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Are Stakeholders' Decisions Affected By Company's Corporate Governance? Empirical Study on Egypt

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This study address questions about whether or not major stakeholders (mainly investors, creditors and consumers) are affected by company's corporate governance (CG) practices when taking their investment, credit or purchasing decisions, to which degree and which group of stakeholders is more active –in that regard- comparing to the others. While these questions would relevantly locate within stakeholders' mode of corporate governance debate, it is not the aim here to discuss or examine that mode but to find an empirical evidence from Egypt which has limitedly been examined in literature. Data collected with a questionnaire and interviews with bankers, securities' brokers and other investors and some public customers. Primary results show a general agreement on the importance of corporate governance when taking decisions, but in reality is weakly integrated into the investment or credit decisions. Participants – although emphasis is on the importance of it- still base their assessment on financial factors almost purely. The reasons given are 'It is the practice in the market, in addition to difficulty of including qualitative and fairly new variables in analyses". They mentioned they would take it seriously if there is a legal case or huge legal potential trouble encounter the company due to a violation of governance. The study shows that, consumers are the strongest in taking actions in favour or against the company if good vs. bad practices are perceived or known (a major example is what consumers of Mobinil the famous telecom company encounters from consumers when some unacceptable comments from the chairperson spread and the company immediately suffered losses).

Field of Research: corporate governance

1. Introduction

In October 2011, the Egyptian Center for Companies Responsibilities had a conference to promote corporate governance best practices in the country. The chairman of the Egyptian Securities exchange announced in that conference that a company's corporate governance practice and report affect the potential investments in the company. This statement raised the author's concern and motivated her to investigate to what extent this argument is true in reality. The author widens it to cover main stakeholders such as creditors and consumer in addition to investors. I further want to discuss which of those groups would be capable and in reality practice an influence on companies based on evaluation for corporate governance. I explored the literature and while I am aware of

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the stakeholders' approach of corporate governance, it is not the intention of this study to examine that framework, nor to compare it with the shareholder's one. Instead, the researcher aims to test empirically the research questions about whether the selected stakeholders take into account the company's corporate governance when invent, lend or consume products of that company, why/why not and reasons behind that in this specific environment. This makes the study differs from other studies in the area in that, it gets a direct evidence from a sample of stakeholders through a questionnaire or interviews rather than building up a statistical correlation stakeholders' assessment for company's corporate governance and taking decisions relate to that company. Also it examines the debate from the stakeholders side and not from the companies' side which is heavily explored in the literature. I excluded employees and government (as a regulator) from stakeholders due to limitation of time, resources of information, to keep the study in focus and limitedly because I thought employees may have a narrow choice in reacting to companies. Effect of government was not also examined because it is seen as a regulator that may be included in a different study about enforcement of Egypt's corporate governance code or compliance with the code. The rest of this paper is organized into the following sections: Literature review, methodology, findings and conclusions.

2. Literature Review

Corporate governance (CG) receives increasing concern and attention in Egypt due to many reasons explained in Mubarak (2011). One of these reasons is that the country experienced some financial scandals resulted from poor and corrupted management decisions. The country –like other Arab countries- is experiencing an overwhelming political change stemmed mainly from people stress from financial corruption and therefore, called for more transparency and democracy. These calls and winds of change affected not only the political atmosphere but also the business-doing atmosphere. The country was limitedly affected by the international crisis because of the strict control and rules of the Central Bank of Egypt regarding the amount of deposits that banks should invest in International and specifically American banks.

