a specific sector and the leading sectors best represents the stock exchange consequently the whole system.

The sample set for Pakistan and other sources of information are as follows:

¹² Bryman & Bell, *Företagsekonomiska forskningsmetoder*, 2003

¹³ Karachi Stock Exchange

¹⁴ OMX

PAKISTAN		
Sr.	Sector	Company
1	Cement	Lucky Cement Ltd.
2	Fertilizer	Fauji Fertilizer Bin Qasim Ltd.
3	Textile Composite	Azgard Nine Ltd.
4	Power Generation & Distribution	Japan Power Ltd.

Code of Corporate Governance 2002
Company Ordinance 1984

The sample set for Sweden and other sources of information are as follows:

SWEDEN		
Sr.	Sector	Company
1	Industry	Atlas Copco AB
2	Material	SSAB
3	Transportation	Volvo AB
4	Telecom	Tele2
5		

Code of corporate governance

2.8. Validity

The source of data is as mentioned governmental and private documents. In further explanation the first gathering of data is corporate governance reports from national institutions and governmental committees and complementary documents with similar sources. The second gathering of data is from Pakistani and Swedish companies annual reports during five years exclusively.

2.9. Reliability

3. Theoretical Framework

Anglo Saxon Model

The Anglo Saxon model has been established for quite some time and is considered to be the most influential one. Major economies like United States of America and United Kingdom have adopted this corporate governance model and due to the strong capital markets of these countries, it has proven to be very dominant and various other countries like Australia and New Zealand have adopted this system¹.

The Anglo-American system, also called outsider or Market based system, has profoundly affected the purpose of corporations worldwide by emphasizing on the fulfillment of shareholder's interest². This model is branded by the maximization of shareholder's value and protecting their interests³. As discussed before, that the share holders are the key stakeholder, so, this model is heavily subject to agency theory⁴.

One of a key attribute of this system is its widely dispersed equity ownership structure where institutional shareholding is a significant part of ownership structure⁵. Initially there used to be individual investors who invested on a company and used to develop emotional ties with the company but over time, the institutional investors have become more considerable than before. Institutional investors might include mutual funds, hedge funds, investor's blocks, insurance companies, bankers etc. However, studies also talks about the importance of individual investors as these investors provide expansion and liquidity to the stock market⁶.

High levels of continuous disclosure and transparency requirements are supposed to be met to keep the market informed⁷. Disclosures regarding strategic, financial and non-financial information are disclosed by companies for investor's awareness and as per demands of respective codes for countries.

One tier board structure is followed in the Anglo Saxon model whereby the board contains both independent and executive directors. The role of independent or non-executives directors is very important as they are the ones who are primarily supposed to safeguard the interest if shareholders⁸. Chairman works closely with the Chief Executive Officer (CEO) and board has board committees for the purposes of audit, remuneration and nomination⁹.

A strong stock market is also a feature of this model and plays an important role in respective countries and countries with such models may also have strong external takeover market which serves as a protective mechanism for investor¹⁰.

Much emphasis is also paid on the safety of interests of minority shareholder through codes, company and security laws¹¹.

Germanic Model

This system can be observed in countries like Germany, Netherlands, Sweden, Austria, Norway, Finland etc.¹² whereby focus is not only the interest of share holder only, rather, a wider array of stakeholders like, employee, society etc. are considered.

3.1. National Codes of Corporate Governance

Pakistan and Sweden both have national codes of corporate governance, colored by Anglo Saxon and Germanic corporate governance systems. The national directions of each code will be presented below with other aspects that are of relevance to this study.

3.1.1. Pakistani Code of Corporate Governance

Major reforms in setting the best practices for companies in relation to corporate governance have been taken by Securities and Exchange Commission of Pakistan in 2002. Securities and Exchange Commission of Pakistan is a regulatory authority on companies in Pakistan. It has exercised its power under 34(4) of the securities and exchange ordinance, 1969 (Manual of Code of pak: p 1). SECP has developed a code of corporate governance in cooperation with the Institute of Chartered Accountants Pakistan (ICAP). SECP further issued directions to Karachi, Lahore and Islamabad stock exchanges to incorporate the provisions of the code in their respective listing regulations. As a result, the listing regulations were suitably modified by the stock exchanges (Manual of Code of Corporate Governance of Pakistan: p 1).

While the legal frame works to run a company in Pakistan is addressed through Companies Ordinance 1984. SECP has made some key aspects of code of corporate governance, a legal binding on companies by incorporating them in the Companies Ordinance 1984. Thus by the modification of listing regulations for companies on stock exchanges and Companies Ordinance 1984, bigger chunk of the practices defined in code of corporate governance has become mandatory for listed companies.

According to the code, the minimum number of board of directors for listed company is seven. The representation of independent non executive directors and minority share holders is encouraged and maximum limit for executive directors on board is seventy five percent of total number of board of directors including the chief executive officer. The board must have one independent director representing institutional equity interest. The directors should be selected through election as it is prescribed in detail in Companies Ordinance 1984 under section 178. If a person acquires 12.5% or more of voting shares of company then he may apply for new elections of board of directors in the coming annual general meeting under section 178A of Companies Ordinance. If a person takes such action after acquiring 12.5% or more of voting shares then he must hold those shares at least for one year after the date of new elections.

