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CORPORATE GOVERNANCE PRACTICES IN PAKISTAN

Survey Report on Board Composition, Practices and Remuneration, 2019

PICG
Pakistan Institute of Corporate Governance

Contents

About PICG

The Pakistan Institute of Corporate Governance (PICG) is the country's premier institution set up in 2004 as a not-for-profit company committed to the cause of promoting good corporate governance practices in the country. It is involved in corporate governance training and education, policy advocacy, advisory services, undertaking research and evaluations, conducting surveys as well as publishing guidelines and other research material.

I. Introduction

We are pleased to share with you our report "Corporate Governance Practices 2019", which presents the findings of a survey undertaken by the Pakistan Institute of Corporate Governance (PICG). The report summarizes corporate governance practices of both listed and unlisted companies, in Pakistan.

This survey is a follow up to an earlier one conducted by PICG in 2016 (2016 Survey), on Board Composition, Practices and Remuneration which identified major governance challenges faced by boards in Pakistan. Since then, there has been an overhaul in the regulatory environment in the country with the promulgation of the Companies Act 2017 in May 2017 by the Securities and Exchange Commission of Pakistan (SECP), repealing the years old Companies Ordinance 1984. Thereafter, a vast number of new regulations and guidelines were issued, including the Listed Companies (Code of Corporate Governance) Regulations, 2017 and amendments being made to the Public Sector (Code of Corporate Governance) Regulations, 2013 , as well as others pertaining to areas such as capital markets and brokerage, insurance, NBFC's, Modarabas and banking and finance.

Consequently, with almost three years having passed and a number of changes having been made to the regulatory and corporate governance environment in the country, it was the ideal time to launch this survey to obtain a better understanding of the current state of board practices in Pakistan and gain further insights into changes that may have taken place in corporate practices since then.

The results of the survey have come at the dawn of a new era for listed companies. The Listed Companies (Code of Corporate Governance) Regulations, 2019 (2019 Code) was issued by SECP on September 25, 2019, while the survey was still in progress. The key change was a shift from a 'compliance based' to a 'comply or explain' approach, whereby companies will be required to comply with certain mandatory provisions on the one hand; and either comply or provide appropriate explanation as to why they did not adopt other "non-mandatory" provisions on the other. The explanations provided by the board of companies for the non-mandatory provisions will surely reflect the overall corporate governance culture adopted by companies. Hence, it seems the timing of our survey could not have been better as it provides a good overview of current practices, which may later be compared to the impact the new regulation have on the overall corporate governance culture of listed companies in the country.

*[1]For information on various Codes of Corporate Governance issued by the SECP, please refer the following:
https://www.secp.gov.pk/corporate-governance/corporate-governance/

II. The Survey & Methodology

Corporate governance is an evolving process with best practices of governance encouraged by regulators and stakeholders alike. PICG's Research Team conducted this survey as a follow up to the previously conducted 2016 Survey to obtain an overview of current corporate governance practices and update previous insights gained from the results of other surveys carried out on this topic. Detailed analysis of the results of our online survey has shown the varied practices/procedures existing amongst a variety of companies spread across Pakistan.

The survey was designed in the form of an online questionnaire and sent to directors, executives and PICG's members as well as non-member contacts (as available in PICG's database). The survey was requested to be filled by either: the Chairman, CEO, a Board Member or the Company Secretary of the organization being represented, however, responses from other executives were also accepted.

In order to get a broad representation of general board practices in Pakistan, the survey was open to all companies irrespective of their legal status or industry affiliation, and the only criteria required was to represent companies registered under the Companies Act 2017.

The questionnaire covered a number of broad corporate practices, categorized as: board composition, board practices, board remuneration and general matters. Based on our detailed analysis, some of the information has been reclassified in this report for the purpose of better presentation and reporting.

We required names of the respondents*[2] and the company(s) they were representing to confirm the authenticity of responses, as well as ensure that no duplicate responses were received from the same company. In case of more than one response from a single company, the additional ones were disregarded. Further, any incorrect data that came to our knowledge was disregarded.

Total number of responses received:	213
Responses accepted*[3]:	133

Consequently, after considering all the above factors, we accepted and analyzed responses received from executives representing a good mix of companies across Pakistan. We would like to place on record our appreciation for their invaluable contribution to this survey.

All information has been tabulated and analyzed based solely on responses received. While all possible care has been taken to compile the results, the possibility of any unintentional error cannot be ruled out. Kindly inform the Research Team of any errors noticed on info@picg.org.pk

Research Team – PICG
December, 2019

*[2] As stated in the prelude to the online questionnaire, names of respondents have been kept strictly confidential.

*[3] A significant amount of responses were disregarded during our initial review of the results due to being duplicate entries, unauthentic or incorrect, or being from individuals representing entities not registered as 'companies' under the Companies Act 2017. Thereafter, during our detailed analysis those companies that did not provide their company names were also disqualified from the analysis.

*[4] All respondents who completed the survey and supplied us with their email addresses were provided a copy of the "Basic Results" of this survey as a token of our appreciation.

III. Executive Summary

The findings from this survey draw attention to the corporate governance practices existing in over 130 respondent companies in Pakistan, listed and unlisted, public and private. The report provides a snapshot of the in-depth analysis undertaken in the areas of board composition, practices and remuneration based on responses received, along with the views of the respondents on the corporate governance culture prevailing in the country as well as in their respective companies.

Respondent Data

The extensive outreach to the corporate sector paid off in terms of a greater number of respondents as compared to 2016, when this exercise was last conducted. This of course resulted in further enriching our data on the basis of which we could conduct more in-depth analysis and draw more robust conclusions.

Almost an equal number of responses were received from company secretaries and board members. Other senior executives including Chief Financial Officers, Internal Auditors and other key management executives also participated. It was encouraging to note that companies have set up separate 'Corporate Governance Compliance' departments and responses were received from managers of these departments as well. For Public Sector Companies (PSC's), just over 50% of the respondents were Board members (including Chairman and CEO), whereas for listed companies, a little over half (54%) were Company Secretaries.

During the course of the survey, a few companies provided the name and designation of the individual who would respond on behalf of the respective company, indicating the presence of a strong communication policy or awareness about who is authorized to provide information about the company. We also received more than one response per company in a number of cases; and in one case as many as four responses from the same company signifying a very proactive board that is well aware of corporate practices within their own company and maintains interest about good corporate governance practices in general.

Two-thirds of the companies in our sample are listed and one-third unlisted. It is encouraging to note that 22% of the respondents represent PSC's - which is double of what was received during our 2016 Survey (only ie. 10%), and also almost double the number of what was received in a 'public sector-specific' survey carried out by PICG in the same year, entitled "Board Practices of Public Sector Companies in Pakistan"*[5].

Industry-wise, a variety of different sectors have been covered, with almost one third of the respondents representing manufacturing companies, majority of which are listed companies. A quarter of the respondents are from the banking and finance sector, with half of these being commercial banks (including microfinance banks) and the other half consisting of investment banks, Development Finance Institutions (DFI's), Non-Banking Financial Company (NBFC) and asset management / mutual funds company. Of the PSC respondents, just less than half are from either the power and utilities or oil and gas sectors. Those from the services industry include: communication companies, recruitment agency, and terminal operators. 'Others' consists of a variety of companies dealing in engineering products, machinery, jute products, steel, iron, cables and wires, pipes, Fast-Moving Consumer Goods (FMCG), packaging as well as those from industries such as automobiles and automotive parts, transportation, construction and development, etc. As was the case in our 2016 Survey, no response was received from the hospitality industry.

*[5] Refer https://picg.org.pk/wp-content/uploads/2015/12/Survey-on-Board-Practices-of-Public-Sectors-Companies-in-Pakistan-May-2016-FINAL-Report.pdf

Board Composition

The total number of directors on the board of our respondents ranged from 2 to 15, with an overall average board size of approximately eight (8.2) directors. Generally, half of the board members are non-executive directors (NEDs), followed by just over a quarter as independent directors (INEDs), together forming 80% of the composition of the board. Although there has been a significant increase in the number of INEDs since the last survey, a quarter of the listed companies still do not have the required number of INEDs as was mandated by the 2017 Code*[6]. (Previously only 22% of the listed companies had the preferred number of INEDs). Also, majority (84%) of the respondents have two or less EDs on their board, with more than half having only one Executive Director (ED).

When asked to classify their board members as executive, non-executive and independent, there seemed to be some confusion, with quite a few of the respondents not being able to determine the correct classification and total number of board members (as was stated in other parts of the survey). Such responses were disregarded in our analysis of overall board classification. It is not clear whether this is as a result of simple typographical errors or due to lack of knowledge regarding the definitions of the type of directors, however, based on the number of errors, it seems the latter may be the reason. In a few cases, respondents stated that they did not have the required composition of the board according to the Companies Act, 2017/ 2017 Code, due to either a casual vacancy, direct appointment of directors by the Government and even due to varied composition required under the terms of privatization.

Almost half of the companies have NEDs who have served on the board for more than three (3) terms, with an average of 2-3 NEDs per such boards. 65% of the respondent companies have added at least one new director to the board during the year, with 12% having added more than four directors. One third of the companies' added new directors to their boards as a result of the resignation of previous members; and only 16% made additions on account of orderly planned succession. Retirement, diversification, new ownership and shifting of directors between one associated company to another, were also quoted as reasons for change in the overall composition of the board.

Key Findings from Survey

- **Average board size is approximately 8 (8.2)**
- **Public Sector Companies have the largest average board size**
- **The number of boards with female directors has gone up from one third in 2016 to two thirds; however, female directors constitute only 10.4% of the total directors.**
- **The number of INEDs is on the rise, however, a quarter of the listed companies did not have the required number of INEDs as mandated by the 2017 Code (now the 2019 Code)**
- **62% of the companies have no directors aged below 40 years.**
- **Boards generally have directors with skills/ knowledge in finance and general management. This is followed by legal and marketing knowhow**

The number of companies with female representation on their boards has gone up considerably from only 34% of the companies in 2016, to 64% as reported by the respondents. Yet, over a quarter of the listed companies still have no female directors on their boards despite the requirement of the Companies Act 2017 and 2017 Code (now 2019 Code) for listed companies to have at least one female director on the board. This may be on account of the extension in the deadline given by the SECP to comply with this requirement, as a few companies stated that the appointment of female directors was to be taken up at the next election of directors. Only half of the PSC boards had female directors, however, of those that did, the female directors comprised 15% of the board, indicating a generally higher ratio of females than in other listed and unlisted companies. Overall, female directors constituted only 10.4% of the total directors in our pool of respondents, which is only 1 % higher than in 2016 despite the fact that the number of boards with female directors has gone up from one third to two thirds. This may

*[6] The Listed Companies (Code of Corporate Governance) Regulations, 2017 required boards to have: 'one third or two directors, whichever is higher' as INEDs.

imply that there has been a decrease in the actual number "per board". On average, there was just a single female director (1.35) per company on an overall basis. The overall 'male: female' ratio was 7:1, with the ratio in listed companies being slightly higher indicating a definite rise of female directors in listed companies as previously the ratio was much lower than that of unlisted companies. This seems to be on trend with North America. In Canada, nearly 40 percent of TSX-listed companies have no women on their boards. Proxy advisors have recently established voting guidelines related to the disclosure of formal gender diversity policies by TSX-listed companies. Institutional Shareholder Services (ISS) has also updated its policies on gender diversity for Russell 3000 and S&P 1500 companies. In contrast, European Women on Boards (EWoB) in association with ISS has published a new report*[7] which examines the progress women are making on the Boards of the 600 largest European-listed companies. The report reveals that the presence of women on boards has increased from an average of 13.9% to 25% in five years. Sweden tops the table in terms of board gender diversity, followed by Norway, Belgium, Finland and France, where women make up over 30% of board members. The sectors that are top of the class with regards to board gender diversity are telecommunications, financial services, utilities, and consumer staples sectors.

We found that more than half of the total directors in our sample were aged between 40 to 60yrs. Like before, there is a dearth of young directors on boards with 62% (2016: 66%) of the companies having no directors aged below 40 years. On the other hand, just over half of the companies had no directors above the age of 70 years. It is interesting to note that recently, in April 2019, the Securities and Exchange Board of India (Sebi) amended its listing regulations limiting the age of a non-executive director to 75 years, stipulating that the chairperson should be a non-executive director, and requiring at least one independent woman director on the board.

Over a third of the companies have foreign nationals on their boards (2016: almost 50%), with almost 75% being listed companies and 22% being PSC's.

Almost all of the boards comprised of individuals with financial and general management knowledge, and most boards had someone with legal background, followed by marketing experience. Respondents also identified other skills such as audit, risk management, human resource, treasury, credit, investment banking, education and research that their directors possessed, and many had more than one skillset. Some responses indicated the lack of awareness of board members with respect to the skill mix within their boards, which calls into question the role of the nomination committee in conducting a 'skill-gap' analysis and sharing it with the rest of the board. This gives rise to the question of how aware a director should be of the experience and abilities of fellow board members, both prior to joining the board and after doing so, and how much information in this regard should be provided to new directors at the time of orientation and by way of a board pack. Overall, respondents felt that their boards were well balanced in terms of skills and knowledge.

All but two (2) listed companies stated that the roles of the Chairman and CEO were separate*[8] being a marked improvement from 2016 where a large number of listed companies had merged the responsibility of both. Further, it was encouraging to see that over 80% of the unlisted companies had also ensured separation of the role of the Chairman and CEO. Four listed companies stated that their Chairmen were executive directors, despite the requirement of the Companies Act 2017 requiring appointment of the chairman from among the NEDs*[9].

A variety of methods are used by companies to find appropriate INEDs for their boards, with 40% still pre-selecting individuals and then ensuring they register themselves on the databank required under Section 166 of the Companies Act, 2017. Out of the listed companies, almost half state that they pre-select directors and a quarter of them utilize the databank for selection purposes. Other methods of selection include: requirements of 'Special Regulations', mutual agreement between majority shareholders & industry leaders with diverse backgrounds, head hunting by a sponsoring Group, utilizing contacts, etc.

Only 13% of the companies reported that they faced hurdles in attracting new directors with relevant skills, qualifications and experience. They faced difficulties on account of resistance of existing directors to 'outsiders',

*[7] Gender Diversity on European Boards – Realizing Europe's Potential: Progress and Challenges, A European Women on Boards Study in Partnership with Institutional Shareholder Services, 2019

*[8] Regulation 9 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 states that the role of the Chairman and the CEO shall be performed by different individuals

*[9] Section 192(1) of the Companies Act 2017 states that the " board of a listed company shall within fourteen days from the date of election of directors, appoint a chairman from among the non-executive directors…."

dearth of qualified and experienced female directors, availability of skilled board members and poor compensation. Further, some specialty fields that require experts face difficulties as, at times, very few individuals possessing requisite expertise are available in the country. Public sector respondents stated that INEDs that possess relevant skills and qualifications do not come forward to serve on the board of PSC's due to low level of awareness of corporate governance along with compromise on independence, fear of NAB/Agencies, government decisions, and decisions not necessarily based on merit; and in their absence, persons with vested interests usually take up such positions. Another respondent recommended the existence of some mechanism/linkage to ensure performance of INEDs is at par with other directors.

Board Practices

Annually 4 to 6 meetings of less than 4 hours duration each was the most common practice amongst our respondents. 71% of the companies that held seven or more meetings during the year were listed companies. Two-thirds of the companies who held 'more than ten' meetings during the year were from the public sector representing mainly "service providers" of different industries, and there was no manufacturing company in this category. Almost half of the PSC's conducted seven or more meetings during the year; and in general had the highest weighted average number of 7 meetings during the year. The rest of the majority of companies held between 4-6 meetings annually, with an overall average of 6 meetings a year. With respect to the duration of meetings held, banks in general had a higher average of 6 hours per meeting, whereas other companies (listed and unlisted, as well as public sector) had an average of below 4 hours per meeting and all companies that held meetings of more than 8 hours were banks.

Most respondents agreed that information provided to them prior to board meetings was concise and disseminated in a timely manner and a significant majority (over 80%) is provided information either as electronic data, or a mixture of hardcopies and electronic data. Most of the companies that provide 'electronic only' data are listed, with almost half of them being commercial banks. However, there are still over 10% (including a few large-scale companies) that provide information to their boards in 'only hard copy' form.

Except for a handful of unlisted companies, majority (over 90%) of the companies have both Audit and Human Resource (HR) committees'; and both committees generally have 3 or more members. 40% of the participants had a Risk Management committee, over half of which are from the banking and finance sector, and one third are PSC's. Of the companies that have a Procurement Committee, almost half are PSC's and most of these are in the power, oil and gas sector. None the less, not all PSC's had Procurement Committees as required by the Public Sector Companies (Corporate Governance) Rules, 2013. The few companies that had a separate Nomination Committee were not from any specific sector. The maximum number of board members in the any one committee was 6, and INEDs on the above committees ranged from 1-4, except one PSC which had 5 INEDs in its Procurement Committee.

Key Findings from Survey

- **Average number of meetings in a year: 4 to 6 meetings of less than 4 hours duration each.**
- **PSC have the highest average number of meetings during the year (7 meetings); whereas banks generally have longer meetings (average of 6 hours per meeting)**
- **Over 90% of the companies have both Audit and Human Resource (HR) committees'; and both committees generally have 3 or more members.**
- **Most companies make arrangements to ensure that both director orientation and training under an SECP approved director training program (DTP), is conducted for members of the board.**
- **50% of the total directors in respondent companies have obtained the required certification under approved DTP's**

There were a number of other board committees mentioned by respondents, including e-Vision, Investment, Marketing and Sales, Diversification, Strategy, Compliance and Conduct, Corporate Social Responsibility, etc. Further, some respondents mentioned that the functions of one or more committees have been merged such as: HR committee performs the function of the nomination committee in a few companies; the audit committee performs the function of the Corporate Governance Committee; risk management function is included in the terms of reference (TOR) of one respondent's Audit Committee; and the Audit Committee of another respondent also manages procurement and risk management issues. Companies need to assess whether having such functions merged, especially in the latter two cases, conflicts with the very purpose of the committees and must avoid situations where committee members both recommend and then assesses their own recommendations by ensuring operational matters are kept separate from internal control assurance.

Majority of the boards (87%) discuss the companies' strategic direction annually. Further, boards that spent two-thirds or more of their meeting time discussing forward looking strategic matters did not represent any specific sector, however, the majority of boards spent 'one-third to approximately half' of their board's time on forward looking matters, focusing on company direction and planning.

Whilst a majority of companies set aside a budget for executive education, only just over half of the companies maintain a budget for director education and development. Despite this, most of the companies still stated that they make arrangements to ensure that both director orientation, as well as training under an SECP approved director training program (DTP), is conducted for members of the board. It was also encouraging to note that generally more than 50% of the total directors in respondent companies have obtained the required certification under approved DTP's, with an average of 6 directors per company being certified. The highest number of certified directors on any one board in our sample was 12. A minor number of companies (7%) neither arranged orientation sessions nor DTP's, and except for one, all of these were unlisted companies.

The majority of respondents had some mechanism of board evaluation in place, with most conducting the same in-house, however, almost a third of the companies do not discuss the results, using it merely as a 'box-ticking' exercise and thereby rendering the exercise futile for such companies. Of the companies who undertook the evaluation with the help of an external evaluator, over half were from the banking and finance sector. Likewise, half of those who use both an in-house and external evaluator are listed companies. A third of PSC's did not conduct an evaluation at all, which may be as a result of amendments made to the Public Sector (Corporate Governance) Rules 2013, in April 2017, whereby the Government is now responsible to evaluate directors based on performance contracts provided to them at the time of their appointment. None the less, considering a formal process in this regard has not been established by the Government as yet, over half of the PSC's are still conducting some form of evaluation. Banks generally conducted either internal or external evaluations, with only one bank stating no such process exists. Overall, it is encouraging to note that the companies that do not carry out board evaluations have decreased from 22% in 2016 to 14%.

With regard to CEO evaluation and succession planning, about 11 % of the companies do not review CEO performance, and 19% do not have any formal succession plan. Of the boards that do not review CEO's performance, only one was a PSC, with the remaining being a mix of companies, both listed and unlisted. One third of the total companies only reviewed the CEO's succession plan if and when there was a need, followed by almost an equal number that reviewed the plan either annually or every 2-3 years. Globally, institutional investors are pushing for robust, independent, and regular board evaluation processes. According to consulting firm SpencerStuart*[10], UK boards tend to be highly conscious of director succession issues because of tenure limits imposed by the UK Combined Code. US boards, on the other hand, think more systematically about director succession, reflecting a different mindset from their UK counterparts. The absence of tenure limits, coupled with the trend towards later retirement ages, results in less turnover and longer average director tenure on US boards.