It is worthy noting that within a continuous and increasing attention in the literature of corporate governance, the questions raised in this research were not answered before in the previous studies particularly those undertaken on Egypt. From reviewing studies of corporate governance in Egypt, it could a focus is noticed of a general debate/relevance of corporate governance and application in Egypt. For example (Dahawy 2008) studied whether it is practiced by companies, (Koldertsova 2010) was interested to study the Egyptian code, (Samaha and Dahawy 2011) examined if it has an effect on volatile capital market. Internationally, there is also lack of studies in examining impact of stakeholders' evaluation of corporate governance on investment, credit and purchasing decisions with evidences collected from stakeholders themselves. For example, Armstrong et.al. (2010) explores the importance of financial reporting transparency in reducing governance-related agency conflicts between managers, directors and shareholders and creditors which is an opposite line of enquiry takes the effect of transparency on corporate governance while in our research the enquiry is about the effect of corporate governance on stakeholders' decisions. A very interesting and rich study was published in a book by Nam and Nam (2005) surveyed by a questionnaire CG practices in four Asian countries Indonesia, Korea, Malaysia and Thailand. The authors presented in part of a chapter, the potential role of employees and banks creditors as stakeholders. As such, the common part between my study and Nam and Nam (2005) is exploring banks' creditors and their evaluation to CG of companies when deciding credit decisions while I did not include employees in my study and the mentioned authors did not look at banks as investors while it is an undeniable role for banks to invest in run huge portfolios for its own and for customers. Tipgos & Keefe (2004) consider the roots of the concern of different stakeholders in CG rise after the accounting scandals such as Enron and WorldCom. They consider the systemic problems at companies such as Enron, WorldCom, and Tyco International arose because of an imbalance of power in favor of top management in corporate organizations. Sarbanes-Oxley Act would provide a mechanism for rebalancing the power between the board of directors and top management. But can it prevent management fraud? In the authors' opinion, No. Rebalancing power between top management and employees is a prerequisite for controlling management fraud and promoting accurate financial reporting. This important initiative differs from the goal of my research in that, I do not target to correct the practice of CG and I do not explore the role of employees. Some reports (AccountAbility and Utopies 2007) discuss the engagement of stakeholders such as employees, customers, suppliers and host communities through an interacting dialogue via online surveys to ongoing partnerships in company's policies and practices. Companies facing diverse and sometimes difficult markets, increasing scrutiny and rapidly evolving demands recognize that engaging more effectively with stakeholders pays off in knowledge, innovations in products, processes and strategy, reputation, relationships and 'license to operate'. Companies therefore need processes that ensure that emerging social issues are discussed at the highest levels as of corporate governance well before they become problems. Important instruments such as The OECD Principles on Corporate Governance, AA1000 Stakeholder Engagement Standard and the Global Reporting Initiative G3 Guidelines, all emphasize the core principle of inclusivity: organizations should identify, listen to and account to stakeholders in taking decisions. The author would take this view expressed in the report as an evidence on stakeholders' engagement or at least expressing their views in company's work, however, it take the discussion from a different point of view. The perspective of the report is why and how stakeholders should involve in company's work and this could be a "mechanism for achieving a degree of corporate governance". The ways of engagements is expected to be arranged by the company. In my research, I am in the stakeholders' side, I wish to examine whether or not they consider what the company adopts and announces as corporate governance mechanisms –whatever they are- when they take their investment, lending and consumption decision. This means, it is not the intention of this research to examine if participants who represent different stakeholders involve in company's practice or setting up of CG tools. But getting stakeholders' feedback about whether they see the current tools of CG applied by the company are relevant or nor, enough or not could be targeted in my research when I ask surveyed parties about why/why not they involve CG information in their decisions.

While the theoretical discussion of corporate governance passed through different modes and perspectives from being oriented by shareholders' concern to include the wider stakeholders' concerns into the goals, procedures and generally the fulfillment of corporate governance, there was no testing of the differences in these modes on the Middle East as an area of developing countries. Visser (2008) documents a lack of instrumental studies that have been done to examine the debate about SRI (socially responsible investments) in developing countries, in the author's view this is one dimension in investor's reaction to company's financial and non-financial performance and adoption of supportive practices that care about the concerns of different stakeholders and one of which is corporate governance tools.

This following section will present first; perception and evaluation of corporate governance by selected stakeholders' and secondly if it is included in the analysis of those stakeholders decisions, why? Or why not? And lastly what are the reasons behind including or excluding it in their decisions. This discussion will be run as the basis for developing the research hypotheses.