A director should not be a director of ten other listed companies. Director should be a registered tax payer, he should not be a defaulter in payment of any loan and he or his spouse should not be involved in stock exchange brokerage business.

Directors once elected should hold the office for maximum three years and if any casual vacancy occurs during that period then the new director should be appointed within thirty days and he should hold the office for the remaining period.

Directors should file a declaration with SECP that they are directors of particular company and they are aware of their powers, duties and responsibilities. This declaration should be made within fourteen days after the appointment of directors. While it is mandatory for board of directors to prepare and circulate “statement of ethics and business practices” duly signed by them to establish a standard of conduct in companies. Board of directors should also disclose in the annual reports, the vision and mission statements of company along with the formulation of corporate strategies and policies of material nature. Chairman of board should preferably be elected from the non executive directors on the board. It is mandatory for board of directors to meet once in each quarter of the financial year. (Code of Corporate Governance p: 1, 5)

Appointment and removal of chief financial officer and company secretary should be done by the chief executive officer along with the approval of board of directors. Chief financial officer and company secretary should be either a member of recognized body of professional accountants, or a bachelor from a recognized university along with a five year or more experience in a corporate sector specifically in the listed companies. Lawyers are also eligible to be a company secretary (Code of Corporate Governance p: 5, 6).

Director's report to shareholders should be a part of annual reports of companies, in which directors testify that the annual reports present fair view of company, books of accounts are properly maintained, appropriate accounting standards and policies are applied, appropriate internal control system is developed, belief about the company that it is a going concern or not and company is in line with the best practices of code of corporate governance as described in the code of corporate governance. Directors should also make sure that key financial figures of last six year are disclosed in annual reports, strategic decisions regarding any restructuring, divestiture or expansion, dividend announcements or in case of non payment of dividends the reasons for such action by the company, number of board meetings held during the year including attendance from each director, pattern of share holding and trade of shares held by directors, CEO, CFO and company secretary during the financial year. All the statements circulated in the year should be approved by the board of directors (Code of Corporate Governance p: 6, 9).

External auditors should not hold any share in the company in a direct or indirect manner. Board of directors should establish audit committee. Committee should include at least three members including chairman and it is preferable if they are non executive members of board. Members of audit committee should meet at least once in a quarter of year. The audit committee should decide for external auditors, their appointment, removal and remuneration in particular and give their recommendations to the board of directors. Committee is also responsible for all the relevant issues and decision as for as internal and external audit of the company is concerned. All listed companies should change their external auditors after five years (Code of Corporate Governance p: 8, 12).

It is required from all companies to include the statement of compliance with corporate governance report in their annual reports, and this statement should be examined and verified by the external auditors (Code of Corporate Governance p: 12).

3.1.2. Swedish Code of Corporate Governance

Implemented July first 2005 for listed companies with market capitalization above 3 billion SEK. Approximately 100 companies 2008, been used for approximately three years of the companies. From the first of July 2008 all listed companies, which could be traded on the Swedish stock market, comply with the code.

The code isn't enforcing and could be deviated under the assumption that the company explains the deviation and motivates why it has occurred. The code should be regarded as a complement to the Swedish law and act as a alternative to the law, so called self regulation.

Questions regarding the relation between the owners or stock market rules and functions isn't treated here and neither are questions regarding relations to other stakeholders.

Rules within the corporate governance area could be found in the law of limited companies, the stock market's listing demands and other listing agreements.

The principle is align or explain and created to enhance the level above the law of limited companies and raise the minimum standard of quality.

News is that a special corporate governance report should be found in the annual report after first of January 2009.

Ownership, in controversy to Great Britain and US, Swedish companies are represented by fewer and larger shareholders with higher active participation and even board representation. There's positive reaction to this, but also other voice that such strong power should not be misused and hurt other shareholders. That's why the law is enforcing minority rights and greater majorities at general meetings.

The general meeting, the highest deciding organ of the company. Every single shareholder have a voting right and if they can't participate they can pass on their rights to a council. The general meeting decide remuneration to the board of directors and the auditors. The board should set up an extra general meeting if a minority shareholder with at least ten percent of outstanding shares demands it. The auditors and the board itself can also demand extra general meetings. The voting rights of shareholders can have different power, but no share can have more than ten times higher voting rights than an ordinary. At the general meeting the nomination committee should propose the chairman of the board.

The board of directors should consist of at least three representatives where one of them should be announced chairman of the board, who will be responsible that the board fulfill their obligated demands and lead the work of the board. According to the stock exchange's listing demands, only one of the general meeting elected board of directors is allowed to be a part of the company's management or the management of a subsidiary. Usually this is the CEO, however it's usual that no company representative is board director within the own company. The board of directors should consist with a good majority of non-executive directors. In further extent should the majority of the board directors be independent in relation to the company and the management of the company, and at least two of these should be independent in relation to the major shareholders of the company.

