

*Transparency and Disclosure in SOEs;  
Equitable Treatment of (Minority)  
Shareholders*

**Tariq Kirmani**  
**Chairman & CEO**  
**Pakistan International Airlines**

**CORPORATE GOVERNANCE IN PAKISTAN & STATE OF SOEs  
PRIOR TO CG REGIME**

**CORPORATE GOVERNANCE CHALLENGES & REFORMS**

**MINORITY SHAREHOLDERS –ISSUES, TRANSPARENCY &  
DISCLOSURE**

**RECOMMENDATIONS**

- ‘....the distribution of rights & responsibilities among different participants in the corporations such as the board, managers, shareholders and other stakeholders spells out rules and procedures for making decisions on corporate affairs’
- Corporate Governance deals with the constraints that managers put on themselves, or that investors put on managers, to mitigate agency problems and, thus, induce investors to provide more funds

## BASIC DISTINCTION

### PUBLIC SECTOR

- Operation in political domain
- Directed by state orders
- Striving for government support and funding
- Low employee productivity, high debt, fiscal losses
- Guaranteed employment

### PRIVATE SECTOR

- Operation in commercial domain
- Directed by market forces
- Striving for market share and earning
- Emphasis on operational efficiency & higher profits
- Ongoing weeding out process

### INTERNAL

- **Board meetings were used to chaired by the then Ministers**
- **Obsolete Systems / Weak controls**
- **Dearth of Quality professionals**
- **Myopic Business Vision**
- **Bureaucratic Management**
- **Ineffective Organizational Structure**
- **Profits dependent on Inventory Gains**
- **Inefficiencies**

### EXTERNAL

- **Aggressive Marketing & Development by Competition**
- **Political Intervention**
- **Economic Factors**
- **Highly Regulated Environment**
- **Products Substitution**
- **New Players**
- **Tarnishing image & declining market share**
- **Innovation**



- **Excessive flow of government queries hindering operational performance**
- **Commercial and business decisions often questioned by government agencies**
- **Historical decisions / actions investigated after considerable lapse of time (even the decision makers are long gone)**
- **Government intervention in day to day affairs**

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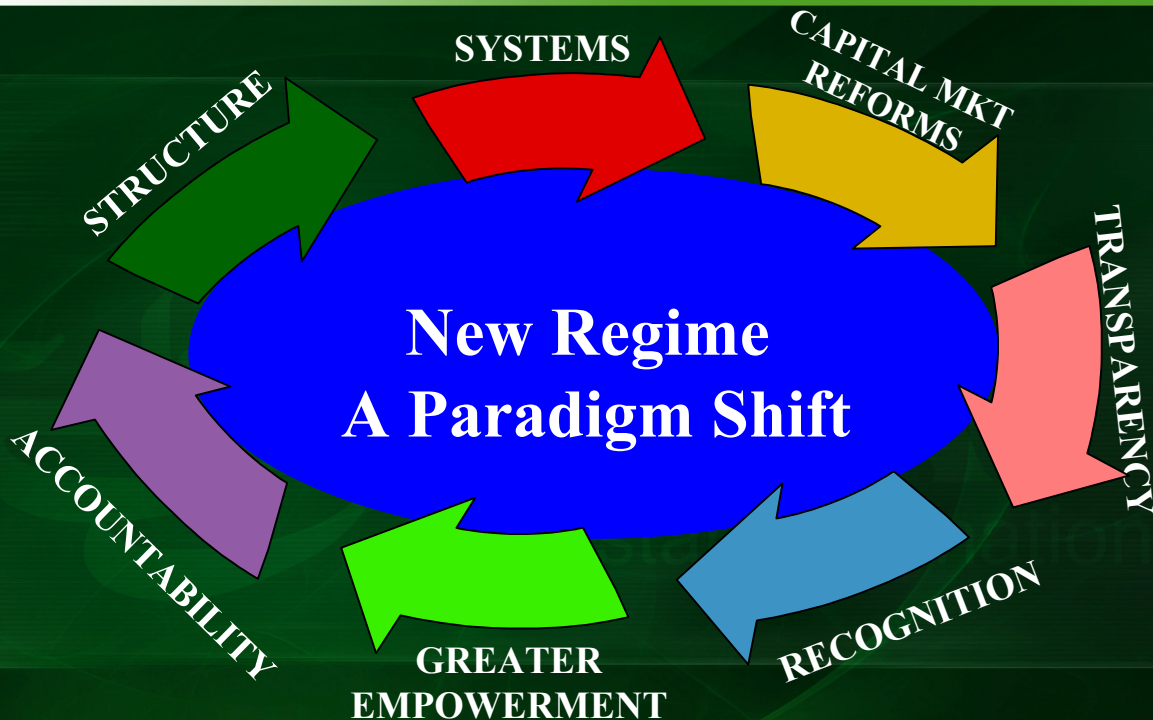
**RECOMMENDATIONS**