2.1 Stakeholders' Evaluation and Reactions to Corporate Governance

Because it is the aim of this research is to study the inclusion or exclusion of corporate governance in investment, credit and consumption decisions, it sounded relevant to base the discussion on the stakeholders perspectives of corporate governance rather than the shareholders'. Adopting the Egyptian code of CG is required for companies listed in Cairo or Alexandria securities exchange, actual adoption and degree of disclosure is a question (Mubarak 2011). The Egyptian code is divided into six groups:

- Ensuring the existence of an effective regulatory and legal framework for the public enterprise sector
- The State acting as the owner
- Equitable treatment of shareholders (owners)
- Relationships with stakeholders
- Transparency and disclosure
- Responsibilities of the board of directors of public enterprises

Apparently, the code lists relationships with "stakeholders" as one item that should be cared for in a CG framework. If this is the regulator's view, do stakeholders find this effective? influential in their decisions? Other questions relate to our investigation here are, first, do stakeholders know about a company's practice in CG? From which source? Second: Are the items recommended by the code equally important to each group of stakeholders or one/some are more important than others, what are they and why?

The international literature discussed some elements within the debate of stakeholders and corporate governance. For example, Yener (2002) compared between the shareholders' model and stakeholders model of CG. While it is not the objective of this research to study and test the differences between the two models, the key distinctions highlighted by Yener (2002) will be summarized here merely because the shareholders' model of CG is the perspective adopted in this study. According to him, the shareholders' model arise because public Companies are featured with asymmetric information, need to align the interests of managers with owners and conflicts are between entrenched managers and weak, dispersed shareholders. Closely held firm is featured by ownership concentration. Therefore, CG problem is primarily about cross shareholdings, pyramids and other mechanisms used by dominant holders at the expense of minority shareholders. The stakeholders' model of CG emerged from the fact that shareholders are not the only ones who make investments in the firm. Competitiveness and success of the firm is ultimately due to teamwork between a wide range of stakeholders such as investors, employees, creditors, suppliers. Yener (2002) refers to the OECD Principles of Corporate Governance which are:

1. The rights of shareholders
2. The equitable treatment of shareholders
3. The role of stakeholders in corporate governance
4. Disclosure and transparency
5. The responsibilities of the board

The effective implementation of these principles is often associated with a sound legal and regulatory framework and rules of law in addition to incentive structures. Corporate governance seeks the ethical and transparent operations of enterprises and their management.

While this section base the theoretical debate about adopting CG to protect interests of several stakeholders, real practices around the world goes in the same direction, i.e. building up CG policies and reporting about measurements for caring about different stakeholders and not only shareholders. The author investigated details of CG reports in Egypt and the United Arab Emirates in a previous study Mubarak (2011). The study found that points of CG reported by most Egyptian companies include:

- Names, jobs, affiliations, responsibilities and remunerations of the board of directors and main top management members.

- Role and responsibilities of audit committee, disclosure policies.

-Statement about “insider trading” which means they prohibit managers, directors,…etc from dealing in their companies shares which they owned prior to joining.

- Some Egyptian companies include what they name “Code of ethics” which expresses the values and other morals - relates to employees, customers,…etc -they focus on while doing business.

- All held annual general meetings for shareholders and they publish the outcome of such meetings maybe in the annual report.

While these results are generally consistent with the OECD principles of CG, but they clearly show more concern of shareholders rather than a balance concern of different stakeholders. As a previous survey on Egypt by the author shows a result that CG practice is still concerned with and oriented to care about shareholders –largely-this in itself adds a new evidence to the need for doing the current study. The question here is, is this felt by stakeholders? And does this affect the decisions which they take like investing in a company, lending, consuming ,…etc. What are the specific concerns, which each group of those stakeholders may have of what they could consider an effective corporate governance that should protect their interest as targeted? The following section tries to discuss these points for every type of stakeholders as in the international literature as there is no study –as far as the author searched- about this point on Egypt.