The CEO is subordinated the board of the directors, and should prepare question for the board that are outside the jurisdiction of the CEO. The board shall give the CEO directions on how to run the operations of the company. The CEO can be board director but not the chairman of the board. Whether or not the CEO is a board member, the CEO can always participate and interact at a board meeting as long as the board doesn't oppose.

Decision and remuneration of the board and auditors, and should be prepared by the nomination committee. The nomination committee should propose election of the chairman of the board and board members and remuneration and other compensation to the board and each of the members of the board. The same process is followed with the election of auditors. The general meeting should elect the nomination committee or direct how the board members should be elected. The nomination committee should consist of at least three members, where one shall be chairman. The CEO or the company management may not be a member of the nomination committee. The board members may not be of majority of the nomination committee and neither chairman of the committee. At least one of the members of the nomination committee should be independent in relation to majority shareholders. At the election or reelection of the board members the nomination committee should disclose information about the nominated. The information should consist of age, main education,

work experience, position in the company or other company, his/her or close person's shareholdings or other financial instruments of the company, if the person is regard independent to the company or any major shareholder of the company according to the nomination committee and at reelection which he/she where first elected.

The board size and composition should be structured with regards of business, development stage to fit with representation of female, diversity, competence and background. Equal gender representation shall be emphasized. No suppliants should be elected and a board member should not be elected for longer than to the next annual general meeting.

The chairman of the board should be elected at the general meeting.

Remuneration to leading positions. The board shall initiate a remuneration committee that will be preparing the remuneration and other employment conditions to the company management. The chairman is allowed to lead the remuneration committee as well. The general meeting shall decide and approve share related compensation to the company management, board members should not participate in such remuneration, however then the general meeting will decide such remuneration.

The board shall institute an audit committee that should include at least three members of the board, the majority of the members should be independent in relation to the management and the company and at least one to a major shareholder. The board shall at least once a year meet with the company's auditor.

Information regarding corporate governance. The company shall create a corporate governance report, posted in the annual report. Any deviation to the code should there be noted and explained if deviated. Following aspects should be included: the composition of the nomination committee, if a board member has been appointed by an owner, where also the name of the owner should be disclosed.

The work distribution, how the work is done, number of board meetings and the representation by specific board members should be included in the report.

Composition, work tasks, decision rights in eventual board committees and the participation of specific board member.

The CEO's age, main education, and work experience, relevant tasks outside the company, own or close related person shareholding or company's with close business relations.

Certain section, where the boards description of internal control and risk assessment regarding the financial report.

On the company's website there should be a devoted section to corporate governance issues where the corporate governance report and current code could be found.

3.2. The four main research areas

3.2.1. Minority shareholder rights

3.2.2. Structures and responsibilities of the board

3.2.3. Accounting and auditing

3.2.4. Transparency of ownership and control

3.2.1. Key aspects to the research

Some points to be recalled later

Life of board-compare (long life for Pak-Azgard nine)

Management life-compare (small life compared to BOD-azgard nine)

High concentrated ownership (calculate numbers)

Changes in size of BOD and Audit Committee

Bank holdings (band based vs. market based)

Discuss Anglo Saxon and Germanic system

5 years individual case discussion (both Pak and Swedish)

Generalize above discussions and discuss Pakistani and Swedish CG systems (customizations) (similarities and differences to all CG system)

Shariah Board vs. Conventional Board

Future Research recommendations (convergence, interesting areas from our research)

4. Analysis and Result

4.1. Differences of corporate governance

4.1.1. Differences of national corporate governance codes

4.1.2. Differences of companies' corporate governance

4.2. Similarities of corporate governance codes

4.2.1. Similarities of national corporate governance codes

4.2.2. Similarities of companies' corporate governance

5. Conclusion and Further Consideration

References

In particular, there has been discussion on whether the outcome of this globalisation process will lead to the global dominance of the Anglo-Saxon “outsider” model, with its emphasis on shareholder rights and transparency over the Continental “insider” model, with typically fewer listed companies and a remarkable concentration of ownership either in families or other companies (Franks and Mayer, 1996; Moerland, 1995).

¹ International corporate governance by Thomas Clarke Ch 4 P129

² *ibid*

³ International Chamber of Commerce

<http://www.iccwbo.org/corporate-governance/id3173/index.html> accessed on April 26, 2009

⁴ International corporate governance by Thomas Clarke Ch 4 P129

⁵ *ibid*

⁶ Aguilera and Jackson 2003

⁷ Coffee 2002

⁸ Lorsch and McIver 1989

⁹ International Chamber of Commerce

<http://www.iccwbo.org/corporate-governance/id3173/index.html> accessed on April 26, 2009

¹⁰ Franks and Mayer 1990 cited by Grahovar and Ackssen 2004

¹¹ International corporate governance by Thomas Clarke Ch 4 P129

¹² Weimar and Pape (1999)