*from a typical public-sector company to a market-driven company*

Distribution oriented	→	Customer service oriented
Large and centralized	→	Lean and decentralized
Government control	→	Managerial autonomy
Operational myopia	→	Strategic vision
Diffused responsibility	→	Ownership and accountability
Technical orientation	→	Commercial orientation
Risk averse	→	Entrepreneurial attitudes
Hierarchical and bureaucratic setup	→	Task driven organization
Reliance on managerial authority	→	Teamwork and delegation of responsibility
Product sale only	→	Business diversification & vertical integration



# MULTIDIMENSIONAL CORPORATE GOVERNANCE INITIATIVES



- **Independent & Autonomous Boards appointed in all SOEs**
  - **Majority of directors from private sector**
  - **Commercial orientation introduced; SOEs to operate in accordance with Companies Ordinance 1984**
- **In March 2002, the Security Exchange Commission of Pakistan (SECP) issued the Code of Corporate Governance to establish framework for good governance of companies listed on Pakistan's Stock Exchange**

- **The code was issued to:**
  - Safeguard the interests of stakeholders
  - Promote market confidence
  - Enhance performance, and
  - Ensure conformance of companies
- **In addition the code addresses:**
  - Agency problems
  - Transparency
  - Accountability of Directors

- **Mandatory for SOEs to have Audit, HR and Finance Committees**
- **Essential for listed SOEs and other public limited companies to declare their accounts quarterly within the stipulated timeframe**
- **Annual Reports also cover “*Statement of Corporate Governance*” by the management and external auditors**
- **Mandatory for SOEs and others to disclose all material changes in line with GAPP & IAS**

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**The shareholders' role in governance is  
to appoint the directors and the auditors and  
to satisfy themselves that  
an appropriate governance structure is in place**

# MINORITY SHAREHOLDERS RIGHTS & ISSUES

- **Voting rights given on the basis of information that is equally available to all shareholders**
- **Section 4.8 of CG manual ensures that all shareholders, including minority, should be able to obtain effective redressal for violation (if any) of their rights**
- **Despite having voting power, minority shareholders' votes are unlikely to have an impact on key corporate decisions**

- **Annual financial statements are prepared in line with the stipulated comprehensive criteria laid down by ICAP**
- **The criteria cover:**
  - **A detailed report to shareholders encompassing**
    - Industry environment
    - Strategic initiatives taken by companies
    - HR & CSR activities
    - Future outlook
  - **Key financial indicators (most widely used ratios)**
  - **10-year performance at a glance**

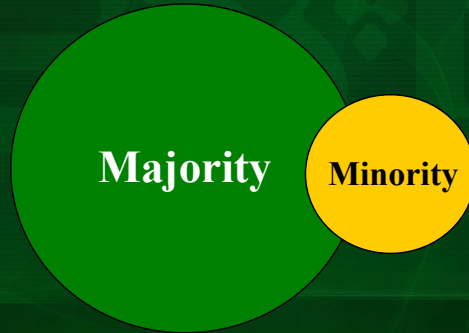
**Ample information is given to minority shareholders to keep them abreast of corporate issues, performance & strategic initiatives allowing them to question managements on all business matters during AGMs / EGMs**

- **Lack of control in important decision making**
- **Minority shareholders are not always given enough time to consider a right issue**
- **Major shareholders tend to eliminate minority shareholders to obtain more management controls**
- **Difficult to exercise rights specifically thru judicial system (too lengthy and too expensive)**
- **Sometimes no access to management/leadership of the company**

# DISJOINTED VS PARTICIPATIVE APPROACH



**Disjointed  
Approach**



**Participative  
Approach**



**SECP introduced several checks and balances, including:**

- **Disclosure of stockholding by Directors and meetings attended by them**
- **News alerts on websites along with financial results/statements**
- **During AGMs / EGMs, management and directors are available to answer any query of shareholders on business/operation (normally AGMs last upto 4-5 hours)**

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*Equitable treatment of minority shareholders calls for:*

- Privatization of SOEs to maximize shareholders rights/value
- Empowering them to include agenda of their choice (provided they hold over and above 5% holding)
- Preferential treatment in case of liquidation of business
- The provision that up to a minimum of 20% holdings can call Extraordinary General Meeting (EGM)
- More General meetings for more disclosure for shareholders, specifically for minority
- 6-monthly audit review to be introduced
- Timely disclosure of material information; Timely holding of meetings

- **Developing tangible criteria to measure level of good governance – a lesson from the Enron disaster**
- **Provision in laws to be made for business acquisition in Pakistan**
- **Maximum distribution of profits for management to enhance shareholders' value**
- **A Code of business to be developed and signed by all directors and employees to curb insider information and penalty to be imposed**
- **Any dissenting Board decision should be incorporated in the annual accounts**

THANK YOU

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