It is reassuring to note that various Environmental, Social and Governance (ESG) matters have been adopted by the respondent companies with most companies having some form of the following activities taking place: Corporate Social Responsibility (CSR) initiatives and other philanthropic activities, donations / contributions to charities and other social causes; health and safety features; ethical business practices and whistle blowing policies. A fewer number of companies also have inclusive development and sustainable development policies in place consisting of policies on creating livelihoods, human capital management, intellectual property, sustainable systems and natural capital. No specific trend was noted in any specific sector or industry regarding the adoption of such initiatives. One third of the respondents, however, were unsure of the adoption of such practices by their respective companies.

*[10] The Pace of Board Evolution: Comparing the U.K. and U.S. experiences, SpencerStuart, January 2015

Only a quarter of the respondents felt that crisis management awareness was amongst one of the top 3 corporate risks faced by their company and only 60% of the boards have been briefed on the company's crisis management preparedness. 61% of the respondents state that the CEO is responsible for managing the same, followed by a minor number of Company Secretaries, Chief Financial Officers, Chief Operating Officers and others such as: Head/ Chief Risk Officer, Management Committee, Head of Business Continuity Planning, Heads of Departments, and the overall board of directors. Those respondents, who state that they are not aware of who is responsible for management of a crisis, are mainly from the manufacturing sector.

Just over half (56%) of the companies have a social media policy. Most of such policies apply to 'all employees'. Similarly, over half (58%) of the companies regularly review their data governance policy to account for latest technological, competitive and regulatory developments, whereas almost a third of the companies do not have such a policy, and 11% do not regularly review the same. Ironically, the one company that stated that its board neither understands its data privacy practices, nor uses data analytics in decision making, is itself an Information Technology based company. Further, there are a few companies, from various industries, that do not believe that their board uses data analytics in their decision-making. Of those that claim that their boards have an excellent understanding, almost half of them are from the banking and finance sector.

Board Remuneration

A clear majority (79%) of the respondents state that they have a formal remuneration policy in place which is a marked improvement from previous practice (2016: 56%). Out of those that do not have such a policy, 61% are unlisted companies. Besides two financial institutions, all other companies from the financial sector (both listed and unlisted) have a formal policy in place; and 64% of the PSC's have a remuneration policy for their directors. Companies that do not have a formal remuneration policy also do not review board fee annually; with fee revisions in such companies being done either once in 3 years or after more than 3 years. Of the respondents whose companies carry out an annual review of board fees, 79% were listed.

74% of the companies carry out in-house market analysis and comparison to determine fees of their NEDs; whereas only five listed companies utilize the assistance of external consultants to determine the same. Some respondents mentioned other methods used to determine fees such as: trends within group companies, as per government policy, past practices, external benchmarking and as per regulatory requirements and the articles of the company. On the other hand, a couple of companies stated that no specific method was used; and a couple of others said that the NEDs were not paid – these were all unlisted companies.

Over half of the companies remunerate NEDs at Rs 1 lakh or less for attending board meetings, however, the weighted average amount for all the categories (including unlisted companies, PSC's and other financial institutions), is still over Rs 1 lakh, as the remaining companies in those categories are spread over the Rs 1-5 lakh fee range. In 2016, 34% of the companies paid less than Rs30,000, whereas currently, 38% pay between Rs 30,000-100,000, clearly showing a rise in overall pay scale.

Majority of the companies that pay NEDs Rs 3 lakh and over for attending board meetings, are from the banking and finance sector. Despite the fact that the banking sector is by far the highest average pay master, there is not any particular fee-range that most of the banks fall into and the fees are evenly spread throughout all the given fee brackets. The banks that paid in US Dollars, paid significantly higher than the others, hence, the weighted average fees were calculated for banks both including and excluding these amounts to give a fair view of the general practice amongst them. The State Bank of Pakistan (SBP) recently took note of the level of fees being paid by some banks and decided to issue BPRD Circular no 3 of 2019 in August 2019, thereby restricting banks by placing a cap on directors' fees within Rs 8 lakhs and Rs 5 lakhs, respectively, (taking into consideration the category within which the bank falls in terms of performance and asset-base). Further, banks/ DFI's are no longer allowed to set directors fee in foreign currency, although the requisite payment of the equivalent amount set in rupees, may be made in the related foreign currency. The average overall fee for NEDs in a bank (excluding exceptionally large amounts above Rs 5 lakhs) is Rs 215,000 per board meeting, which is almost double the general average for all companies of Rs108,500 per meeting. Having said that, the average number of hours per year that an NED of a banking company spends at board meetings is 36 hours, whereas the general average is 22 hours per year. This fact may substantiate the higher fees, but not necessarily to the same extent.

Approximately one third of the unlisted companies (2016: also one third) did not remunerate their NEDs and these were from a variety of sectors, including a couple of not-for-profit companies and family businesses.

Companies generally pay NEDs the same fees for board committee meetings as they do for board meetings, with only some cases where companies paid less for committee meetings. Two companies paid NEDs for attending meetings of the board but not for attending committee ones; on the other hand one telecommunication company paid their NEDs for committee meetings and not for board meetings, possibly indicating remuneration was based on a 'functional – contribution' basis.

Key Findings from Survey

- **The banking sector is by far the highest average pay master**
- **Banks also have the highest average number of hours that Board members spend on attending meetings in a year.**
- **22% pay the Chairperson a higher fee than other directors (from 25% extra to up to twice as much).**
- **Over 50% provide travel allowances/ reimbursement to NEDs to attend board meetings and one third provide business class air travel**
- **Only 38% of the companies provide liability insurance cover to their NEDs**

Over a fifth (22%) of the companies pay the Chairperson a higher fee than other directors, out of which 84% are listed companies and only one is a PSC. There was a vast spread of practices with regard to the extent of the extra amount - from 25% extra to up to twice as much paid to the Chairman as compared to other directors. Some companies paid a fixed Rs 50,000 extra to the Chairman. Likewise, a couple of companies stated that the Chairperson of board committees is also paid extra.

About two thirds of the total respondent companies provide some form of benefit to NEDs other than meetings fees. Over half provide travel allowances/ reimbursement to attend board meetings and one third provide business class air travel. Other benefits mentioned include: reimbursement of petrol expenses, Directors Indemnity Insurance Policy Premium, boarding & lodging is provided for both board and board sub-committee meetings, Chairman of the board gets a company maintained car and reimbursement up to a limit assigned by the board, laptop and use of office premises - only on need basis, iPads for accessing board and its committees' agenda/circular resolutions, etc. Only 38% of the companies provide liability insurance cover to their NEDs.

In the EU, regulatory developments are affecting many member states, strengthening shareholder power across EU markets. Under the EU's revised Shareholder Rights Directive, implemented in 2019, it is essential to assess the remuneration and performance of directors not only annually, but also over an appropriate period of time to enable shareholders, potential investors and stakeholders to properly assess whether the remuneration rewards long-term performance in relation to company performance.

General

A majority of the respondents selected corruption as one of the three biggest socio-economic problems that Pakistan faces, with one third selecting it as the top most problem. This was followed by a fourth of the respondents selecting poverty and inequality & a fifth of them selecting inconsistent policies as the number one risk. No respondent selected resource mobilization as the number one risk.

With respect to their own organizations, regulatory compliance turned out to be a common concern for the majority; however, it was not necessarily considered the number one risk by the respondents. Senior management succession planning and reputational risks were each selected by 20 % of the respondents as the number one risk, with regulatory compliance and cyber security close behind for the top slot.

Generally, most companies are confident about growth prospects in the coming year. Of the 4 'not so confident' companies, 2 were from the automobile sector, one a fertilizer company and one a manufacturer of steel pipes etc. Likewise, the sole company that is not expecting any growth in the coming year is a cable and wire manufacturer.

Artificial Intelligence (AI), big data and internet of things have emerged as the top disruptive technology concerns for companies in Pakistan, which is in line with the perspective of directors from both the 'Africa-Middle East' and 'Asia-Pacific' regions, respectively. Directors from the 'Americas' and Europe regions, in comparison, consider block chain as the third highest technological disruptor in place of the internet of things. According to GNDI's Global Director Survey Report 2018*[11], technological advances are disrupting many traditional business models,

*[11] Refer GNDI's Global Director Survey Report 2018: https://gndi.weebly.com/uploads/1/4/2/1/14216812/gndi_global_survey_2018.pdf

Key Findings from Survey

- **Corruption, inconsistent policies & political instability selected as top 3 socio-economic concerns. None the less, most companies are confident about growth prospects in the coming year.**
- **Regulatory compliance, senior management succession planning & reputation selected as top 3 corporate risks faced by respondent companies.**
- **Artificial Intelligence (AI), big data and internet of things selected as the top disruptive technology concerns**

meaning organizations need to adapt to survive. Surprisingly, however, a third of the respondents to our survey do not expect any technological disruptions to impact their business in the coming years. Other disruptions highlighted by respondents include: Fintech; 'sharing economy' will be embedded on almost all financial systems with banks having to expose their systems to non-financial institutions; replacing existing plants with state of the art technology; advancements in renewable energy, Government policies on import of required products and the acceptance of such technological changes.

Corporate Governance in Pakistan

A majority (86%) of the respondents stated that they did not face any difficulties in implementing the code in their respective organizations. The 14% that did, identified issues which included: hiring of independent directors, contradictory and impractical requirements for disclosure of interest in companies by directors, resistance to change, some companies are bound by special acts or privatization agreements and hence cannot follow the code in totality, obtaining MoI clearance for director training of foreign directors in Pakistan, and lack of transparency and accountability in the public sector.

Respondents also suggested ways in which the process of adherence to good corporate governance may be facilitated by regulators entrusted with enforcement of corporate governance practices. It was suggested that the regulator must be made completely independent of government influence and allowed and urged to take strict action against violators of the governing statutes; they should see themselves more as facilitators and bridges towards better work practices through incremental changes rather than as "stick bearing" authorities whose officers should be aware of the end result that is trying to be achieved; industry consultation is required before new requirements are enacted and sufficient time should be given for implementation; corporate governance regulations should be implemented keeping in view the local environment of companies and relevant to local norms; more awareness and education was required, there should be an exemption for privatized entities from provisions that such entities cannot legally enforce and limited corporate governance practices for private limited companies; the definition of related parties needs to be changed; and transparency must be ensured.

With regards to disclosure and transparency, it was felt that far too much importance was attached to regulatory reporting requirements in the code which need to be simplified as more regulatory control breeds resentment, not efficiency; and areas of the code which lead to increase in costs and unnecessary paperwork should be done away with.

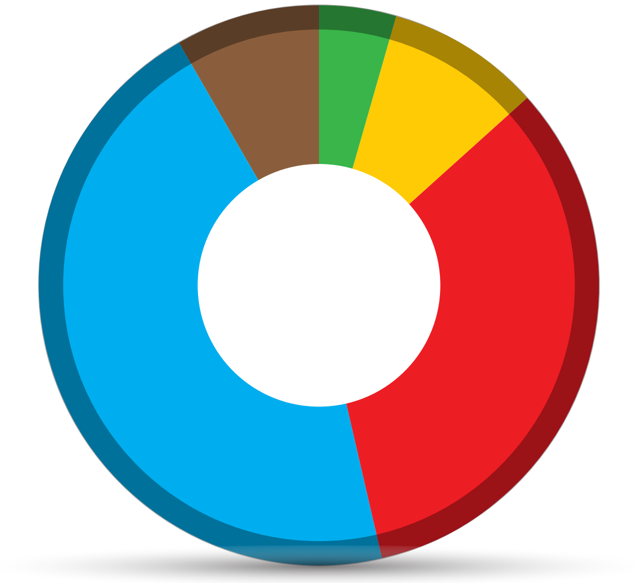
Further, respondents from the public sector recommended that Government interference in public sector organizations must be avoided at all costs and corporate governance regulation should make available a window for such companies which have in one way or the other public control and are “caught between a rock and a hard place”. Regulatory capacity and understanding remains a key impediment in facilitation of the growth of the sector.

One of the respondents stated that things are moving in the right direction but corporate governance practices should be encouraged for adoption as best practice and not merely compliance, whereas another felt that it was very vital for management and stewardship of organizations and institutions.

There was a mix of views as to whether corporate governance regulations in the country have achieved what the regulations set out to do and there is much need to assess positive or negative impacts of enhancement of compliance requirements.

IV. Respondent Data

1. Designation of Respondent
Responses: 133



Designation	
Board Member (other than Chairman/ CEO)	44
Company Secretary	60
Other Senior Executives	11
Chairman	6
Chief Executive Officer	12
Total Number	**133**

For listed companies, a majority of the respondents - (54%) - were Company Secretaries; on the other hand for Public Sector Companies (PSCs), just over 50% of the responses received were from members of the Board (including Chairman and CEO). Overall, the number of responses from Board members (including Chairman and CEO), compared to those received from Company Secretaries was almost equal.

The 'Company Secretary' category includes a small number of Assistant Company Secretaries, whereas 'Other Senior Executives' includes Chief Financial Officers, Internal Auditors and other key management executives. It was interesting to note that a couple of 'Corporate Governance Compliance Managers' also responded indicating a formal set up for corporate governance compliance within their respective organizations - one being a transportation company and the other an asset management company, respectively.

Note:
- Names of respondents & their organizations were requested to ensure authenticity of response.
- Respondents had to represent companies registered under the Companies Act, 2017. Besides this, no other restriction was placed on the type of respondent.
- Where more than one response was received from a single company, the additional ones were disregarded.
- Any incorrect data that came to our knowledge was disregarded.

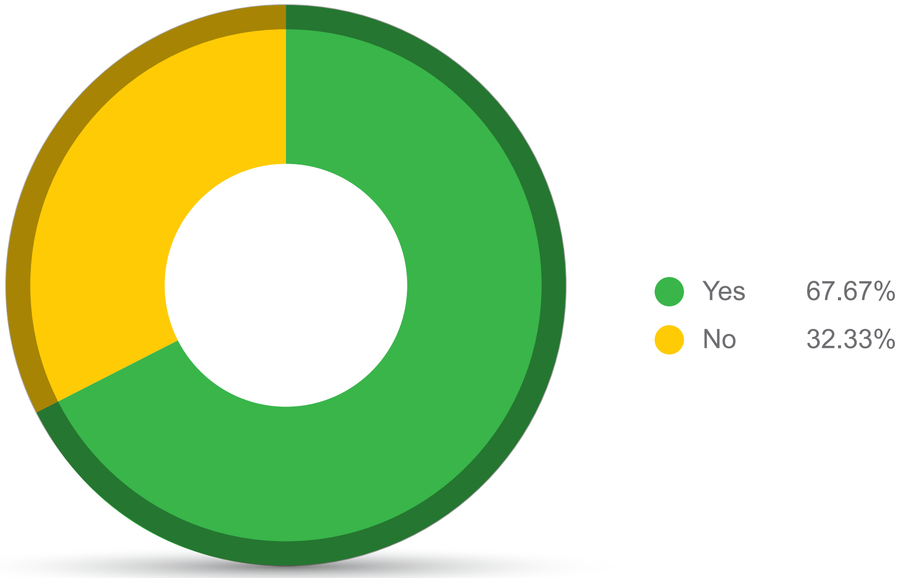
Disclaimer:
- Graph data has been rounded off, hence, immaterial rounding differences may exist.

2. Categorization of respondent companies

Responses: 133

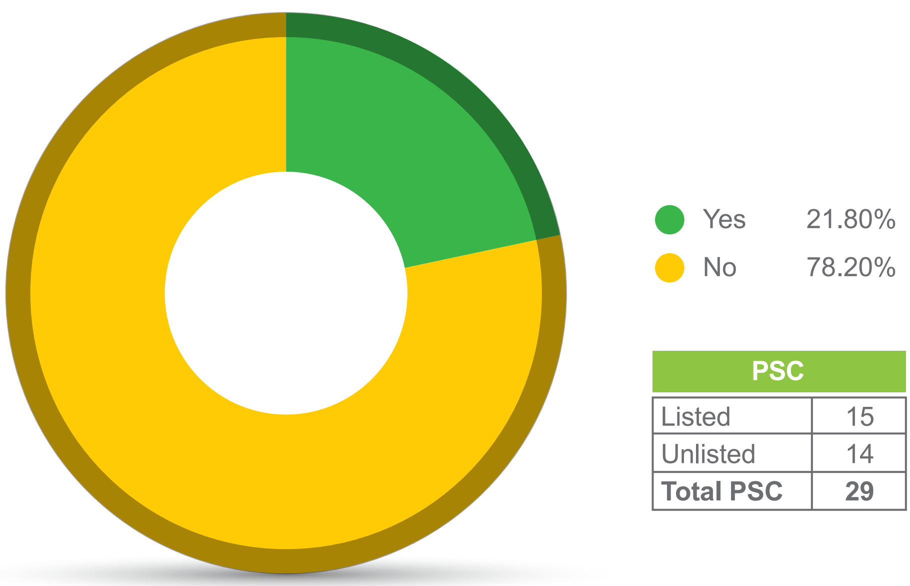
2.1 Legal status

Listed on the Pakistan Stock Exchange (PSX)



2.2 Ownership

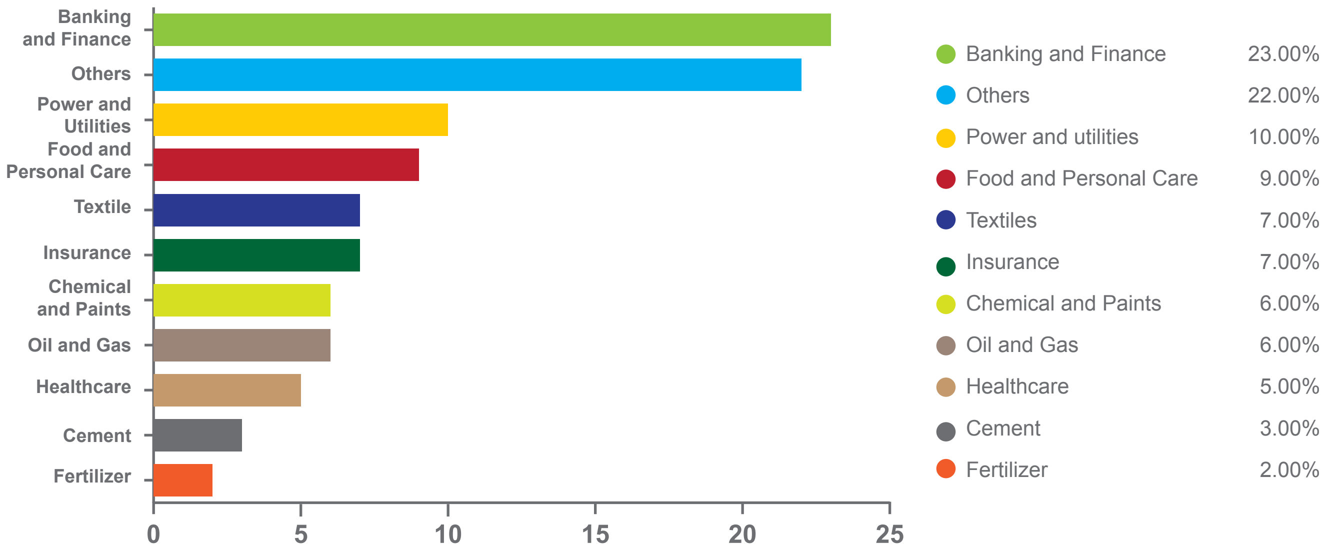
Public Sector Company (PSC)



PSC	
Listed	15
Unlisted	14
Total PSC	**29**

"'Public Sector Company' means a company, whether public or private, which is directly or indirectly controlled, beneficially owned or not less than 51% of the voting securities or voting power of which are held by the Government or any instrumentality or agency of the Government or a statutory body, or in respect of which the Government or any instrumentality or agency of the Government or a statutory body, has otherwise power to elect, nominate or appoint majority of its directors, and includes a public sector association not for profit, licensed under section 42 of the Act."

2.3 Industry-wise breakup



Overall, about one third of the respondents represent manufacturing companies, followed by a similar number from the services industry. Interestingly, most of the manufacturing companies are listed ones. 30% of the unlisted companies belonged to the banking and financial services sector, with the rest being spread over various industries, but mainly service-related ones.

About one third of the listed companies represent manufacturing companies and 19% belong to the banking and financial services industry. The rest of the listed companies are spread over a number of industries.