Hockerts and Moir (2004) and Cox et.al. (2004) and Halvorsen (2011) report the increasing consideration of non-financial aspects in the assessment of companies and mention to the EU white paper which focus on socially responsible investing (SRI) would mean that investors will judge a company partly –at least- in terms of the firm's response to multiple stakeholders. Bertsch and Watson (2011) from Moody credit rating agency discuss effect of corporate governance on credit decisions. They describe it as debt holders also face danger and fundamental credit analysis incorporates an evaluation of franchise strength, financial statement analysis and management quality of which corporate governance is an important element. That is, to the extent of which both investors and creditors are assured that proper incentives and systems of accountability are in place, they can have greater confidence in the present management of the company. However, creditors and investors frequently have different views on the appropriate level of risk to be undertaken by the firm. Creditors cannot benefit from any performance with high outcomes but exposed to high risk as well.

Those two representatives of Moody's organization conclude that the presumption of Moody is that a board of directors which effectively promotes and protects the long term interests of investors will –by large- also mitigate risk for creditors by assuring proper oversight of management and conversely, a board which fails in basic oversight management in key areas such as risk management, internal controls and financial reporting, expose creditors to risk. However, the discussants from the well known credit rating organization consider perceiving and assessing corporate governance within credit decisions is rather subjective.

The author states here that this debate about conflict in interests of investors and debt-holders is arguable, for example the world financial crisis in the 1990's and beginning of 2000's which initially emerged from taking very risky credit decisions by US banks, has badly influenced investors and creditors in many banks and companies all over the world and in fact raised the importance of adopting and implementing effective corporate governance for the benefits of both owners and creditors. This suggests that risky or irresponsible credit or managerial decisions would hurt both owners and creditors and this could be reduced by adopting effective corporate governance tools. In addition to the potential effects of companies' practices of corporate governance on investors' and creditors' decisions in these companies, consumers are also involved in that subject as a key group of stakeholders.

Hurst (2004) reports that investment companies in the US give little attention to whether or not companies are socially responsible comparing to in the EU countries and

Australia. However, there is generally lack of communication about corporate governance to stakeholders, differs from a country to another. He also indicates that surveys in Canada show that half of the public are aware of CG and act based on it. Hurst (2004) referred to nation-level surveys for consumers' assessment have been undertaken since 1999 by Globe Scan Inc. and Gallup Institute and results about 22 countries have been listed. The intention of this research is to examine the stakeholders' evaluation and reaction to corporate governance on company-level and not country level.

From this presentation the author draws some arguments. First, there is an expectation that investors, creditors and consumers would have some degree of appreciation for corporate governance practices. Second; it is excepted that this evaluation of company's corporate governance practice would affect their decisions. Third; The mentioned stakeholders may take into consideration –when taking decisions- whether/how the company adopt corporate governance policies. Fourth; Investors, creditors and consumers may react in different ways to the company as a response to its corporate governance practice. While these are the core research arguments, the exploration may extend to ask if specific elements of CG are of concern to specific stakeholders, e.g. would shareholders care more about the composition of board of directors, their independence, remuneration, their trading in company's shares, communication from them to owners about influential decisions? Would for example creditors place more emphasize on the internal auditing committee because it is one party that give assurance on the reports and information released by the company to lenders?

The research arguments will be focused into hypotheses in the following section.

2.2 Research Arguments

Based on the discussion above, the following research arguments are drawn:

H1: *Investors, creditors and consumers are aware of the importance of CG*

H2: *Investors, creditors and consumers may include an evaluation of CG in their decisions*

H3: *There is a range of potential reactions which investors, creditors and consumers may take towards companies with good vs. bad CG*

The tools for collecting and analysing data are presented in the following section.

3. Methodology

A questionnaire was used to collect data in addition to interviews face to face and over the phone and examining companies web sites and other publications and sources of information about companies practices of CG and related incidents. The targeted population was a sample of investors either investment officers in banks and securities intermediary companies, creditors represented by credit officers mainly in banks and individual consumers from the public (including academics). For the first two groups, there was no reason to limit the choice to companies registered in Cairo and Alexandria securities exchange, therefore, the choice was open as long as participants involve in the type of work under consideration (i.e. investment or practice under normal conditions, I draw the attention of the participants to report on the situation before 2011 to avoid the effects of recent and ongoing political situation in Egypt. 242 usable questionnaire were collected and 12 interviews were held (each lasts between 20 minutes to 1 hour and a half), table (1) presents the number of participants from every type of stakeholders.