Banking and finance companies represented almost a quarter of the respondents, with half of these being commercial banks (including microfinance banks) and the other half consisting of investment banks, Development Finance Institutions (DFI's), a Non-Banking Financial Company (NBFC) and an asset management / mutual funds company. Just over half of the banking and finance companies are listed. The unlisted banking and finance companies are mostly those other than commercial banks. Two thirds of the Insurance companies are listed.

Of the public sector company respondents, just less than half are from either the 'power and utilities' or 'oil and gas' sectors, followed by 1/5th from the banking and finance sector. However, not all the power and utility companies are government-owned, with approximately 40% of them being either listed or unlisted private companies.

Respondents from the services industry include: communication companies, a recruitment agency, and a terminal operator. 'Others' consists of a variety of companies such as those dealing in engineering products, machinery, jute products, steel, iron, cables and wires, pipes, Fast-Moving Consumer Goods (FMCG), packaging as well as those from industries such as the automobiles and automotive parts, transportation, construction and development, etc.

As was the case in our 2016 Survey, no response was received from the hospitality and the computer science industry (except one information technology reseller); on the other hand we received responses from the healthcare, utilities and transportation industries, which we had not in the previous survey.

For the purposes of analysis certain industries have been placed together under one category (eg. Banking and Finance includes commercial banks and other financial institutions, Power and Utilities consist of power generation and supply companies and those from water and sanitation).

V. Board Composition

1. Board size

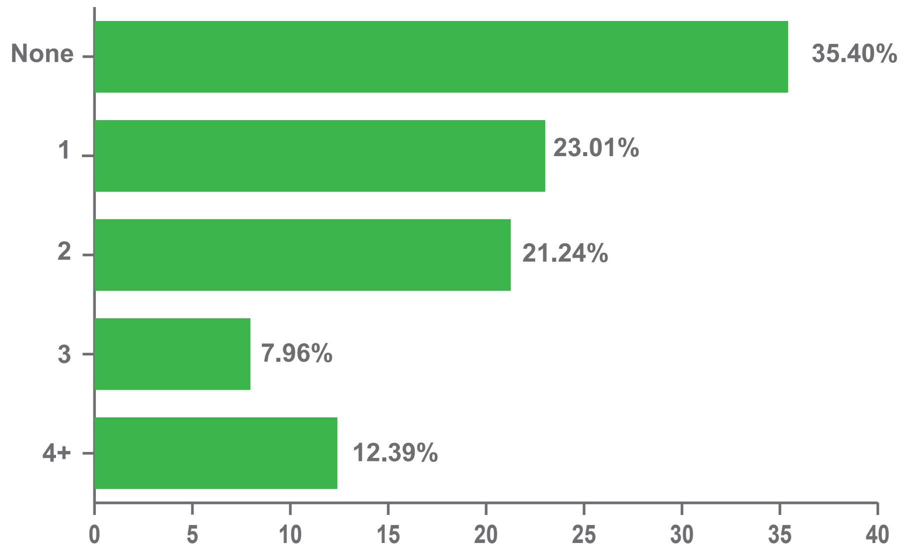
1.1 Number of Directors
Responses: 113

	Number of Directors on the Board		
	Lowest	Highest	Weighted Average
Listed	7	15	8.5
Unlisted	2	15	7.7
PSC	4	15	8.8
Commercial Banks	7	11	8.4
Other Financial Institutions	3	15	7.3
Insurance	7	9	7.4

The total number of directors on the board of our respondents ranged from 2 to 15, with an overall average of 8-9 directors, which is slightly higher than in our previous survey (2016: 7-8 directors). Companies with 15 directors consisted of a real estate development company, a not-for-profit and a company dealing in the capital and securities market.

Listed company boards with 10 or more directors were from a range of different industries. Likewise, unlisted companies with 10 or more directors consisted of a variety of industries including power, healthcare and finance; and PSC with the same number included those from the oil and gas, transportation and power sector. The PSC with 4 directors is an unlisted company.

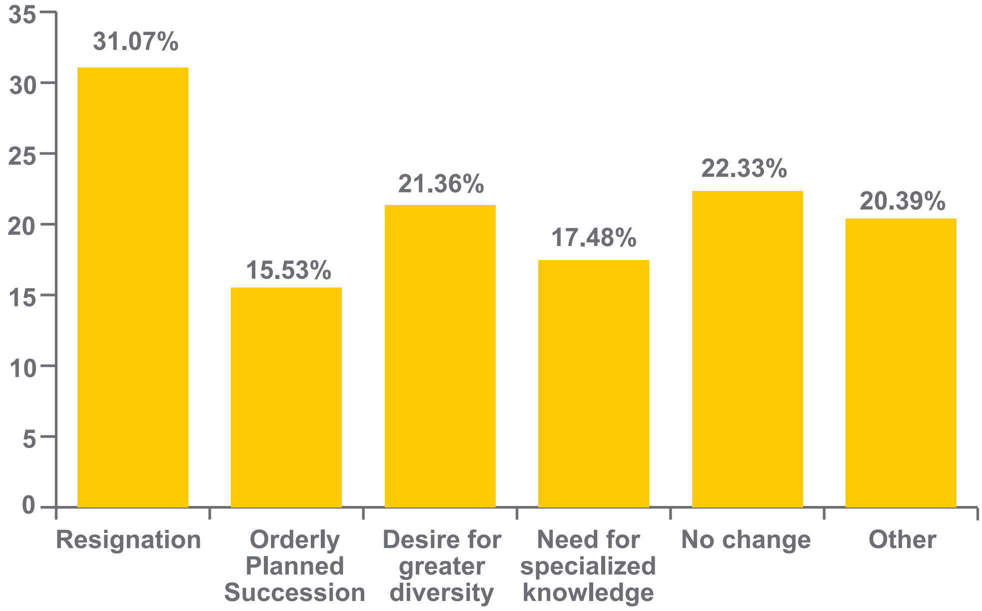
1.2 Number of new directors added at the last board election
Responses: 113



Of the companies that added more than 4 directors to their boards, 64% were listed and 57% were PSC. 65% of the respondents state that they have added at least 1 new director.

The total includes the CEO who is 'deemed' to be a director under section 188 of the Companies Act, 2017

1.3 **Triggers that drove any recent changes in board composition**
Responses: 103



The highest percentage of changes was made on account of resignation of directors, out of which 63% of the respondents were listed companies and 31% were PSC.

Some PSC also stated the following reasons for change in the composition of their boards:

- Re-organization of the board by the new Federal Government & Government's decision/ appointment.
- Retirement of first directors
- As the company is state owned, hence, changes are made in order to provide the optimum specialized skills

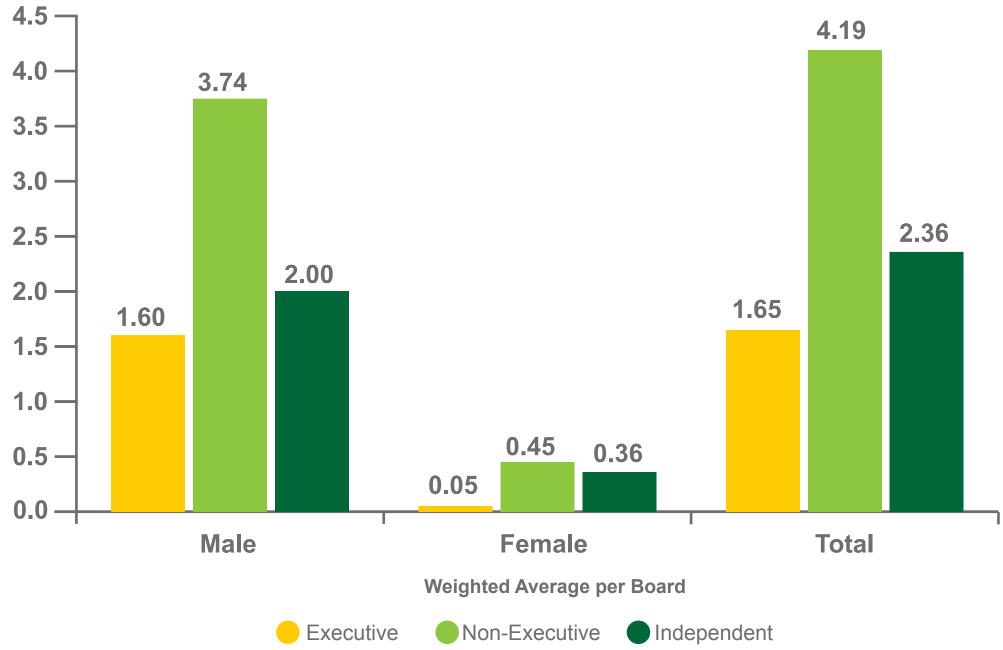
Other comments:

- To comply with regulatory requirements, Companies Act, 2017 and/or Listed Companies Regulations 2017
- Change in nominee director after every 3 years
- One director retired
- In order to have a female director
- Shareholding changed from one MNC to another
- New ownership
- One INED of a bank completed the period allowed for being considered 'independent'.

2 Director classification

2.1 Category of Directors

Responses: 92*[1]



The highest number of Executive Directors (ED), Non-Executive Directors (NED) and Independent Non-Executive Directors (INED) in any one company was: male - 9, 11 and 8, respectively, + female: 2, 3, 4, respectively. This indicates that there are very few females who are either CEO's or ED's, and their seats to the board are currently as a result of being brought in from the outside, possibly to ensure compliance with the requirement of the Companies Act, 2017 to have at least one female on the board of listed companies. Further, one-third of the listed companies in our sample had 'independent female' directors on their boards, whereas 28% of the total companies had 'independent female' representation on their boards.

More than half of the respondents have only one ED, and the majority (84%) have 2 or less EDs on their board. 8% stated that they have no NEDs on their board and all of these are unlisted companies.

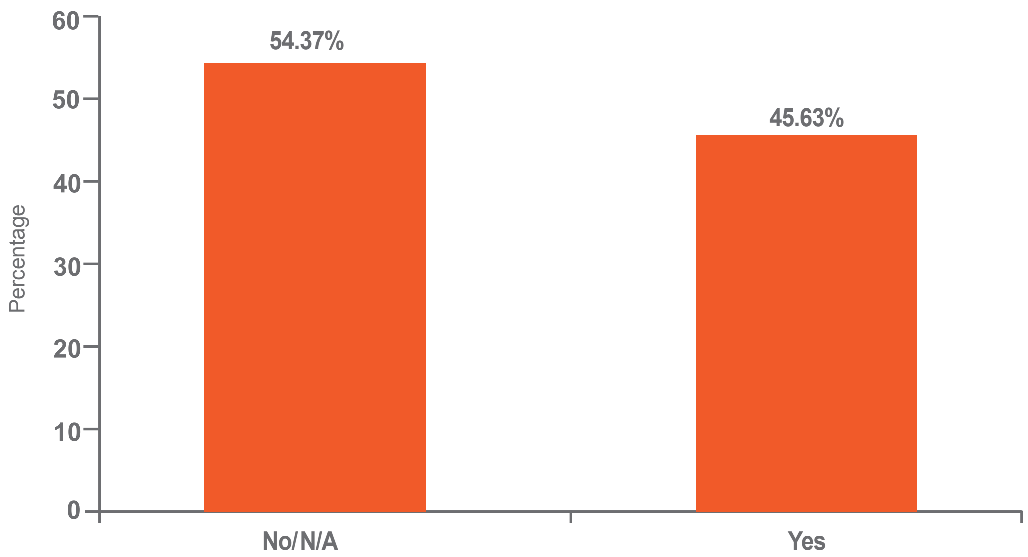
20% of the companies did not have INEDs, and all - except two of these companies- are unlisted companies. Just over a quarter of the listed companies still do not have 'one third or 2 directors, whichever is higher' as INEDs on the board, as required by the listed companies code. (Note: under the new Code 2019, any fractions in the calculations of "one third" of the board will have to be rounded up. In which case, 65% of the listed companies will be non-compliant if they continue to retain the current composition of their respective boards). However, there has been a definite increase in compliance with this requirement over the last 3 years as previously only 22% of the listed companies had the preferred number of INEDs, whereas now only a quarter do not.

Respondents also shared the following comments regarding composition of the board:

- Females directors will be appointed in the next election
- The board will be reconstituted in the next elections
- There is a casual vacancy of an INED, which will be filled in by the board.
- The current board composition is stipulated by the terms of privatization.
- Our board composition is not according to the Companies Act 2017.
- CEO (Exec) post is currently being looked after on an 'acting charge' basis.

*[1] Although 113 respondents answered this question, however, not all have been included in the analysis to this part as the total number of directors reported did not match the total in another question (possibly due to error in typing or else lack of understanding of the classification of director categories).

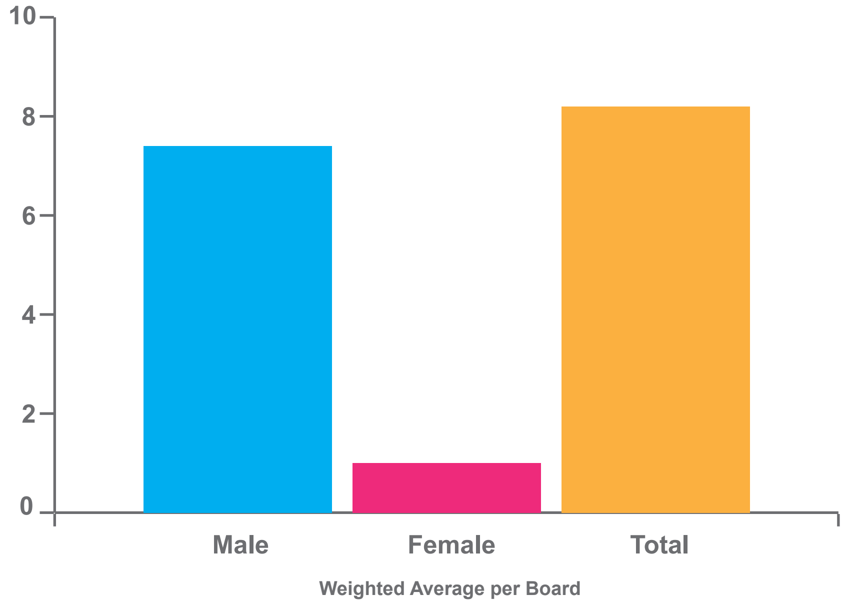
2.2 Non-Executive Directors(NEDs) have served on board for more than 3 terms:
Responses: 103



Respondents from both listed and non-listed companies that have NEDs who have served for more than three terms, have from 1-5 NEDs that have done so, with an average of 2-3 per board. This includes two PSC, one a DFI and the other a utilities company, who have retained their NEDs for over 3 terms.

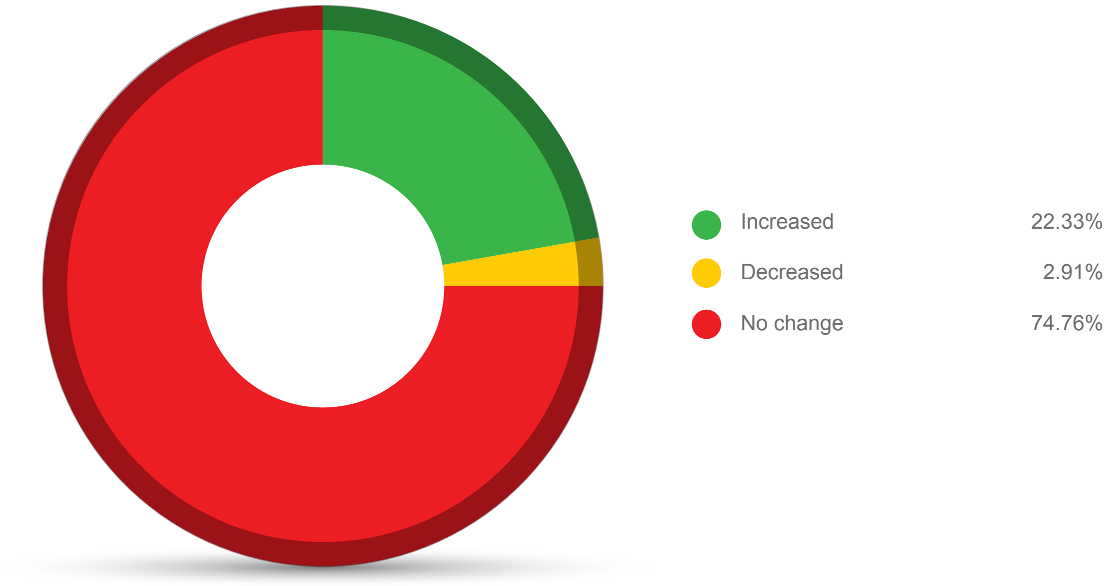
3 Diversity

3.1 Gender
Responses: 113



	% of Total Directors	
Gender	2019	2016
Female	10.40%	9.50%
Male	89.60%	90.50%

Note:
- For listed companies the average is: 10.60% Female and 89.40% Male



Change in the Number of Female Directors at the Last Election

The percentage of women on boards of respondent companies is just over 10%, about 1% higher than was reported in our previous survey in 2016. This is despite the fact that the number of boards having females has increased to almost two thirds of the total boards as opposed to one third of the number of boards reported previously. (ie. 64% of the current respondents reported that they have female representation on their boards).

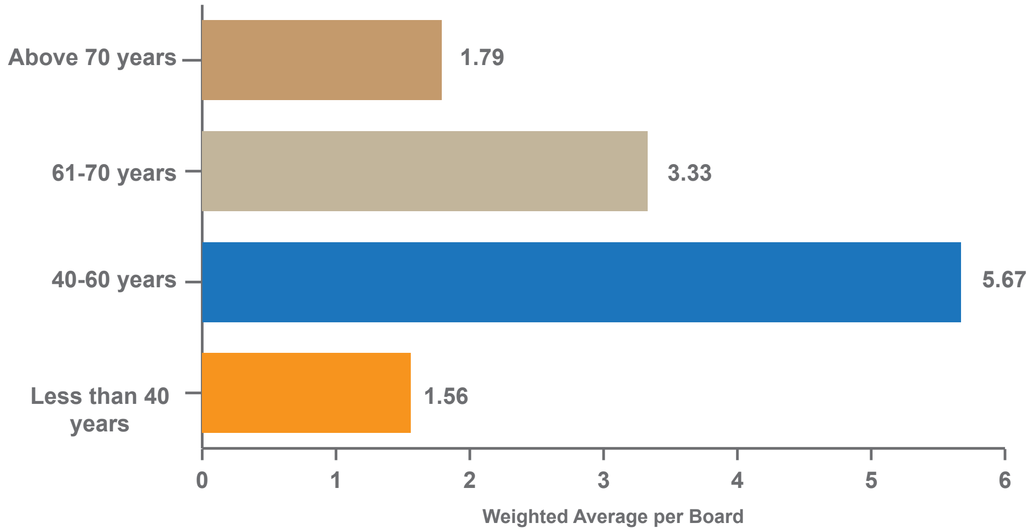
The ratio of men to women on the board of respondents is 7:1 (listed companies= 8:1, unlisted companies=7:1). The highest number of female directors on any one board is 4, with only one not-for-profit company in the SME Sector reporting the same. Further, even despite the higher number, this board still had more men. Only 4 companies had 3 female directors, 2 being from the financial services sector, one from healthcare and one a listed PSC.

Over a quarter of the listed companies have no female directors; although a couple of listed companies stated that they were due to appoint a female director in their next elections. Only 50% of PSC boards had female directors, however, the average of female directors in such companies was relatively higher than the norm at 15% of the boards being female.

Boards with female directors were spread across various industries, with no significant majority noted in any particular industry.

Of the respondents that stated there was no change to the number of females 65% were listed companies and 22% are PSCs. Among those respondents companies where there is an increase in female directors, 87% are listed. A DFI, a healthcare company and one in the food industry stated that there was a decrease in the number of females on their boards.

3.2 Age
Responses: 103

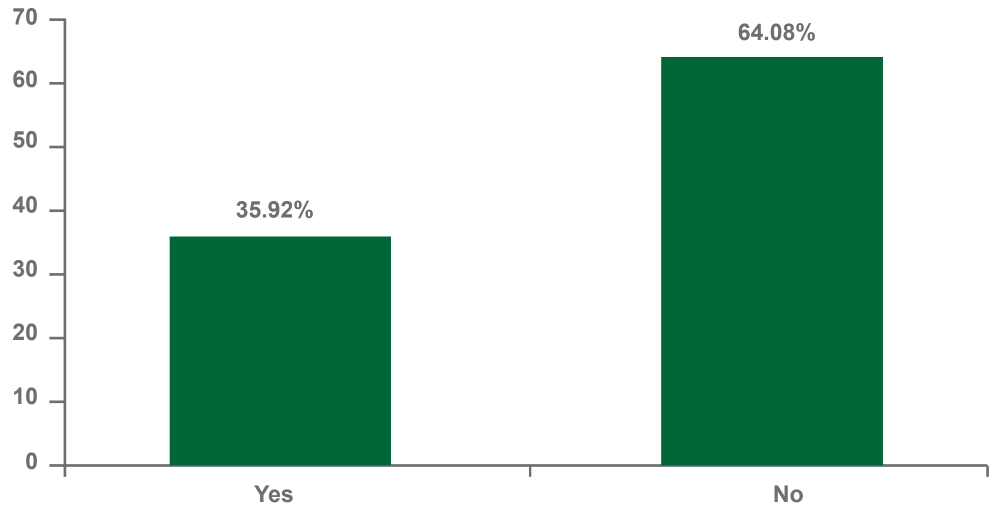


Except for one unlisted company, all other companies had at least one director in the 40-60 years bracket, with more than half of the total number of directors between 40-60 years of age.

62% of the companies had no directors aged less than 40 years and just over half of the companies had no directors above the age of 70 years. However, over half of the listed companies had directors over 70 years of age.

Age Bracket	No of Directors as a % of Total Directors
Less than 40 yrs	7%
40 – 60 yrs	56%
61- 70 yrs	28%
Above 70 yrs	9%
Total	**100%**

3.3 Foreign Nationals on the Board
Responses: 103



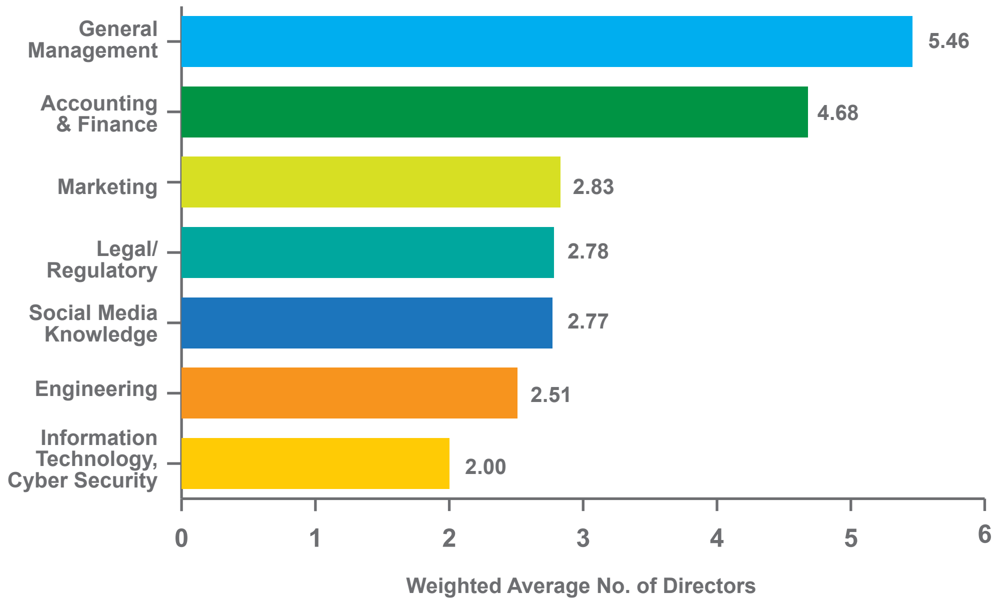
Of the boards with foreign representation, almost three quarters are listed companies and 22% are banks. There was presence of foreign directors in 2 PSC – a microfinance bank and an investment bank.

Note:
Directors having dual nationality have not been considered as foreign nationals.

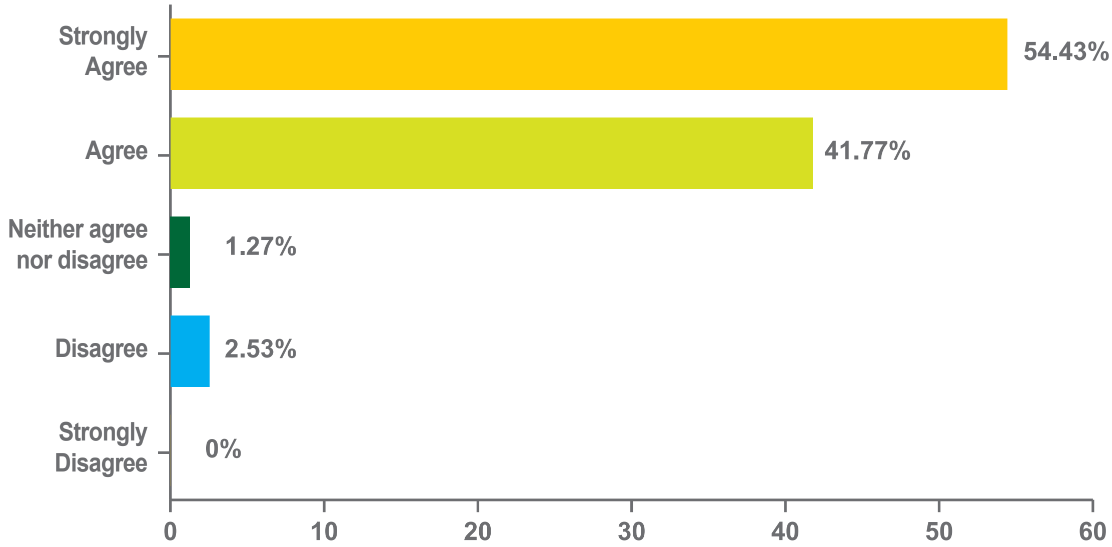
3.4 Skills sets/ expertise of Directors on the board

Responses: 103

a) Qualification, knowledge and experience possessed by Directors



b) Directors (in aggregate) have the skills and experience necessary to discharge their stewardship responsibility



Only one unlisted PSC stated that there was not a single director with financial knowhow on their board and half of the boards had at least 2-3 directors that had some financial background. Likewise, only five companies stated that there was no director with skills of general management; 4 of these were listed. The number of directors with general management skills per company was wide spread between one to the total number of directors on the board.

Further, 82% of the companies had someone with legal knowhow, with half of them having between 1-2 such directors. Likewise, half of the companies also had between 1-2 directors with marketing background.

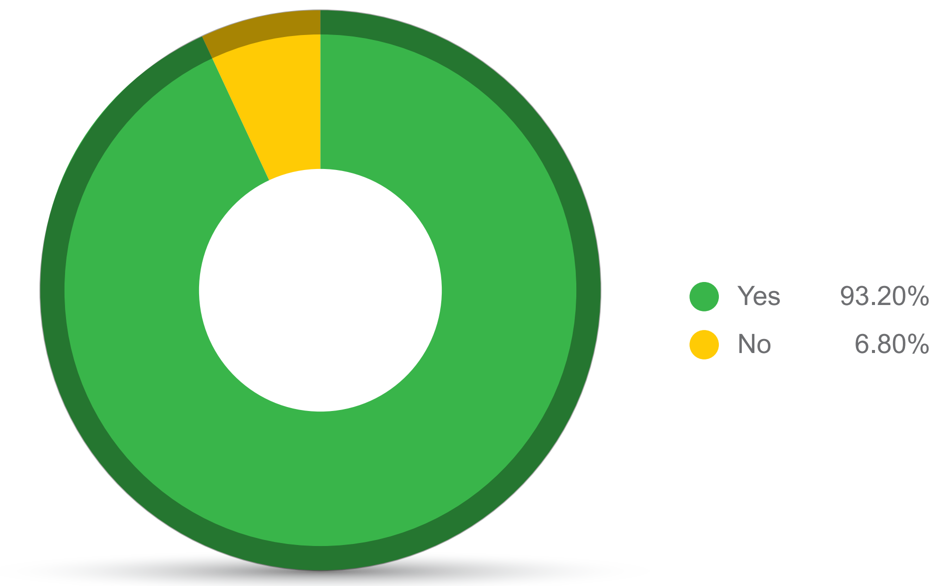
Some of the respondents identified other skills such as audit, risk management, human resource, treasury, credit, investment banking, education and research that their directors possessed, and many had more than one skill set. One respondent stated that being a new board member he/she cannot be expected to know the skill set of each member of the board well, hence, the numbers stated are best guesses. This gives rise to the question of how well one should know the experience and abilities of fellow board members, both prior to and after joining. One respondent stated that their board had a balance including bankers, a bureaucrat, an entrepreneur and an IT expert.

Overall, respondents felt that their boards were well balanced in terms of skills and knowledge. The 2 respondents that did not feel that their directors (in aggregate) possessed the requisite skills and necessary experience to perform their stewardship roles represented a microfinance bank and an investment bank, respectively. (Both the respondents are from the directors on these boards). Further, a respondent representing a stationery manufacturing company remained neutral with respect to whether the board possessed the necessary skills to discharge its responsibilities.

4 Chairman

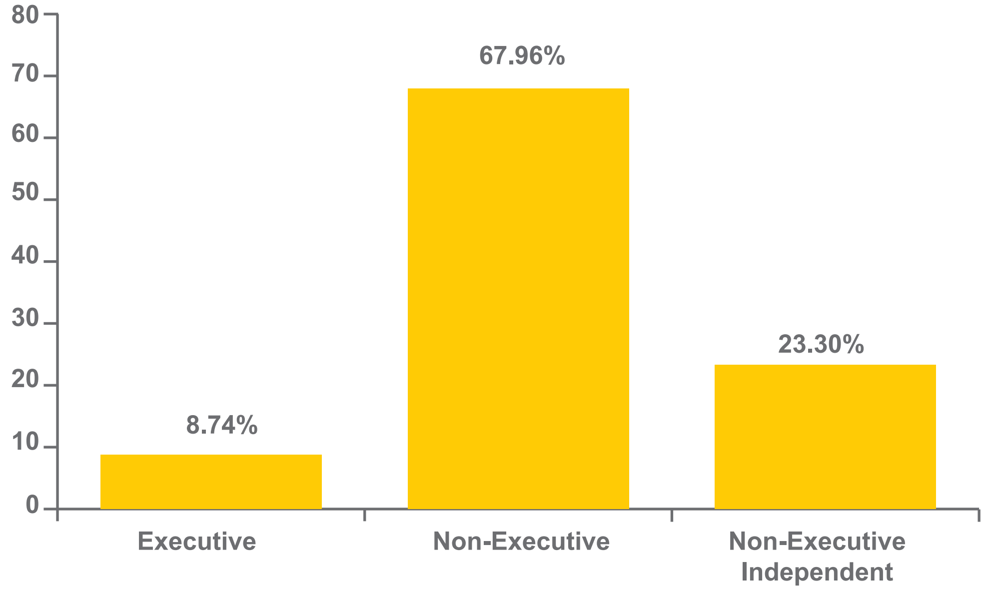
Responses: 103

4.1 Position of the Chief Executive Officer (CEO) and Chairman is held by different people.



Two of the listed companies stated that the position of the Chairman and CEO were held by the same person, despite the fact that Regulation 9 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 states that the role of the Chairman and the CEO shall be performed by different individuals. However, in one case this was due to the fact that there was a casual vacancy which was being filled by a NED; whereas the second company had not mentioned any reason in its Directors Report or Statement of Compliance with the Code (although it has reported that it was “no longer a going concern”). It was encouraging to note that over 80% of the unlisted companies reported separation of the role of the Chairman and CEO.

4.2 Classification of Chairman

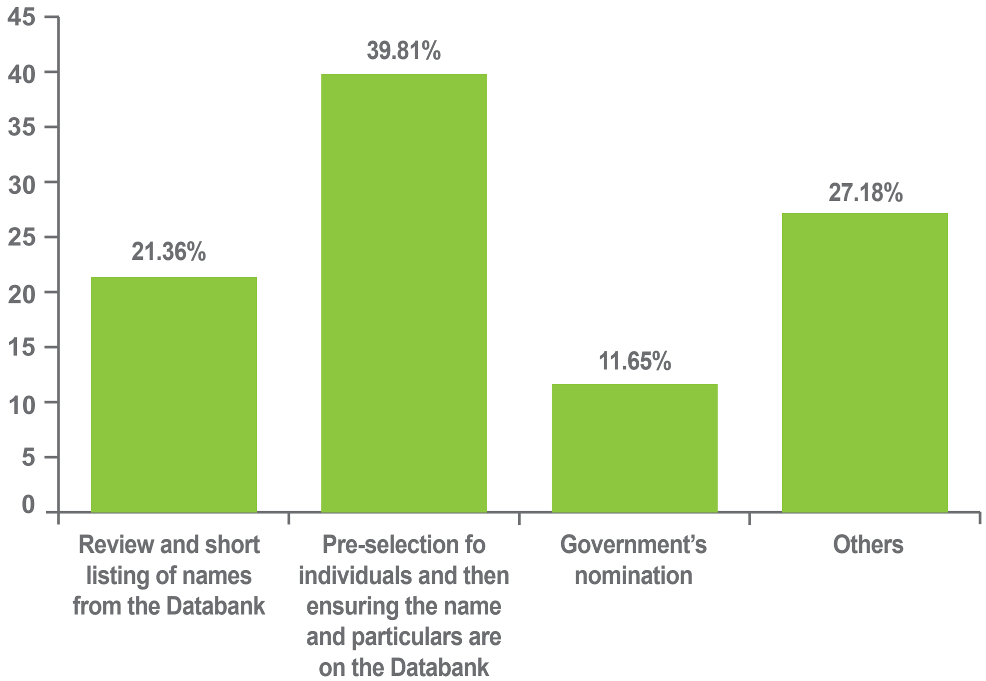


Four listed companies stated that the Chairman was an ED, despite the requirement of the Companies Act 2017 requiring appointment of the chairman from among the NEDs . 59% of PSC Chairmen are INEDs.

5 Board Recruitment

5.1 Board's recruitment efforts for independent directors(INED):

Responses 103



Section 192(1) of the Companies Act 2017 states that the " board of a listed company shall within fourteen days from the date of election of directors, appoint a chairman from among the non-executive directors…."

As illustrated there are a variety of methods by which companies recruit their INEDs, with 40% still pre-selecting individuals and then ensuring they register themselves on the databank required under Section 166 of the Companies Act, 2017. 82% of the respondents that stated that they recruit INED's by selection from the databank are listed companies. Unlisted ones that did so are from no specific sector. Out of the listed companies, almost half state that they pre-select directors and a quarter of them utilize the databank for selection purposes. The companies where INEDs are appointed as a result of Government's nomination are all PSC.

Other methods used:

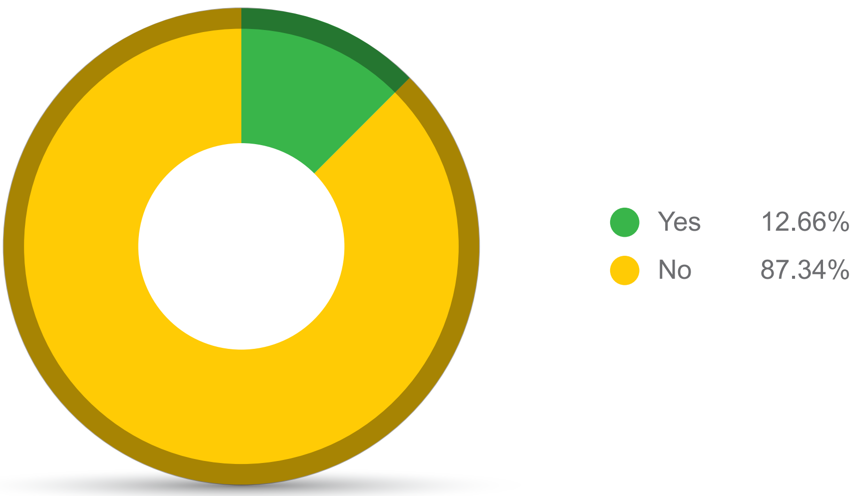
- Selection based on applicability of Special Regulations
- We use our own specific measurement criteria.
- Mutual agreement between majority shareholders & industry leaders with diverse backgrounds
- Our board makes the selection / nominated through the Board Committee
- Pre-selection / head hunting by sponsoring Group
- Elections
- By utilizing contacts

Other comments made by respondents in this regard:

- Pre-selection is used, but not sure if the databank is checked prior to this.
- We have the same directors since the inception of the business
- As it is a private limited company, therefore, no effort is made to recruit INEDs
- An unlisted company and, hence, it has shareholder representation
- Board composition is governed by the terms of privatization and do not allow for INEDs.
- We will utilize the databank in future / election due next year, hence, databank not yet used
- We do not refer to the databank

5.2 Hurdles in attracting new directors with relevant skills, qualifications and experience.

Responses: 79



Respondent comments:

Public Sector Companies:

i. Slow growth of corporate governance, compromise on independence and fear of NAB/Agencies
ii. The Government decides and their decisions are not necessarily based on merit
iii. Since the board is appointed by the Government and INEDs are not paid any remuneration for their services, INEDs that possess relevant skills and qualifications do not come forward to serve on the board of PSC. In their absence, persons with vested interests usually take up such positions.
iv. Normally the directors are Government nominees. Selection should be from the data bank on merit to identify the best person in a particular field. Further, there should be some linkage to ensure their performance is at par with other entities and individuals.

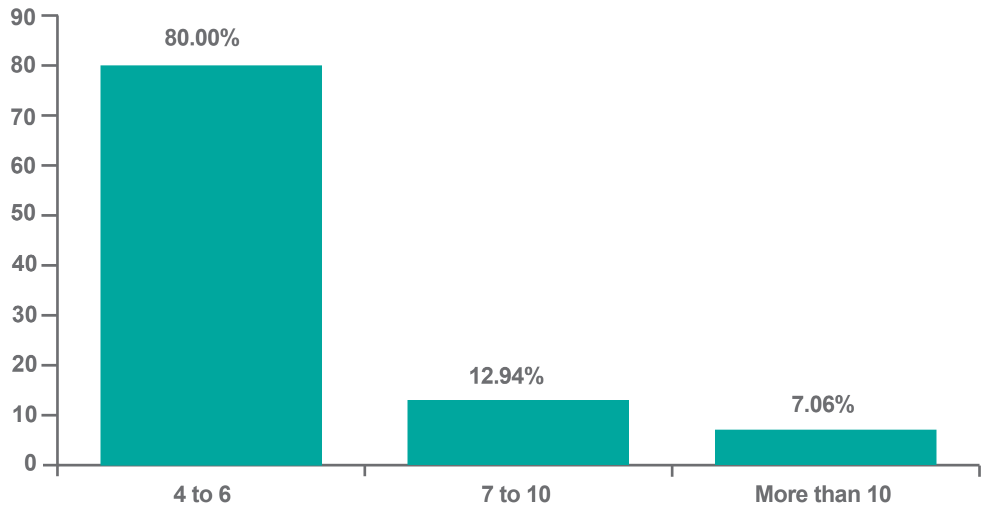
Other Companies:

i. Compensation of Directors
ii. Resistance to 'Outsiders'. Must be open to new ideas and change
iii. Qualified and experienced female directors have been hard to find
iv. Availability of skilled board members and poor compensation
v. Specialty fields that require experts face difficulties as sometimes there are very few individuals for the same available in the country
vi. Board practices need to be improved.

VI. Board Practices

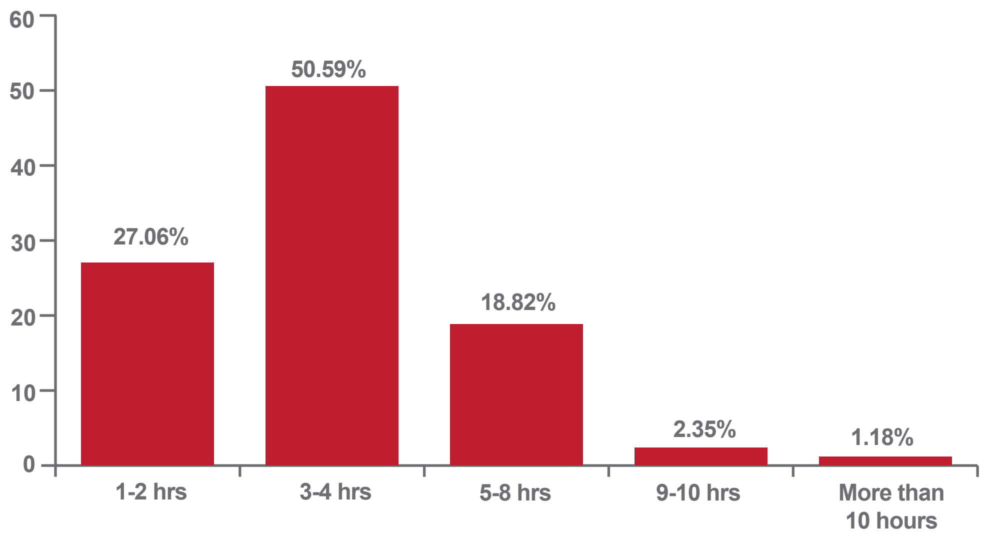
1. Meetings
Responses: 85

1.1 Meetings held in the past year (whether live or via tele/ video conference).



Two-thirds of the companies who held more than 10 meetings during the year were from the public sector from different industries, mainly “service providers”. There was no manufacturing company in this category. Likewise, almost half of the PSC conducted 7 or more meetings during the year and in general had the highest weighted average number of 7 meetings during the year. The rest of the majority of companies held between 4-6 meetings annually. 71% of the companies that held 7 or more meetings during the year were listed companies.