Table 1: Participants Data

Stakeholders	Total Number of participants in the questionnaire survey	Total Number of participants in the interviews
Shareholders:		
Banks		5
30		7
Brokers		
52	82	
Creditors from Banks	68	4
Consumers	92	14
Total	242	30

Expectedly, the biggest participation –both by 5-answers Likehrt scale questionnaire and interviews- came from consumers followed by investors and the least were from creditors. Consumers were more free to express they views and more willing to share their experience and ideas with the researcher (92 usable questionnaires and 14 interviews). This group was followed by investors represented by those who work as brokers in the registered companies that are the only organizations entitled to deal in shares and bonds (52 questionnaires and 5 interviews) comparing to those who work in investments departments in banks (32 questionnaires and 7 interviews). The latter group claimed to be both very busy and under restrictions to express their views. The reason –in my view- is that majority of banks operate in Egypt are state-owned and bureaucracy is high and both staff and work environment are rather "non-communicative" unless in few cases. Confirmation as to anonymity and academic use-only for data, helped to lessen the lack willingness to participate. The least group that was willing to participate was credit officers in banks and financial institutions (68 questionnaires and 4 interviews). There were much reluctant to declare even known issues and only when given confirmation that no numbers, or amounts of money are required, no names or any sensitive data are sought and the feedback would be used for the scientific research only and more importantly when they saw the questionnaire with no names or name of their work place were targeted, they only then were comfortable to involve in the study. In overall, it looks that relatively close number of participants were there to represent every group of stakeholders. Answers to the questionnaire were coded where 5 code represents "strongly agree", 4 for "agree", 3 "neutral" and 2 and 1 for disagree and strongly disagree respectively. SPSS was used to analyze the data and findings are presented in the following section.

4. Findings

Based on analyses undertaken, three sections could be reported: first: Stakeholders' evaluation of CG, second: Stakeholders' potential actions towards good or bad CG and third: Reasons for taking/ignoring CG when taking decisions.

4.1 Stakeholders' Evaluation of CG

Regarding the first part; the main questions here are: whether participants consider CG important at all, and specifically in their decisions, whether they know about CG by the companies they consider? and whether they take what they know into account when considering an investment, credit or purchasing decision with these companies.

As Table (2) shows that majority of respondents emphasise the importance of CG generally in the companies regarding which they take investment, credit or consumption decisions. The frequencies are the sum of those who ticked "agree" and "strongly agree". Total of 218 of 242 (90%) participants agree that CG is important in their decisions. This is apparent from the mean and median 4.38 and 4 respectively, as the code 4 was given to the answer "agree" in the questionnaire so this means the most repeated answer is Yes agree on the importance of CG by most participants.

Table 2: Descriptive Statistics Stakeholders' Awareness of Cg in Egypt

Frequencies	The importance of CG	Sources of knowledge about CG			
		CG report	A section of The annual report	Investor' relations' on home page	others
Frequency	218	32	62	83	21
Median	4	3.62	3.29	3.9	2.09
St. deviation	.023	1.025	1.017	.21	.824

In Table (2) the most common source for company's CG which participants check are first: the section titled "investor's relations" which many Egyptian companies set up on their web pages, followed by a section in the annual financial report, then a separate CG report and lastly other news or announcements made by the company or other regulatory or industrial reports. The frequencies show that 83 of the 242 know about company's CG through the investor's relation section of the company's web site whereas 62 get information from a section in the annual financial reports and 32 read about CG from a separate report of it issued by the company and 21 know from fragmented sources like news, company announcements and others. A remaining 44 participants of 242 (18%) do not have information about company's CG from any source. The first source "Investor's relations" on company's web site, although the name may give an impression that it is oriented solely and mainly to investors (i.e. shareholders), the reality is that it reports also on CG practices that relate to shareholders and other stakeholders. ANOVA shows no difference between the three types of stakeholders (investors, lenders and consumers) regarding the importance of CG. These data support the first hypothesis.