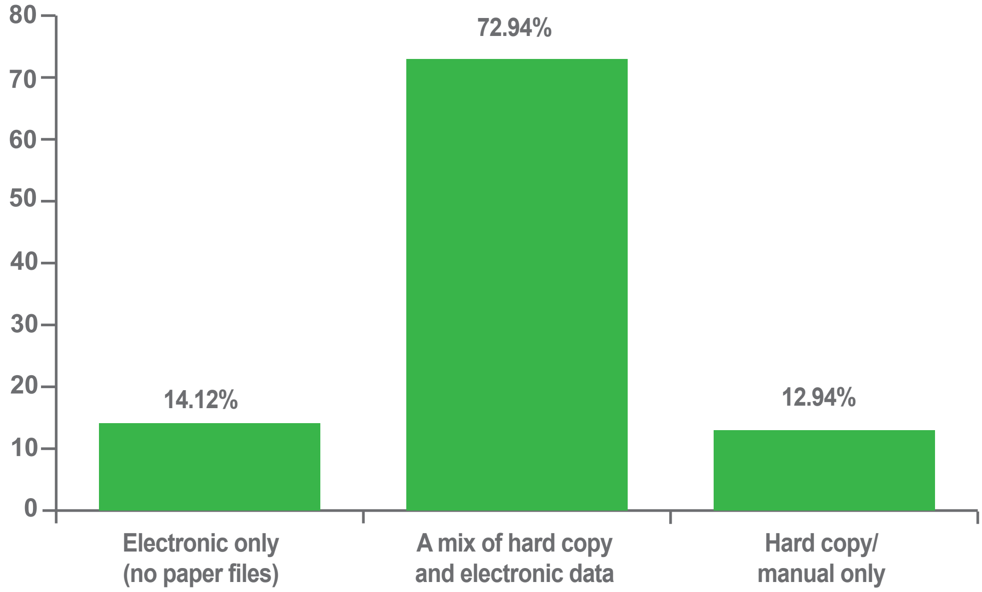
1.2 Duration



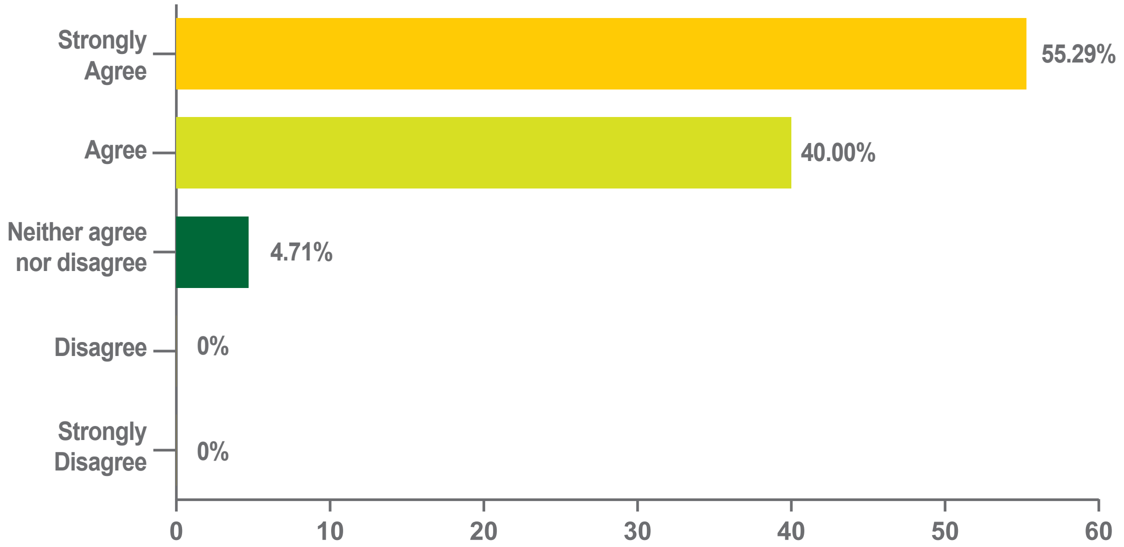
The three companies whose meetings lasted over 8hrs are all banks. Banks in general had a much higher average of 6 hours per meeting, whereas other companies (listed and unlisted, as well as public sector) had an average of below 4 hours per meeting.

1.3 Information for board meetings.

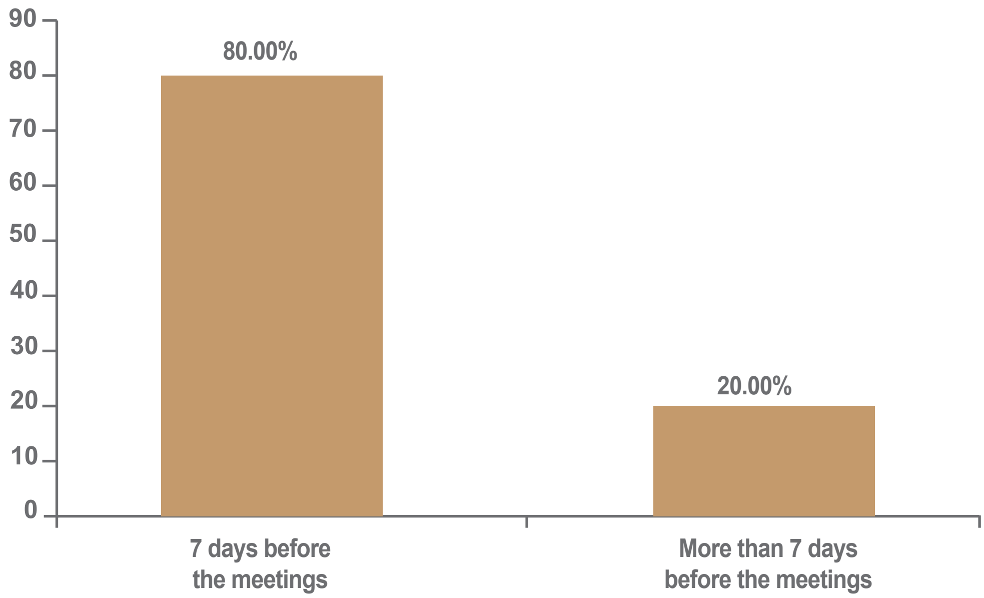
a) Form of information that is provided for meetings of the Board



b Background material supplied for board meetings is concise and covers all major issues.



c) **Board members are supplied with background materials for board meetings:**



As stated by the respondents, information for meetings was generally provided 7 days before the meeting, with companies providing earlier information not being from any specific sector. The four PSC that provided information to their boards more than 7 days before board meetings were all from the banking and financial services sector.

Most of the companies that provide 'electronic only' data are listed, with almost half of them being commercial banks. (There were, however, two banks and an investment company that provided their boards data in only hard copy form).

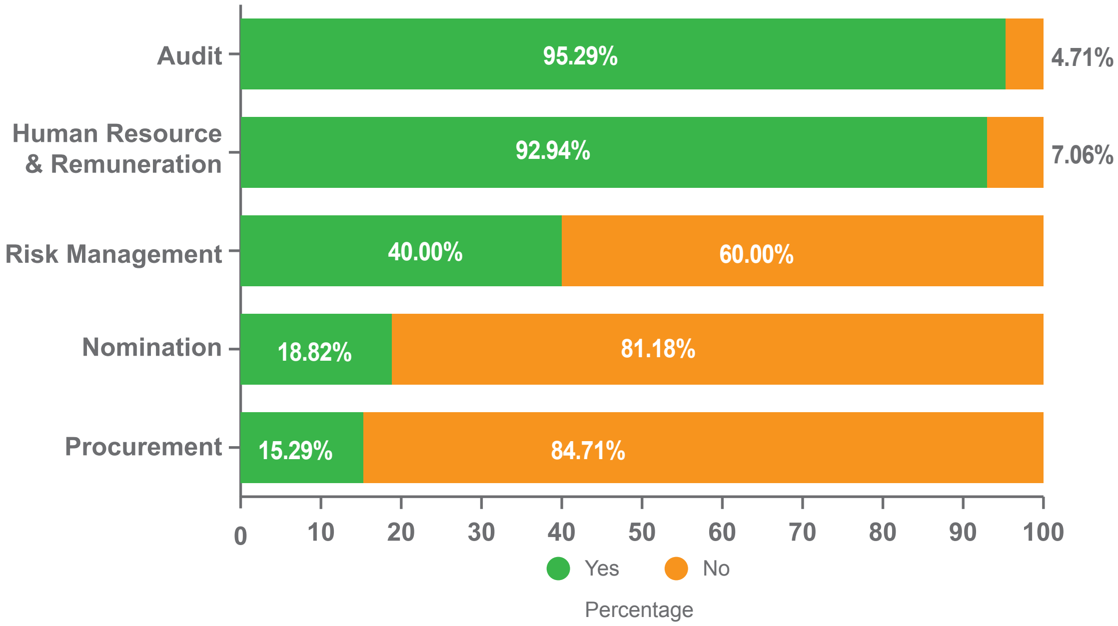
Further, it was surprising to note that a few of the larger companies, including two MNC's, still provided information to their boards in only hard copy form, but the majority used a mix of both. No PSC provided data for board meetings in "electronic only" form, and the majority of PSC, about 86% , provided a mix of hard copy and electronic data for board meetings.

As illustrated above most respondents felt that material provided for board meetings is both concise and covers all major issues. The 4 companies that remained neutral in this regard were not from any particular sector.

2. Committees

Reponses: 85

2.1 Types of Board Committees

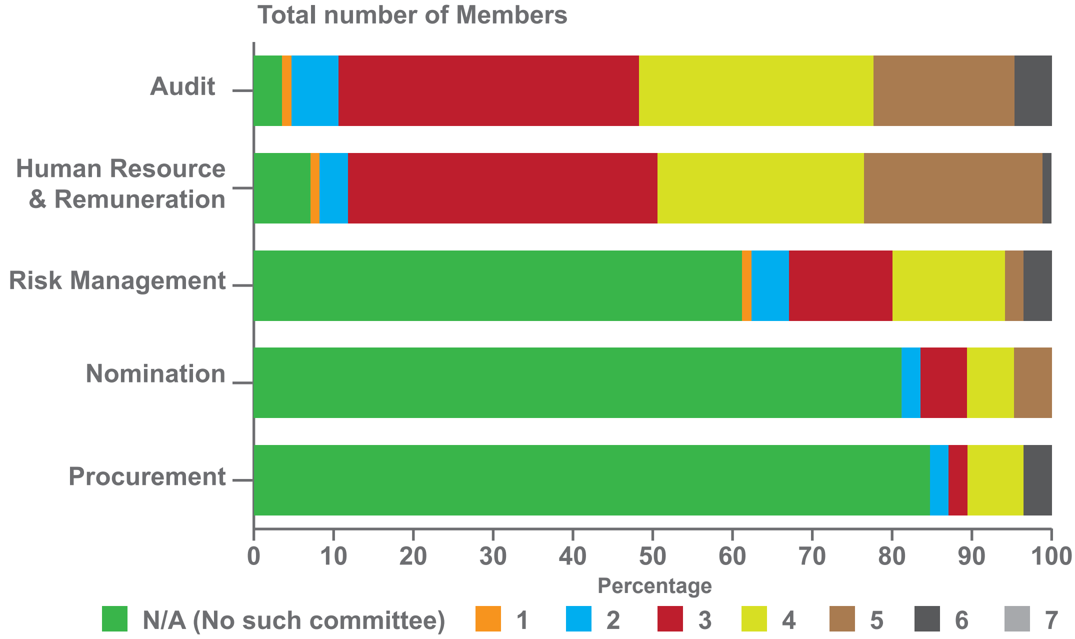


Audit and Human Resource Committees exist in almost all companies; the few that do not have them are all unlisted ones. Of the companies that have a Procurement department almost half are PSC and most of these are in the power and oil and gas sector.

More than half of the respondents stated that they do not have a Risk Management committee. Out of those that do, 58% are from the banking and finance sector, and one third are PSC.

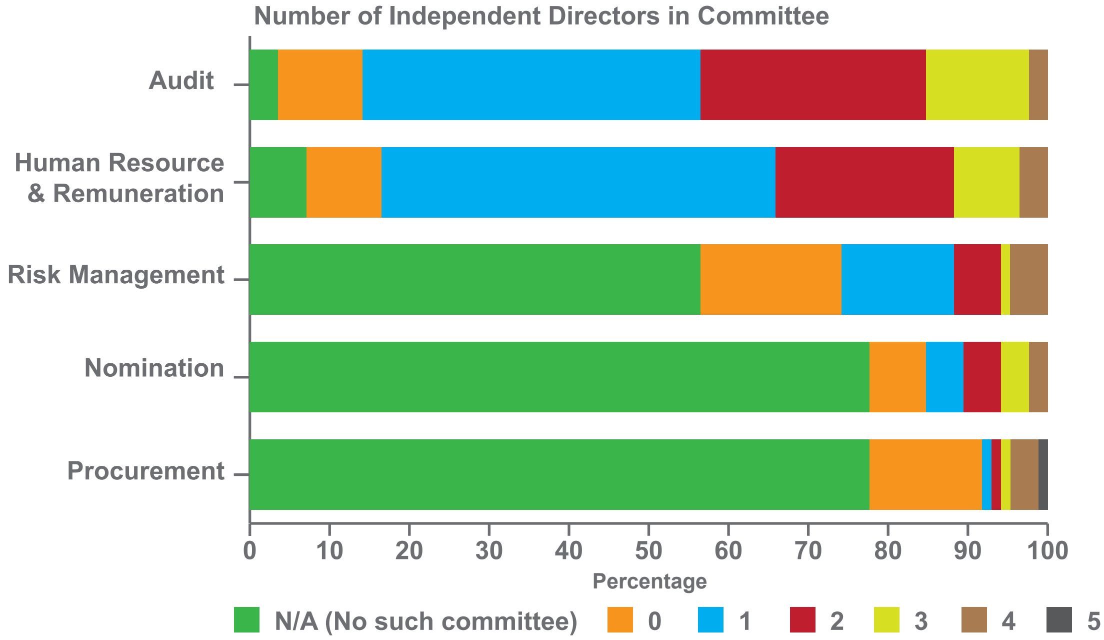
The few companies that had a separate nomination committee were not from any specific sector, with half of them being listed and the other half unlisted.

a. Number of Committee Members:



The maximum number of board members in the above committees was 6, except the nomination committee which had a maximum of 5 members.

b. Number of Independent Directors on Board Committees



Independent directors on the above committees ranged from 1-4, except one PSC which had 5 directors in its procurement committee.

Audit Committee (AC)

i. Number of members: majority consist of 3 or more members

ii. 38% of the respondents stated that they have 3 board members in their AC, followed by 29% who have 4 members.

iii. Only a minority of 5% has 6 members, all of whom are listed companies.

iv. 11% of the companies stated that they have no INED in their AC. All of these are unlisted, except one that is bound by the terms of privatization, which does not allow it to have INEDs.

Human Resource Committee (HR)

i. Number of members: 87% have 3-5 members.

ii. 38% of the respondents said that they have 3 members

iii. 22% have 5 members

iv. Only one listed PSC has 6 members in its HR committee

v. 80% of the respondents with INEDs in their HR Committees are listed companies.

Some companies stated that they had only one board member in the above mentioned committees, possibly implying that the other members therein were from senior management.

Other comments from respondents were as follows:

i. Other committees include:

- e-Vision (looks after technology affairs)
- Investment
- Credit
- Technical
- Systems
- Marketing and Sales
- Diversification
- BOD Strategy
- BOD Compliance & Conduct
- BOD Development Finance
- BOD Oversight
- BOD Ethics
- BOD Finance
- BOD Strategy and Projects
- Corporate Social Responsibility
- Regulatory Affairs
- Investment & Finance
- Finance
- Information Technology

ii. Merged committees include:

- The HR & Recruitment Committee is also performing the function of the Nomination Committee in a few companies.

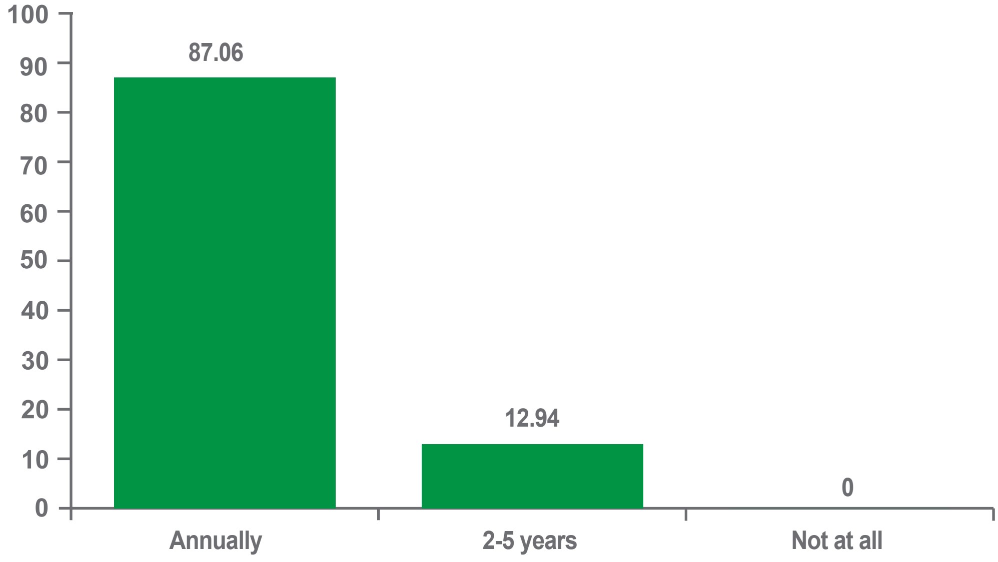
- Risk Management is included in the TOR of the Audit committee and one meeting annually of the BAC is conducted on risk.

- Audit committee also takes care of procurement and risk management issues.

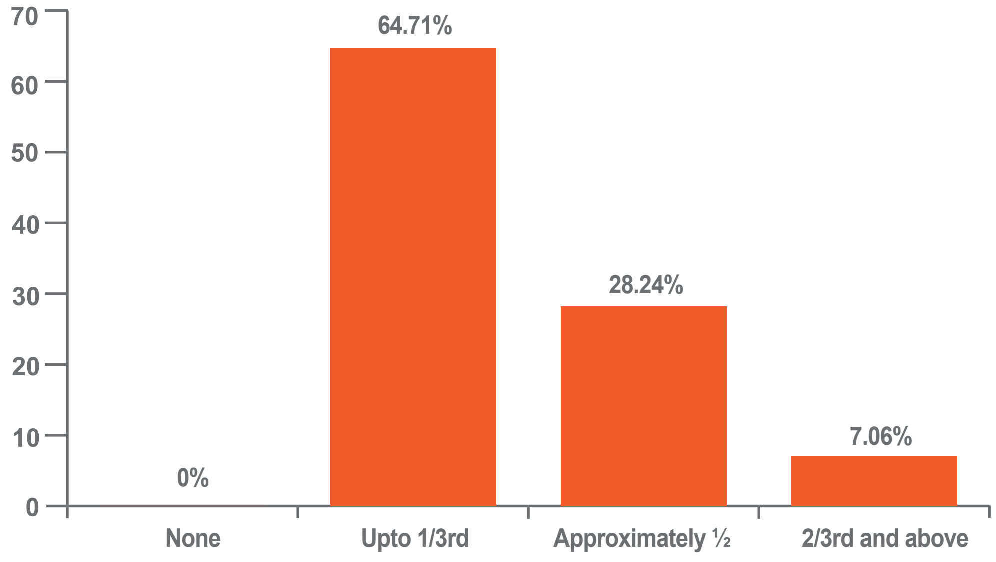
- The BOD Audit Committee is also performing the function of the Corporate Governance Committee.