The interviews provide another evidence for the stakeholders' appreciation of the role of company's CG when they take investment, lending or consumption decisions. Interviewees referee to the case of the major Telecom company 'Mobinil" with its leading share in Cairo Securities Exchange. This company provides the best practice in CG and issues a separate report for it. The company publishes the report on its web site and gained many awards for its outstanding performance in that field. Not surprising then that Mobinil share is known as a leading share in Cairo securities exchange. Similarly Egyptian resort company, Egyptian telecommunications, Arabia for Real Estate Development "Talaat Mustapha Group", all are leading companies in the securities exchange and provide in a separate report their vision and policies of corporate governance. Other companies give either a brief statement about their CG within their annual report, in their web site or the "investors' relation" of it (which also reflects the scope of emphasis) such as Amer group, Cemex or Pioneers Holding.

Participants highlight that it is through these sources they know about companies CG. However, because it is relatively a new practice, it tends to be broad and describes "policies as stated not as applied". More interesting details normally appear when a company gets an award, or gets into a problem highlighted by the media (e.g. a legal case of unfair pay to employees, or termination of contracts for many of them, or polluting a site, involving in extremely risky decisions such as when some banks allowed huge loans on poor basis and the debtor flew abroad or taking monopoly action such as the case with the giant Ezz Steel company in Alexandria). Participants highlight that bad news spread faster and wider than good news about CG. Incidents mentioned by participants were also checked from other sources and confirmed true.

4.2 Do Stakeholders' Include Their Evaluation of Company' CG in Their Decisions?

Table (3) indicates that in spite of confirming the importance of CG in companies in which participant invest, give credit or purchase from, the vast majority of them deny that they include this factor into analysis (at different degrees).

Table 3: Frequencies of Stakeholders Who Take Cg in Making Their Decisions

Stakeholders	Frequencies of approval
Investors	7
Creditors	9
Consumers	72

Total number of participants who represent investors and take the investment decision – partially of course- on company's CG are only 7 out of 82 (8%), and 9 out of the 68 lenders (13%) while 72 of the 92 consumers (78%) declare that they take into account the company's CG adoption and reporting, when they decide whether to purchase its products or services or not. This evidence rejects the second hypothesis for investors and creditors but accepts it for consumers. It is rather surprising that investors show stronger refusal for including CG in their analysis comparing to creditors. There might be reasons for this. One reason could be that, shareholders have different mechanisms and tools by which they can monitor management behaviour and actions, secondly, the current shareholders are the owners of the business has the right and position to change the management if they are unhappy about their way of running the business while the future investors have the option not to invest in that company with CG which they are not happy with. It is very important to mention here that at the time the study was undertaken, there was some major cases of management misbehaviour and even some businessmen who operated in a corrupted way and they were taken to court or some legal cases were raised against them and the media spot light on such cases so maybe answers were affected by this atmosphere. On the other hand, Creditors while gave a contracted loan or bonds, they do not have an opportunity to counteract management decisions if they are not happy with CG. For creditors, issues of CG such as the work of audit committee, disclosure of risk management policy, compliance to CG code and best practices and other measurements, when exist, they provide far more assurance to creditors on money lent to company. The study of Nam and Nam (2005) showed that in some Asian countries, banks even follow up closely company's CG not only before deciding the loan but also after granting it and in some cases there are representative from lending banks involve in the company's setting and implementation of CG.

Reasons for investors and creditors lack of inclusion of CG into their decisions varied from participants. Some considered the whole market base investment and credit analyses on financial information only, so the environmental issue for example, or corruption or unfair treatment to employees or taking risky decisions all remain outside the financial domain and thus not included and because everyone else follow the same line of thinking, there is no reason to be different otherwise, one could miss a profitable opportunity. Other reasons include: CG practice is a fairly new practice in Egypt, not many company follow it, in spite of the securities recommendation and so on. Because of this limited adoption, it cannot be considered, because information have to be fairly common to all companies, that is why they are based on information that are fairly available by all companies (the financial). Availability of detailed enough information about CG, and assured information is not yet possible unlike the financial information that are reliable, generated based on standards and assured from independent auditors.

Apart from the possible reasons for the slight difference between investors and creditors, consumers showed stronger positive attitude towards a company with good or poor CG. Reasons behind this could be the consumers' awareness and growing assertiveness especially against recent cases highlighted by the media for mismanagement and some businessmen taking loans from banks and leaving the country in addition to other examples of corruption. Another reason is that there is no monopoly of producers of most products and services so consumers have chances to purchase from another company if displeased with one company. There is also a growing awareness of different stakeholders' rights and concerns in companies and a recognition that those stakeholders are partners in a company's success and deserve to be receive a good treatment from the company.

Kruskal-Wallis One-Way Analysis of Variance statistical technique is used to test the difference between three or more independent samples when they are of different size. Since the sample that represents each group of stakeholders is different from the others (82, 68 and 92 for investors, creditors and consumers respectively) do it was not possible to use ANOVA test for variance and instead, Kruskal-Wallis will be implemented.

Table 4: Kruskal-Wallis One-Way Analysis of Variance

	N	Mean Rank
Take CG into account when making decisions	82	3.1
Investors	68	2.2
Creditors	92	4.35
Consumers	242	
Total		

Kruskal-Wallis a,b

Chi- square	3.42
df	2
Asum. Sig.	.0146

a. Kruskal-Wallis test
b Grouping variable: Take CG into account when making decisions

The test is a significant difference between the means of the three groups of stakeholders regarding taking CG information in decisions. Table (4) shows a statistical significance for differences at 95% indicates that consumers group seems genuine in taking the CG into account when taking their decisions, while investors, creditors do not really do so.. This result may be affected by the weight of consumers because 72 participants of reveal that they consider these information when deciding to purchase from one company or not, this is in one hand and on the other hand a total of 134 participants of investors and lenders indicate that they do not. This can be seen as an additional evidence that works towards rejecting the second hypothesis.

4.3 Stakeholders' Potential Actions towards Good or Bad CG

While being aware that data analysis did not support the second hypothesis, the investigation from the beginning included a third hypothesis that there may be a range of actions taken by different stakeholders towards their evaluation of a company's CG. The data collected about this hypothesis are worthy presenting for two reasons. First, because there is a difference between the groups of stakeholders and secondly because it gives details about this practice in Egypt and how perceived and reacted to by stakeholders.

While participants who involve in investment and credit decisions do not take CG into account when considering those decisions, consumer –by large- do. Consumers show not only a strong awareness of different aspects of CG but also they are being strong activists for and against good or bad CG. Consumers look more free in their decisions comparing to investors and creditors as long as the product or service is not monopolized. Participants referred to cases where they stopped using Mobinil services (although it is the best practiced company in CG) only when its chairman gave some comments on the internet that considered unacceptable and offensive to consumers. Consumers moved to competitor telecommunication companies and Mobinil suffered losses. Consumers mentioned other cases such as stop buying some food products if known to be not have the required health prescriptions, supporting a general public movement to stop building a chemical factory in the Delta of the River Nile for the expected pollution on the surrounding community.

When participants were asked if they –still- see CG by companies they deal with are related to their decisions, a good percentage gave a positive view. Investors mention that it is much better for them to invest in companies which maintain fair treatment with employees, provide welfare to them, care about public health, quality of products, be creative, participant in local community development because these issues will positively reflect on the long term sustainability and well being of the firm which means more sales to happy customers and stability and more developed performance by happy employees, which all means more profit to shareholders and the vise sera, problems with employees and poor products and services and negative relations with the community could damage the company's long term profitability. Participants who involve in credit decisions were more conservative. They still consider that they give "money" on contracted basis and will get "money" from debtors, no matter how they work. However, those participants emphasize that negative relations with consumers, employees and other stakeholders may cause damage to creditors mainly when the company is caught in legal cases. Consumers reaction to good practice of CG include keep purchase or making more purchases and recommending the company to others. Their reaction towards cases of negative accidents may vary from stop buying from it, forward negative publicity about it, to stronger steps such as supporting the victims of those actions either through a petition, demonstration or a legal case if possible.