3. **Strategy**
Responses: 85

3.1 Frequency of Board discussion on the company's strategic direction



3.2 Boards time engaged in forward looking matters (strategic & others) as opposed to looking in the rear view mirror (financials, audit reports, etc)



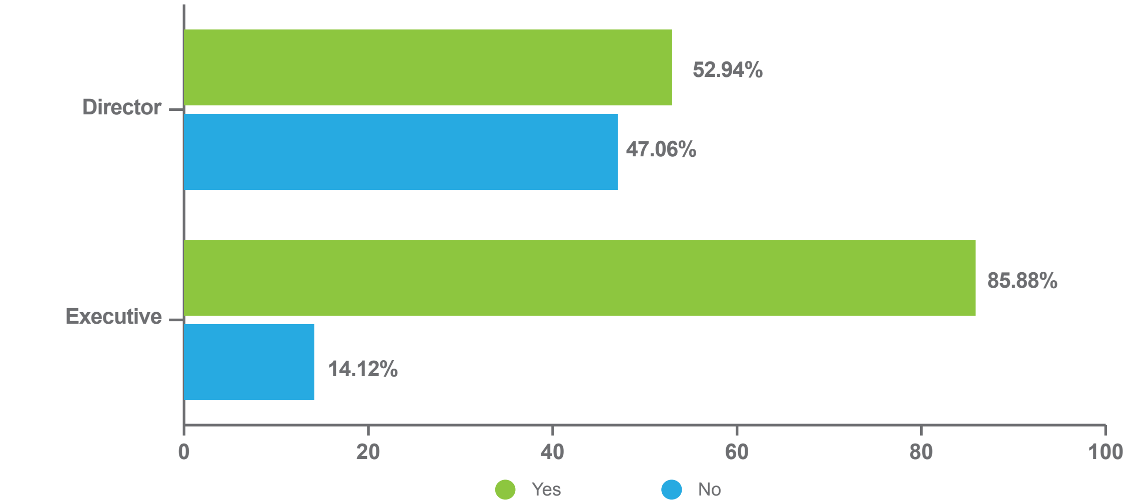
87% of the respondents and likewise,the exact same percentage of those representing listed companies state that their boards discuss strategic direction annually.

The boards that spent two-thirds or more of their time discussing strategic matters did not represent any specific sector.

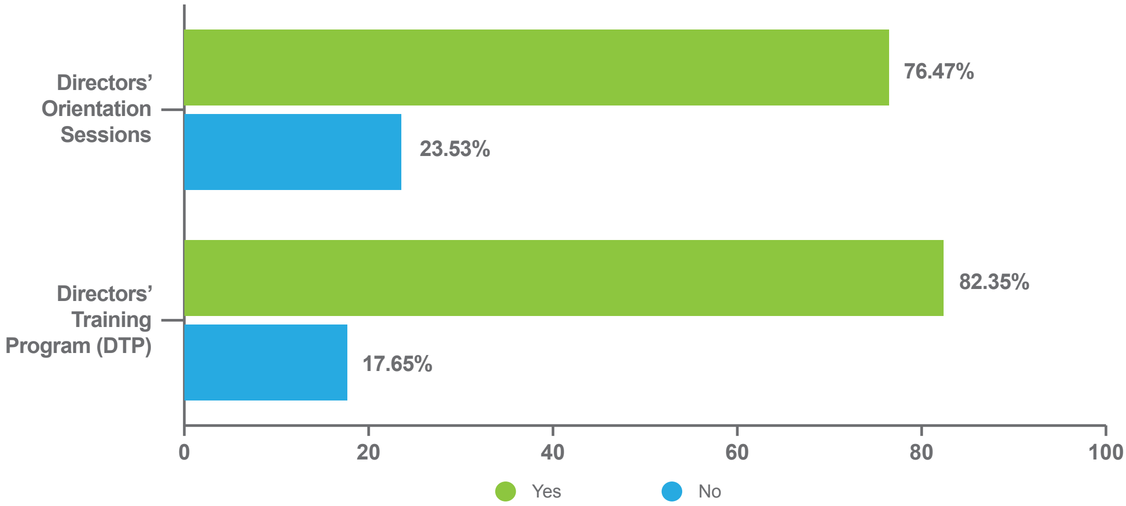
4. Professional Development

Responses: 85

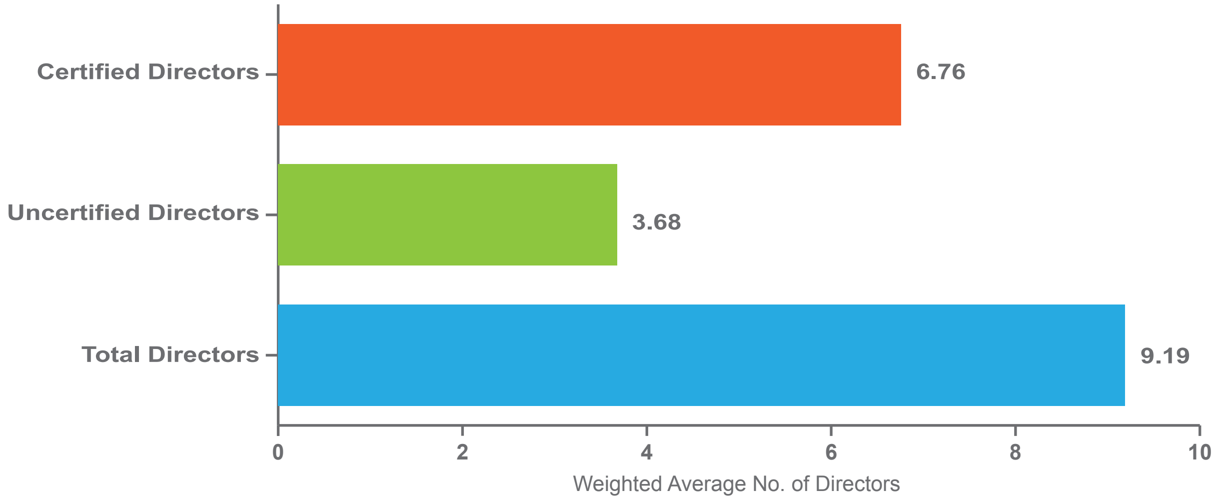
4.1 Company maintains a budget for Director and Executive education and development:



4.2 Trainings conducted for Board members



4.3 Number of Directors Certified (under an SECP Approved Directors' Program)



Only just over half of the companies maintain a budget for director education and development, whereas the majority of companies set aside a budget for executive education. Despite this, most of the companies still stated that they make arrangements to ensure both director orientation and certification under an approved director training program is conducted for members of the board. The 7% of companies that did not arrange either an orientation or certified training are mostly unlisted.

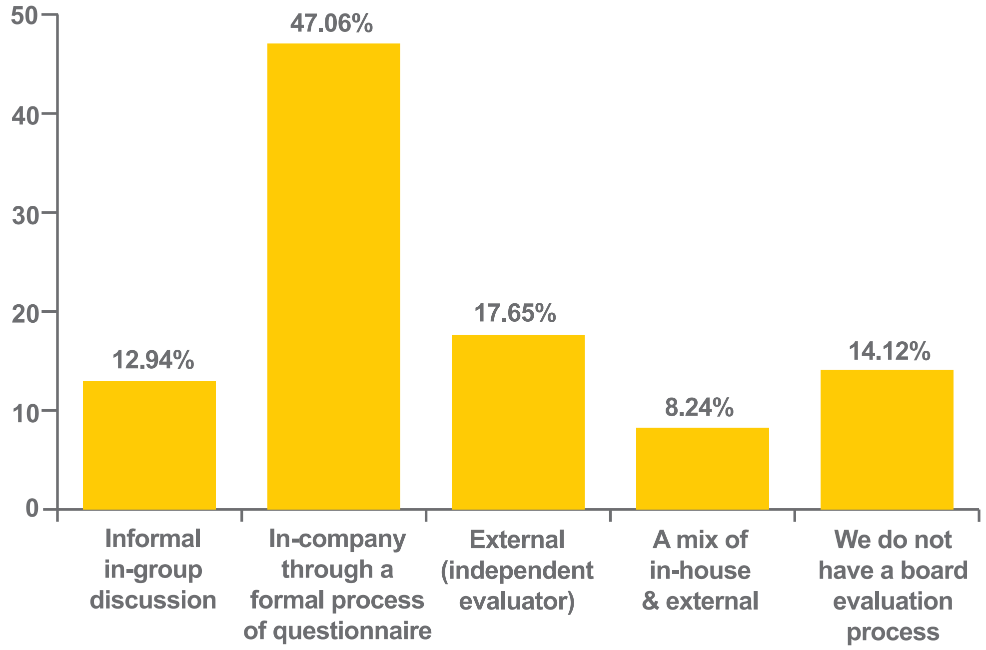
The highest number of certified directors on any one board is 12.

5. Evaluation

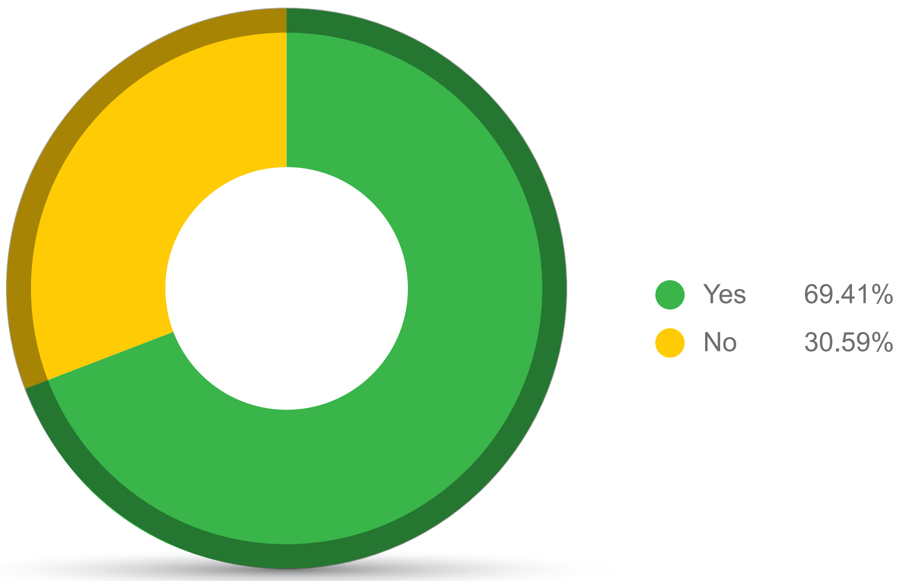
Responses: 85

5.1 Board Evaluation

a. Annual Board performance evaluation mechanism



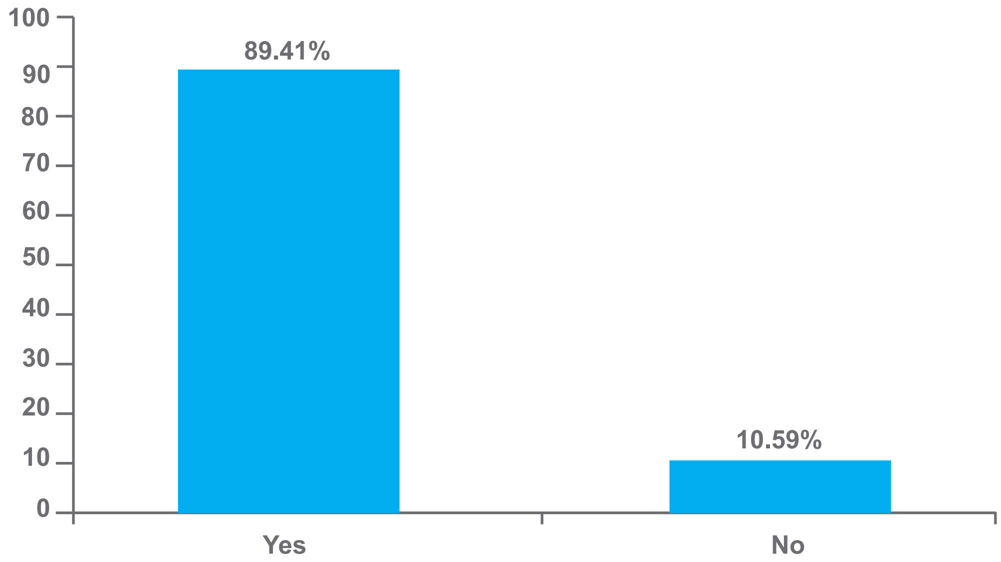
b. Board evaluation results are discussed at the board meeting



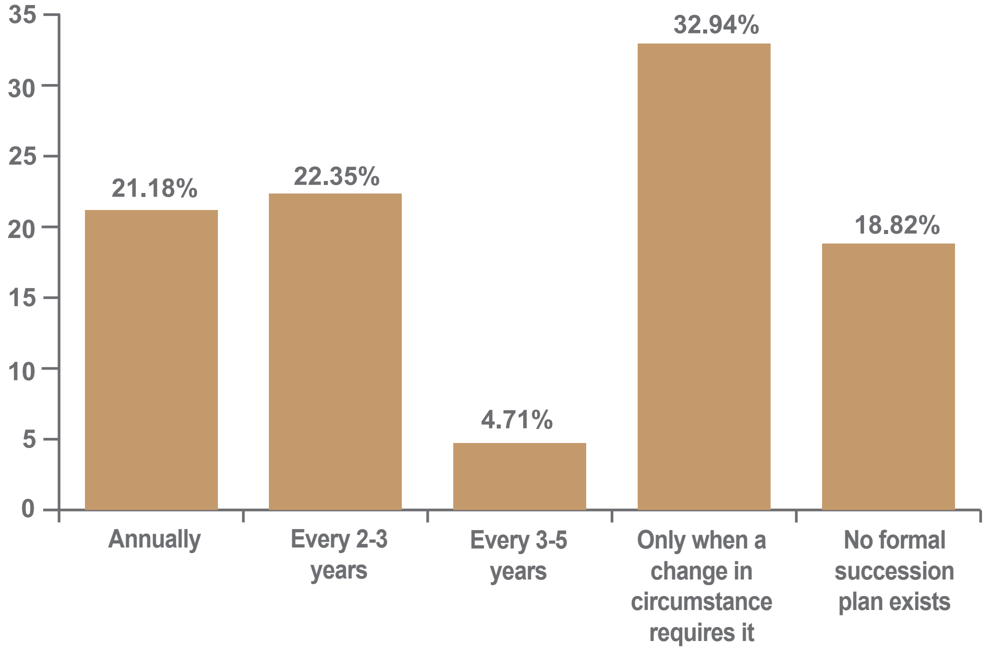
Most companies carry out their board evaluations in house, however, almost a third of the companies do not discuss the results, thereby rendering the exercise futile - a 'box-ticking' exercise. Of the companies who undertook the evaluation with the help of an external evaluator, over half were from the banking and finance sector. Likewise, half of those who use both an in-house and external evaluator are listed companies. No PSC combined an in house evaluation with an external one; it was either one method or the other. A third of PSC did not conduct an evaluation at all, which was expected following the amendments made to the Public Sector (Corporate Governance) Rules 2013, in April 2017, whereby the Government is now responsible to evaluate directors based on performance contracts provided to them at the time of their appointment. None the less, considering a formal process in this regard is not underway, over half of the PSC are still conducting some form of evaluation. Banks generally conducted either internal or external evaluations, with only one bank stating no such process exists. Overall, it is encouraging to note that the ratio of companies who do not carry out board evaluations has decreased.

5.2 CEO performance and succession planning.
Responses: 85

a. Board reviews CEO performance



b. Board reviews CEO succession plan



Of the boards that do not review CEO's performance, only one was a PSC, with the remaining being a mix of companies, both listed and unlisted.

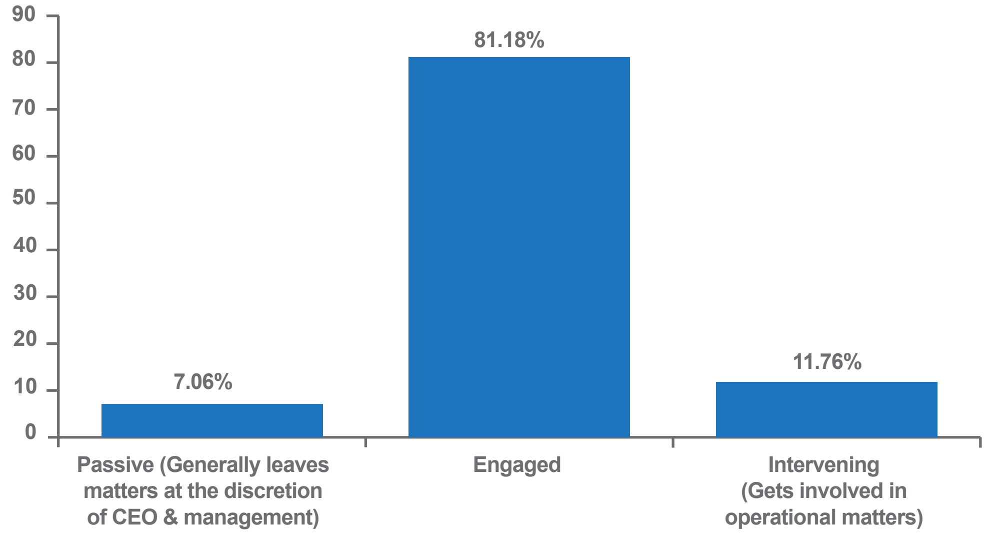
Almost two-thirds of the respondents that stated that no formal succession plan exists are listed companies, mostly manufacturing in nature. One third of the total companies only reviewed the CEO's succession plan if and when there was a need.

6. Board Conduct and Effectiveness

Responses: 85

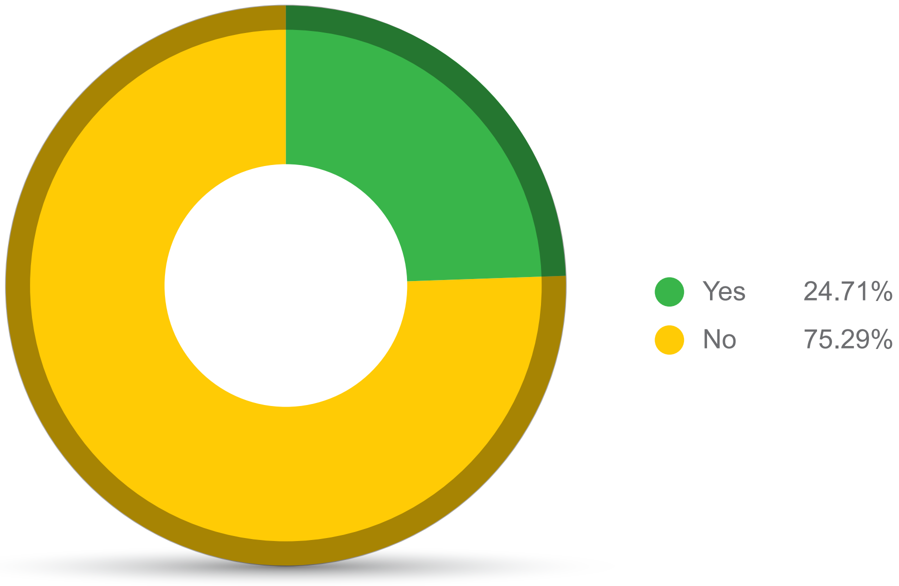
Respondents were asked a few questions to gain an insight into how they felt about the overall effectiveness and efficiency of the board in terms of their skills, experience and understanding.