4.4 Elements of CG of Importance to Different Stakeholders

The questionnaire feedback and the interviews highlight that each group of stakeholders would focus more attention on specific items of the CG mechanisms adopted by the company. For example, investors report that issues relate to management remuneration, independency, the existence of an effective internal controls and internal audit committee are crucial to them. This group of stakeholders are interested to trace how management uses the resources, if there are reasons to doubt management in any cases for fraud or manipulation. Therefore, the justified choice of policies and actions, proper implementation of accounting procedures which will be monitored by the internal audit committee and being independent (with no dealing in company's shares), those items could give investors more confidence that their investment are in safe hands. Furthermore, the point of remuneration became an important issue. Investors referred to negative examples of managers taking unjustifiably large pay in some companies locally and internationally while their companies are in reality collapsing (e.g. Enron and other companies and banks). To the participants, as long as management remuneration is an expense item, it has to be based on contracts and justified to the owners.

To creditors, having an audit committee, compliance to laws, dealing with conflicts in interests and adopting high standard of professionalism were the key points. While creditors were rather assured that the credit they give to a company (either loan or bonds) are contracted arrangements protected by law and it would be difficult for a company not to fulfill those commitments, creditors still are concerned by the “degree of risk” involved in every credit case. Some participants comment that all precautions are taken in the time of arranging the deal, but no guarantee what will happen next. It is of great importance to lenders to deal with a company where there is a reliable auditing done of any accounts published for the company and there is a high level of compliance to laws and managers are doing their work in a professional manner. Such steps reduce risk and gives the company more credibility and sustainability by lenders.

Consumers are more free to look at different issues of the CG package. They are more ambitious and demanding from the company. The consumers include people from different fields, lawyers, chemists, teachers and so on. They reflected their backgrounds and how activists they are in public issues, in the views they expressed about the company. In the sample investigated, consumers wish to see more disclosure of information about the business, statement of fair treatment to employees, code of ethics and policy for handling workers’ complaints, clear statement about directors, their responsibilities, policy of avoiding mixed role for example by avoiding dealing in shares while working as managers and an active role with shareholders of the company.

5. Summary and Conclusion

The findings disagree with Husrt (2004) who reports more active stakeholders in the EU and US (comparing to Egypt), and Hockerts and Moir (2007) and agree with Visser (2008) review about performance in Thailand but not with his result about South Africa. These differences can be explained by whether the survey was undertaken in a country with a relatively long, well practiced experience with CG or a developing country with a thin experience, limited in practice and still gaining more attention and acknowledgment from stakeholders.

In summary, this study examines –within the stakeholders perspective of corporate governance- whether investors, creditors and consumers take companies in Egypt corporate governance into consideration when they take their decisions, why and how. A questionnaire and some interviews were used to collect data from officers in credit and investment departments in banks, securities brokers and consumers. Results show that while participants agree on the importance and relevance of CG to be included in analyses of their decisions but in reality they do not include except for consumer. Among the reasons given for that; it is the general practice that no one includes CG, it is not financial, fairly new, not many companies adopt or communicate its information, its information not verified like the financial ones. Yet, investors –by large- still see it relevant and affects profitability they seek- on the long run, creditors are reluctant to accept it affects their decisions unless the company has a heavy legal case due to a bad CG. Consumers enthusiastically base their decisions on CG and willing to take actions for both bad or good CG.

Findings of this study are restricted by some limitations. First, it does not aim or attempt to involve in the debate or evaluation of shareholders' perspective of corporate governance vs. stakeholders and the consequences of each. Second, the focus is on "selected" stakeholders and subjectively considered "they key" ones: investors, creditors and consumers. While all stakeholders are important to examine, but those are seen as the most influential and potentially impacting the others. Third, while there are many pointed to be addressed in this area, the research questions in focus here are: do stakeholders consider corporate governance important in their decisions? Do they take it into account when considering these decisions? Why? Why not? and which group of the selected stakeholders are more active in reacting to company's corporate governance performance? Lastly, results are limited by the tools of examination and data collected.

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