6.1 Type of Board



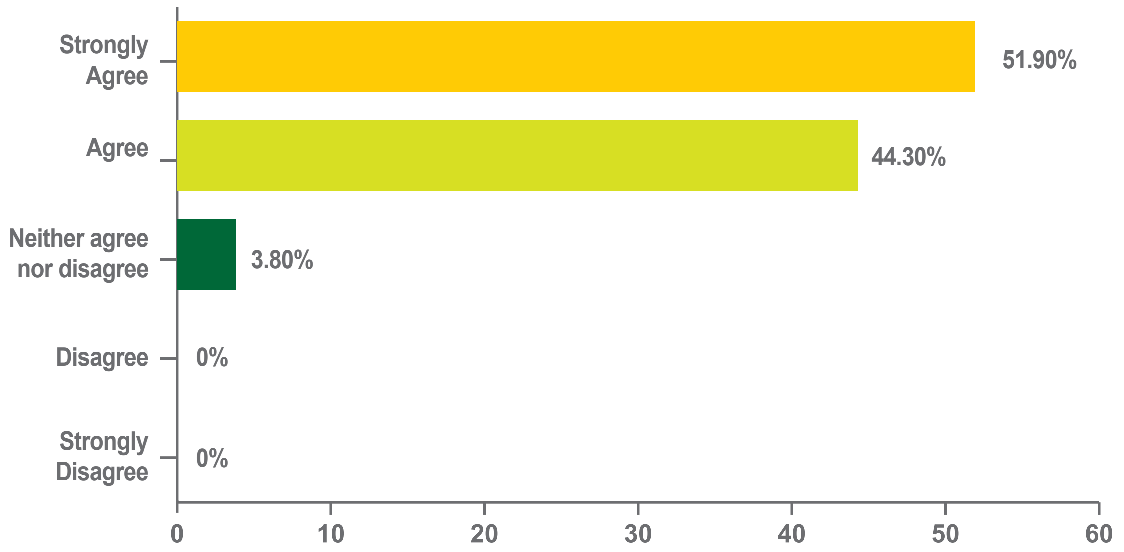
The respondents that found their boards to be intervening were not from any specific industry. Half of them are listed and the other half unlisted, with a third from the public sector. Likewise, the passive boards did not represent any specific sector or industry.

6.2 One or Two Director(s) dominate Board meetings

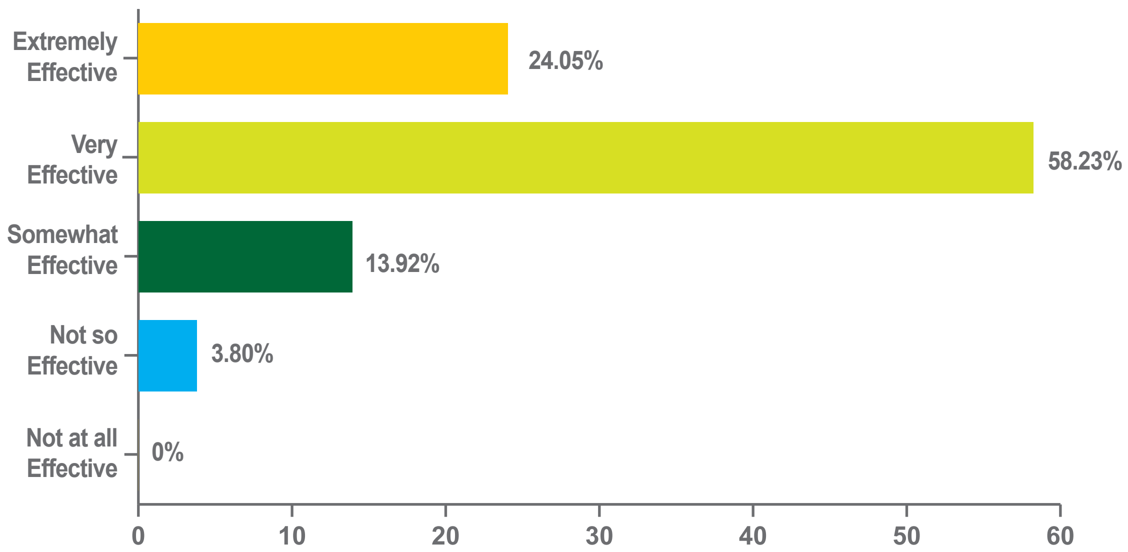


About a quarter of the respondents state that 1 or 2 directors dominate board meetings, but again these do not represent any specific classification of company or sector.

6.3 The board fully understands key business drivers including risks associated with the business



6.4 Overall effectiveness of the board

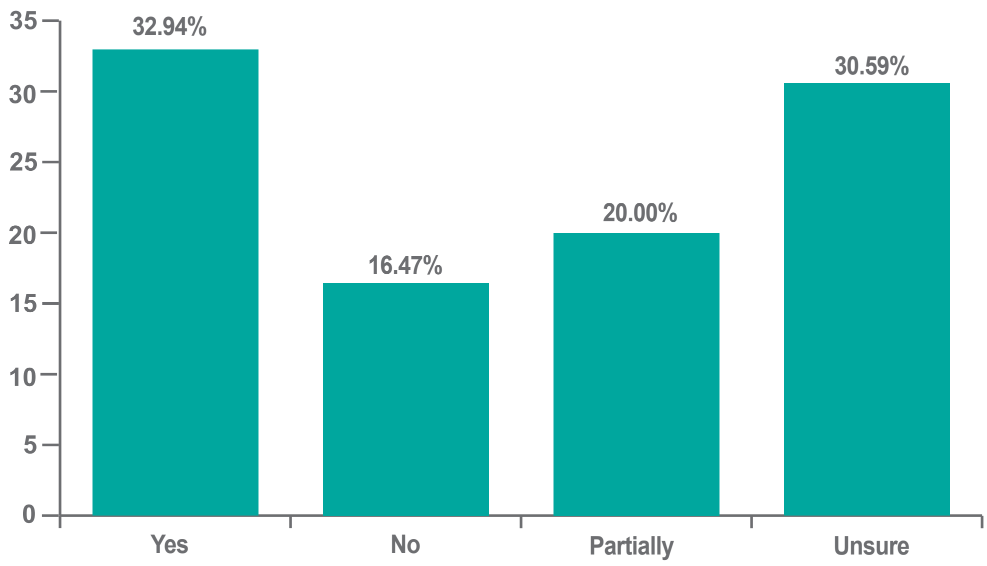


It is encouraging to note that most of the respondents are confident about their boards understanding of key business drivers and risks associated with the business. The three respondents that remained neutral represented an investment bank, microfinance bank and a company in the food industry. Both the microfinance bank and investment bank respondents also did not feel that their boards were effective. Further, a respondent representing a leasing company felt that his/ her board was not so effective, despite having the necessary understanding, skills and experience.

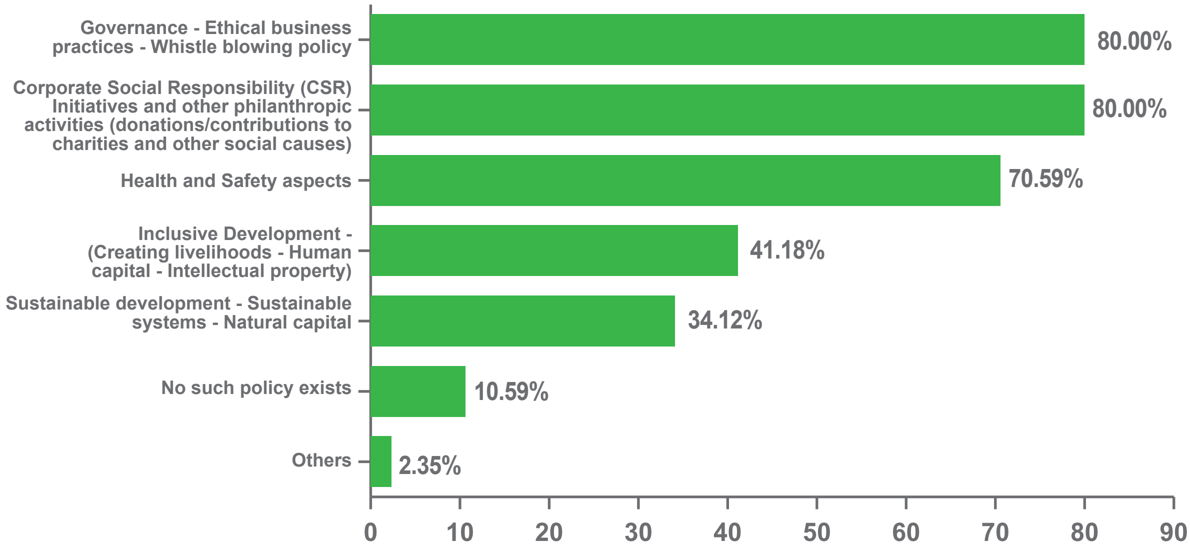
7. Environmental, Social and Governance (ESG) matters

Responses: 85

7.1 Company has adopted Corporate Social Responsibility(CSR) (Voluntary) Guidelines, 2013.



7.2 Company's policy on ESG matters includes:

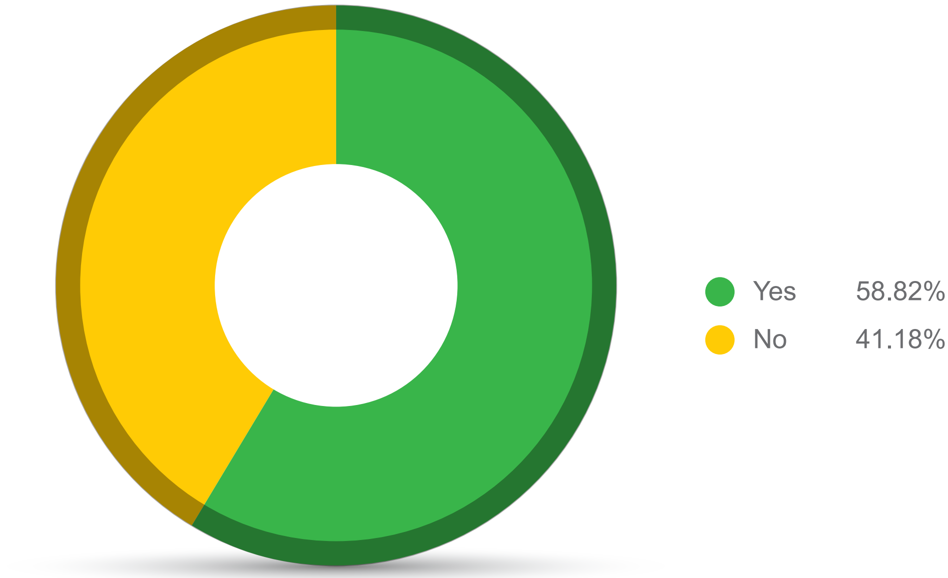


No specific trend was noted in any specific sector/ industry regarding the adoption of the CSR guidelines or other ESG matters. Almost a third of the respondents are unsure of the practices their company adopts. Those that selected "other" ESG matters, did not specify what other policies they have adopted within their companies.

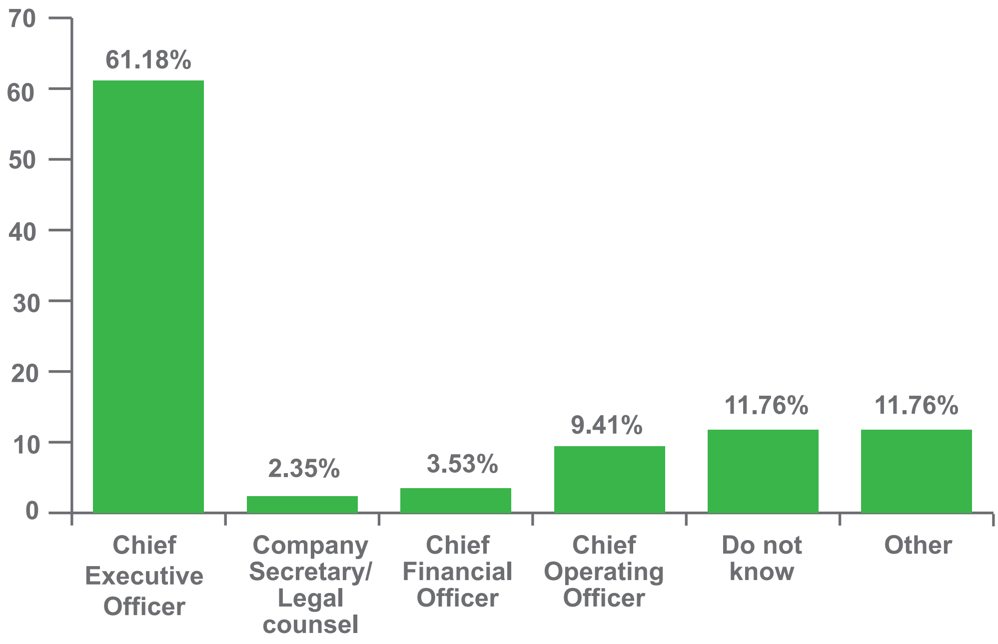
8. Crisis management

Responses: 85

8.1 Board has been briefed on the company's crisis management preparedness



8.2 Responsibility for the company's crisis management preparations.



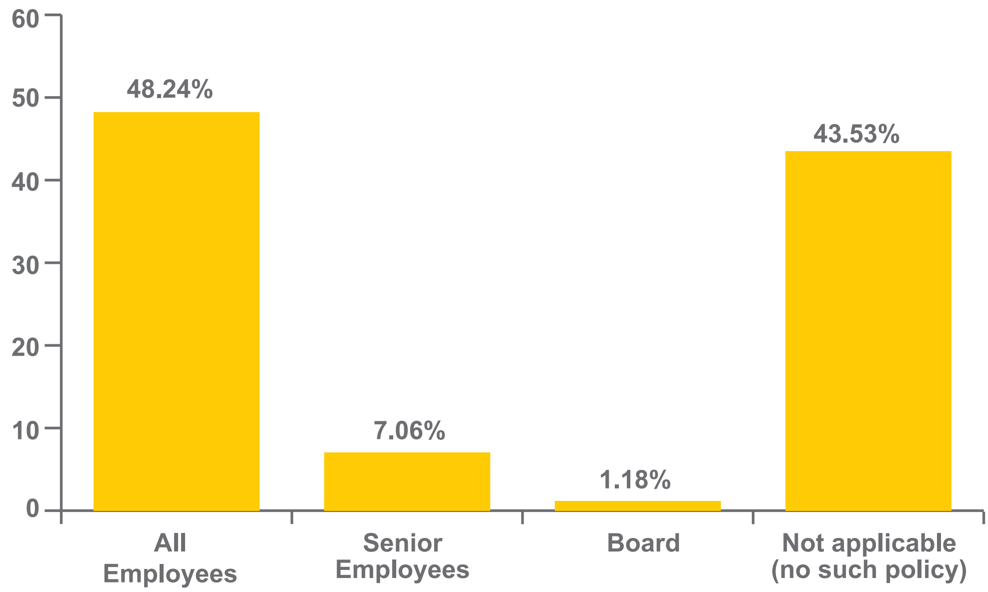
As illustrated above, 61% of the respondents stated that the CEO is responsible for crisis management preparedness. Those respondents who state that they are not aware of who is responsible are mainly from the manufacturing sector.

Others mentioned as responsible for crisis management preparedness are: Chief Risk Officer, Head of Risk, MANCOM (ie.management committee), BCP Head, heads of departments, and overall board of directors.

One respondent from an IT company stated that no such thing exists

9. **Social media policy**
Responses: 85

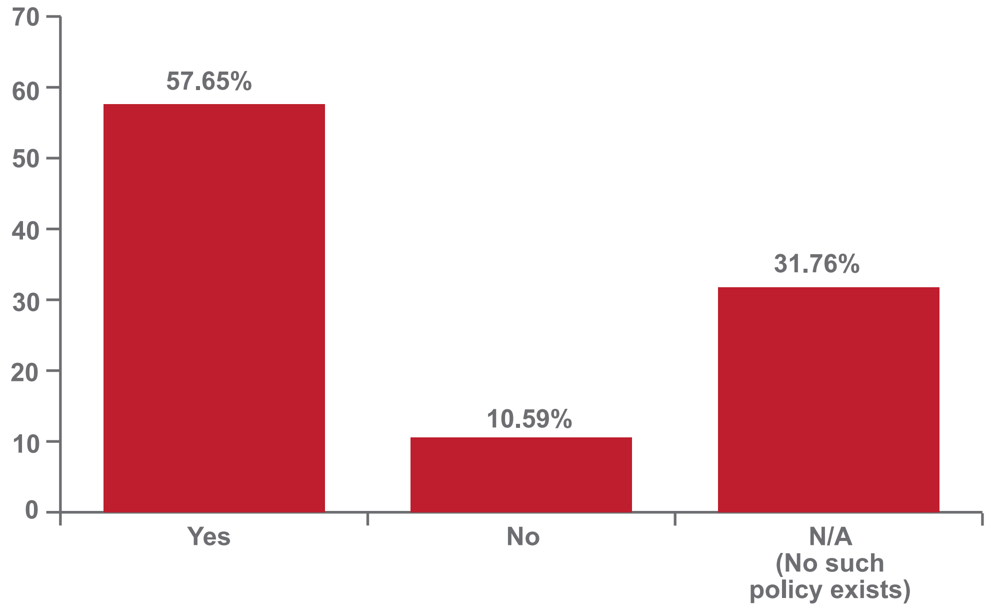
9.1 Applicability of social media policy



Only one listed public sector company stated that the social media policy applies to the board. Those who stated that the policy applies to senior employees are mainly from the manufacturing sector.

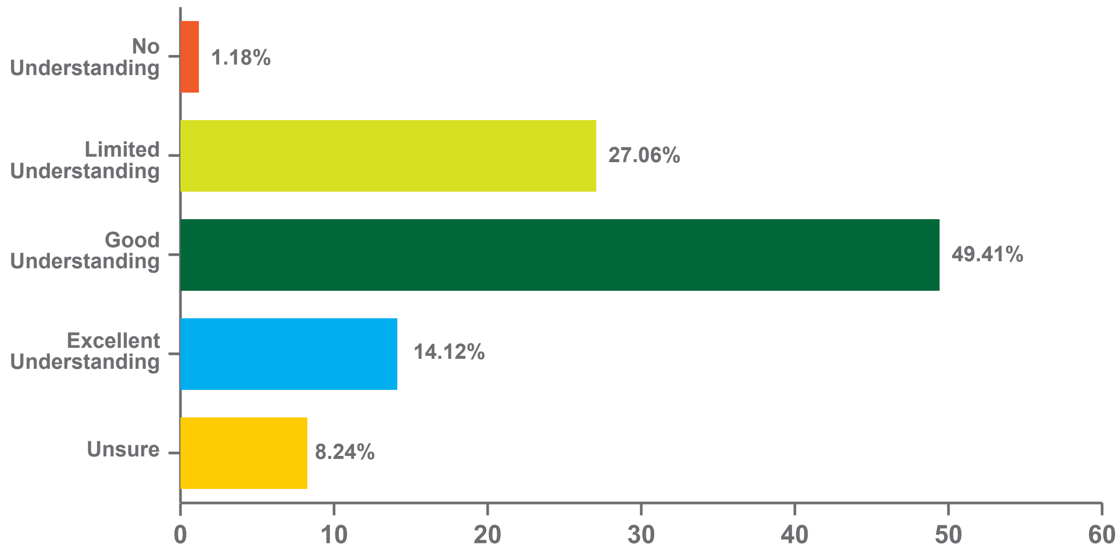
10 **Data Policy & Analytics**
Responses: 85

10.1 Board ensures that the Data Governance Policy is regularly reviewed and adapted to take into account latest technological, competitive and regulatory developments

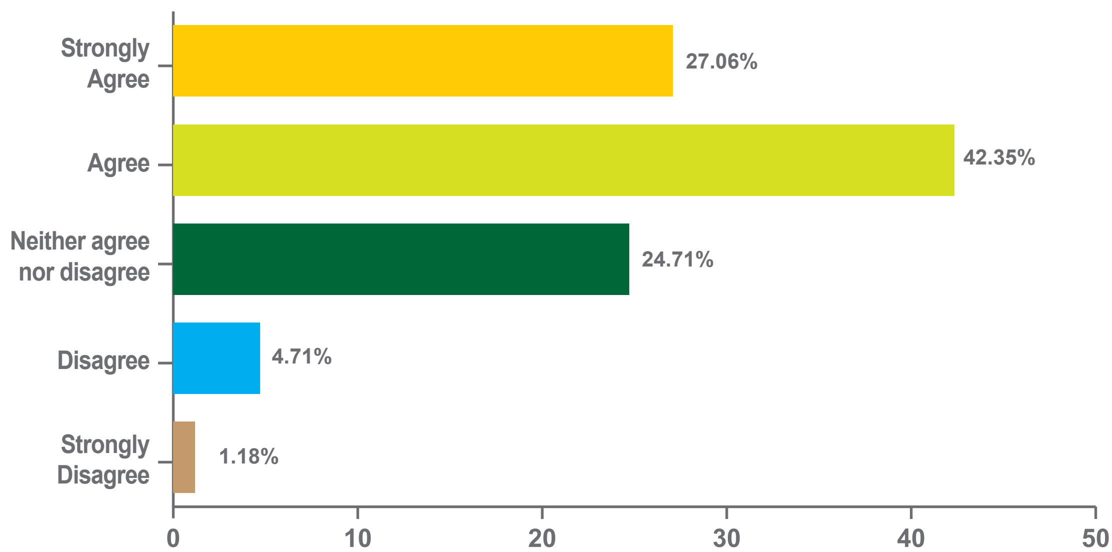


Four of the respondents that state that no such policy exists are from the public sector, whereas the rest are spread across other industries.

10.2 Board's understanding of the organization's data privacy practices



10.3 Board uses data analytics in its decision making



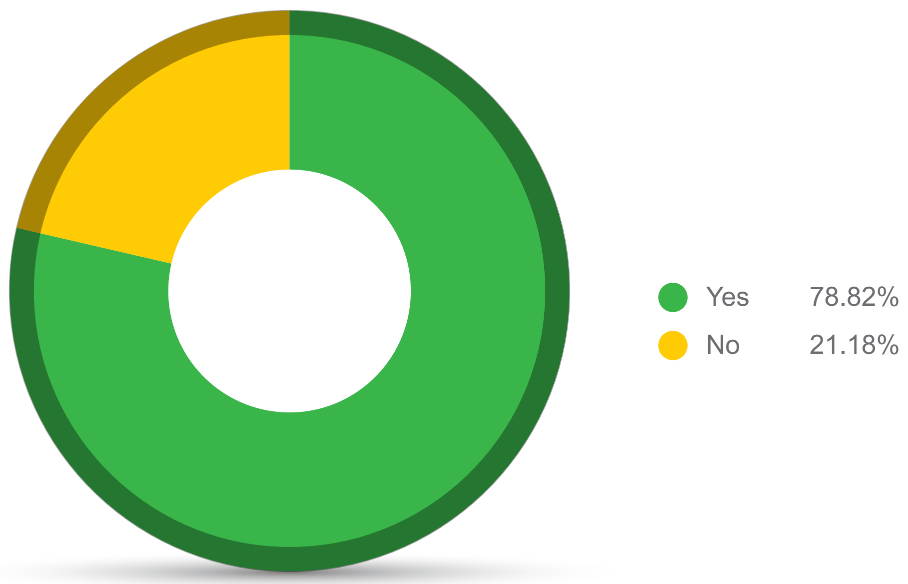
Ironically, the one company that states that its board neither understands its data privacy practices, nor uses data analytics in decision making, is itself an Information Technology based company. Further, there was a mix of companies that did not believe that their board used data analytics, consisting of a chemical company, engineering company, a not-for-profit and a bank.

Out of the respondents who were unsure, all except one of these companies is listed. Those that state that their boards have an excellent understanding, almost half of them are from the banking and finance sector.

VII. Board Remuneration

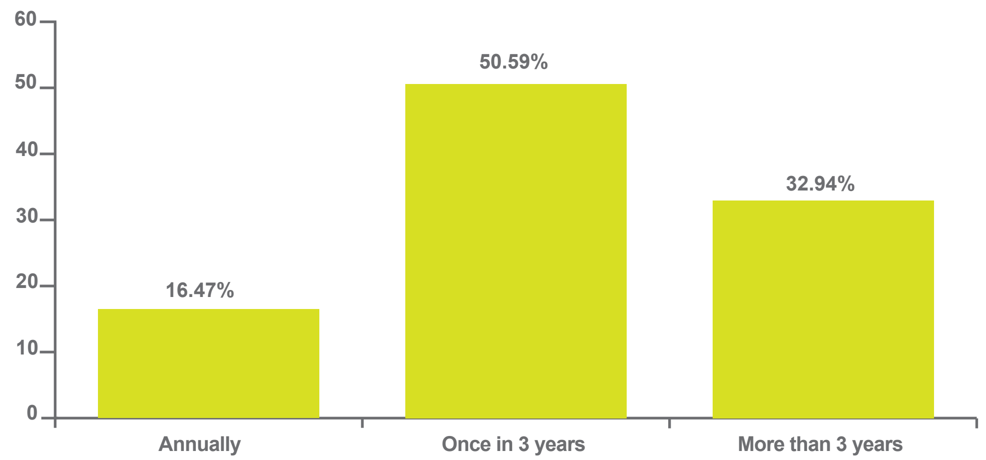
1. Remuneration Policy for Directors & Method of Determination
Responses: 85

1.1 Directors' remuneration policy



A clear majority of respondents state that they have a formal remuneration policy in place which is an improvement from previous practice (2016: 56%). Out of those that do not have such a policy, 61% are unlisted companies. 12% of the listed companies that do not have a policy are from no specific sector, however, include 2 financial institutions. These 2 are the only ones out of the total respondents from the financial sector (both listed and unlisted) that do not have a formal policy in place. 64% of the PSC have a remuneration policy for their directors.

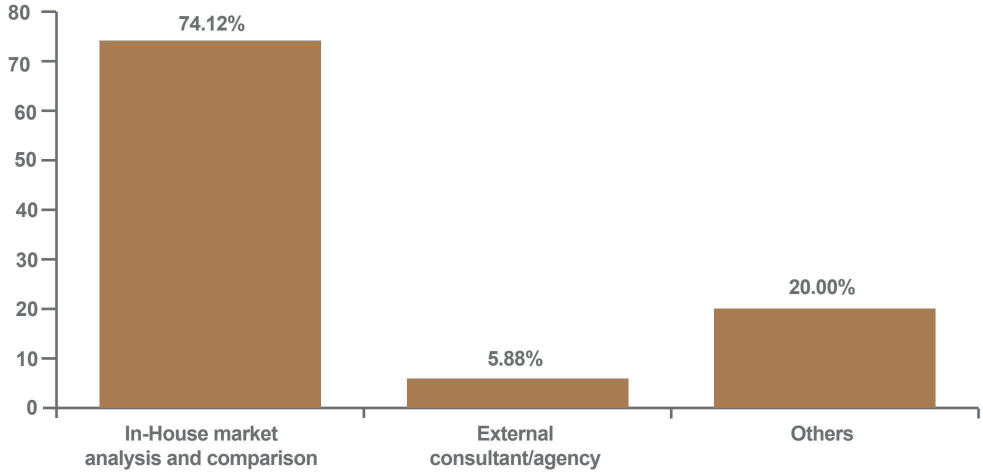
1.2 Frequency of review of Board fee:



The respondents that do not have a formal remuneration policy also do not review board fee annually. Fee revision in such companies is either done once in 3 years or after more than 3 years.

Of the respondents whose companies carry out an annual review of board fees, 79% were listed companies. The 2 PSC that carry out an annual review comprise a bank and an insurance company.

1.3 Method used to determine fee of Non-Executive Directors including Independent Directors



Only five listed companies utilize the assistance of external consultants to determine NED remuneration and they are from the following industries: banking, manufacturing (steel/iron pipes), food and power generation.

Respondents that used other methods stated that:

- it was decided internally
- as per articles and prevailing fees
- trends within group companies
- as per government policy
- past practices
- external benchmarking and
- regulatory requirements
- One board member of an insurance company stated he was not aware as to how the company determined the fees.

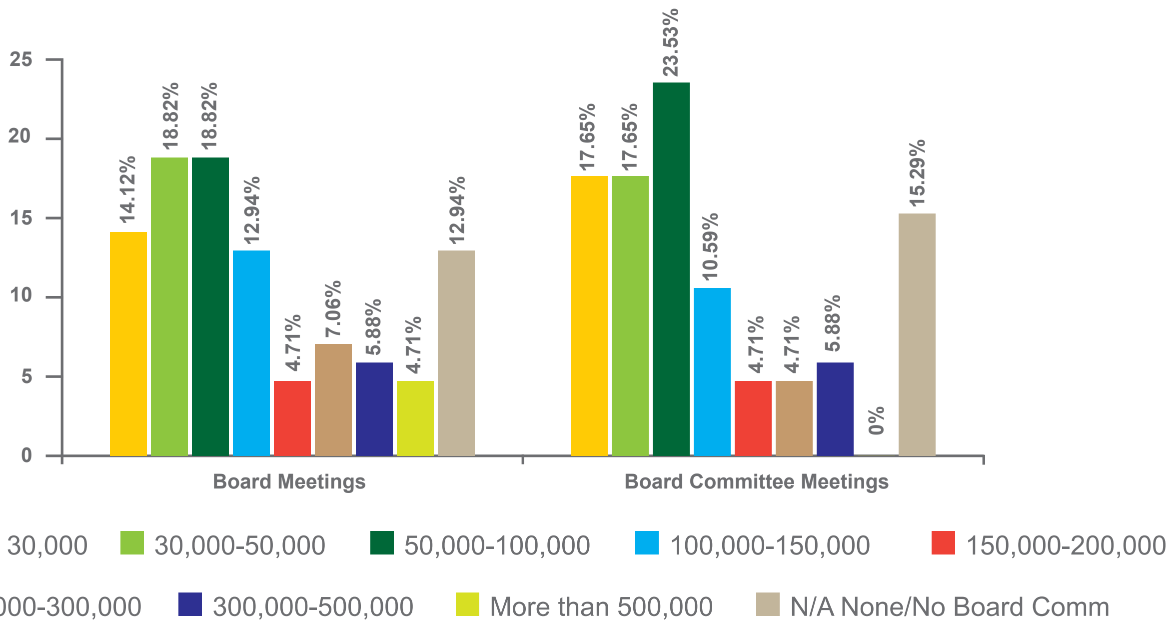
On the other hand, a couple of companies stated that no specific method was used; and a couple of others said that the NEDs were not paid – they were all unlisted companies.

2. Fees for NEDs and other benefits

Responses: 85

2.1 Board and Committee meeting fees

a) Fee bracket



Over half of the companies pay NEDs Rs 1 lakh or less, however, the weighted average amount for the various categories (including unlisted companies, PSC and other financial institutions), is still over Rs 1 lakh as the remaining companies in those categories are spread over the Rs 1-5 lakh fee range. In 2016, 34% of the companies paid less than Rs30,000, whereas currently, 38% pay between Rs 30,000-100,000 clearly showing a rise in overall pay scale.

Majority of the companies that pay Rs 3 lakh and over are from the banking and finance sector, being the highest paying sector. *7 Only 3 out of the 13 banks who responded to this part of the survey, pay less than Rs 100,000, 2 of which are microfinance banks. The rest of the banks were spread out evenly with 2 or 3 banks in each fee bracket above 1 lakh.

The four companies that paid NEDs above Rs 500,000 are all listed. Two are banks that set NED fees in US Dollars*8, one a multi-national company(MNC) and one a company in the telecommunications industry. All except the MNC held board meetings that lasted over 5 hours and/or had over 5 meetings a year. The MNC on the other hand, had the standard 4-6 meetings, lasting only 1-2 hours each time.

Those companies that paid less than Rs 30,000 were from a variety of industries, both listed and unlisted, including one microfinance bank and a leasing company. Approximately one third of the unlisted companies (2016: also one third) did not remunerate their NEDs and these were from a variety of sectors, including a couple of not-for-profit companies and family businesses. Likewise, one of the two listed companies that does not pay NEDs, is a family run business.

Two companies, a modaraba and tobacco company, paid NEDs for attending board meetings but not for board committee ones; on the other hand one telecommunication company paid their NEDs for committee meetings and not for board meetings, possibly indicating remuneration was based on a 'functional – contribution' basis.

b. Weighted average fee for Non- Executive Directors by category*9

Board Meeting Fees

Category	Weighted Average (1)		Weighted Average (2)	
	No. of Responses*	Amount in Rs	No. of Responses	Amount in Rs
All	74	143,007	70	108,500
Listed	58	153,664	54	109,722
Unlisted	16	104,375	16	104,375
Public Sector Company	12	114,583	12	114,583
Commercial Bank	13	330,962	11	215,000
Other Financial Institutions	9	128,889	9	128,889

Board Committee Meeting Fees

Category	Weighted Average (1)		Weighted Average (2)	
	No. of Responses	Amount in Rs	No. of Responses	Amount in Rs
All	73	109,452	72	100,208
Listed	56	111,250	55	99,182
Unlisted	17	103,529	17	103,529
Public Sector Company	12	100,000	12	100,000
Commercial Bank	13	267,692	12	225,417
Other Financial Institutions	8	104,375	8	104,375

**The 'mean' amount (or central figure) in each separate 'fee range' has been used to calculate the weighted average in each category (eg. For fees between Rs30,000-50,000, a figure of Rs 40,000 has been used for companies in that range to calculate the overall weighted average)*

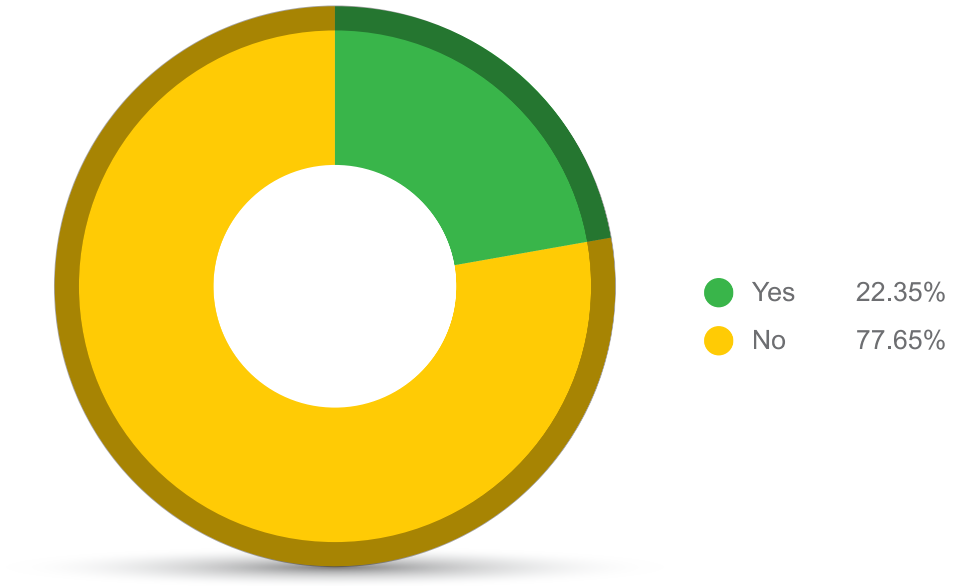
Note:
Weighted average (1): Represents the weighted average fees of companies that pay NEDs including INEDs for attending Board and Board Committee meetings. Those companies that do not pay any fees have been excluded from the calculation of the average.

Weighted average (2): The weighted average amount has been re-calculated in the 2nd column in the categories where companies pay NEDs fees above Rs 5 lakh, so as to give an idea of the average fees that are generally paid, excluding the extraordinarily higher amounts. (Note: Unlisted companies, PSC and other financial institutions did not include any company which paid more than Rs 5 lakhs to their NEDs, hence, their results remain the same).

**7 On August 17, 2019, the State Bank of Pakistan(SBP) vide BPRD Circular 3 of 2019, placed restrictions on banks and limited the amount of Directors fees within Rs 8 lakhs and Rs 5 lakhs, respectively, given the category of bank considering performance and asset-base.*

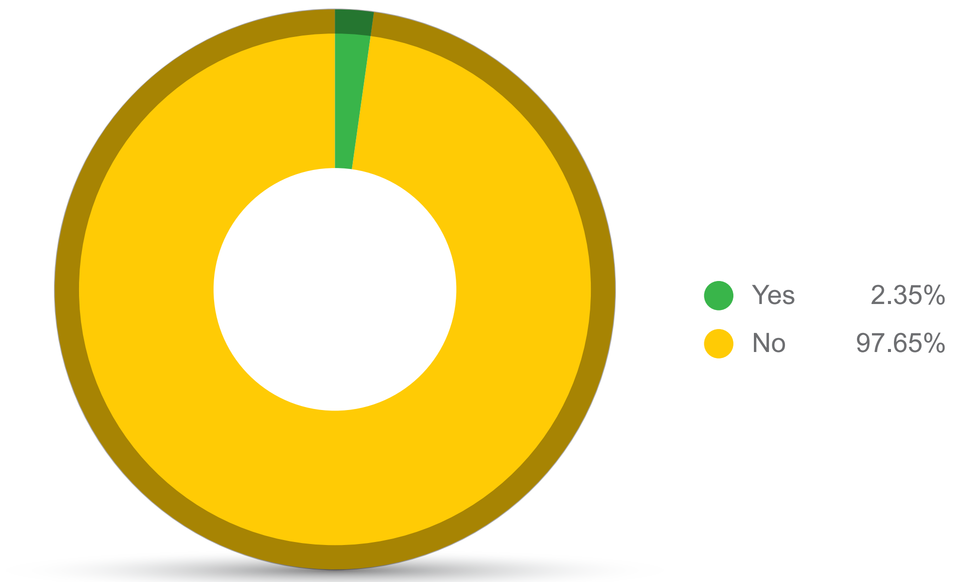
**8 The SBP also placed restrictions on setting of fee for directors of banks/ DFI's in foreign currency amounts, although the required payments may be made in the foreign current equivalent of the rupee amount set.*

2.2 Chairperson fee higher than other Directors



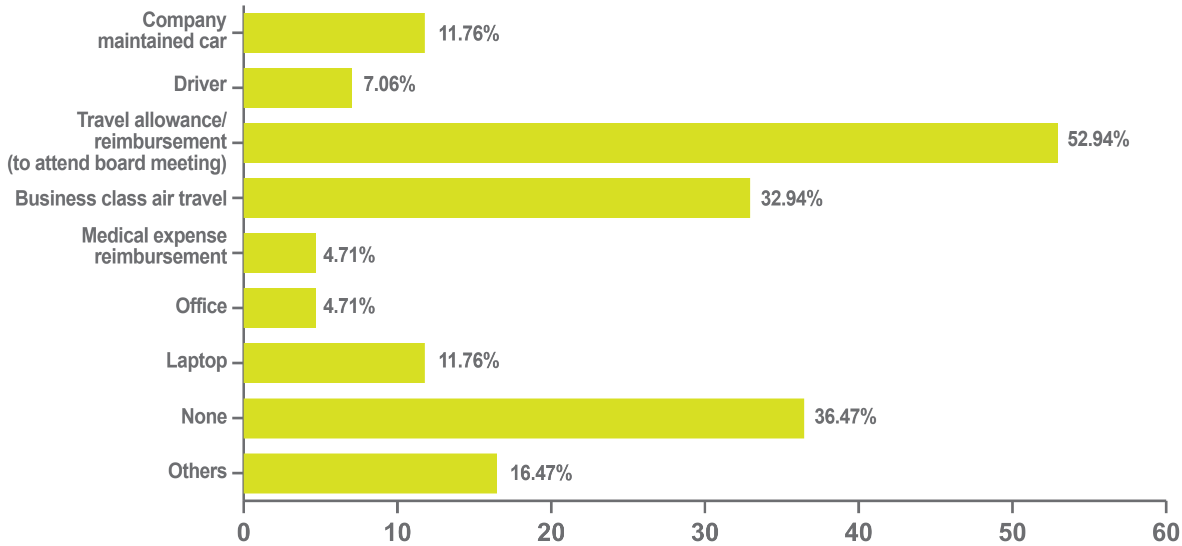
Out of the companies that pay the Chairperson a higher fee, 84% are listed and only one is a public sector company. Of these companies, there was a vast spread - from 25% extra to up to twice as much paid to the Chairman as compared to other directors. Some companies paid a fixed Rs 50,000 extra to the Chairman. Likewise, a couple of companies stated that the Chairperson of board committees is also paid extra.

2.3 Policy for annual retainership fees for Directors



Both the companies that pay annual retainership fees are unlisted. One company has only executive directors on its board, whereas the other company has one female NED.

2.4 Other benefit provided to Non-Executive & Independent directors



About two thirds of the total respondent companies provide some form of benefit to NEDs other than meetings fees. Over half provide travel allowances/ reimbursement to attend board meetings and one third provide business class air travel.

Of the one third that stated that they did not provide any other form of benefit to NEDs besides meeting fees:

i. there was a mix of listed and unlisted companies;

ii. none of these paid meeting fees of over Rs 3 lakhs (and included only 3 that paid in the Rs 2-3 lakh range);

iii. one company stated that directors are not given any remuneration or benefits; and

iv. one stated that only the Chairperson is provided with a company maintained car, driver, office and fuel.

Other benefits mentioned include:

i. Reimbursement of petrol expenses to one INED

ii. Directors Indemnity Insurance Policy Premium

iii. All of the benefits apply to EDS and NEDs. However, INEDs are paid nothing more than meeting attendance fees.

iv. Boarding & lodging is provided for both board and board sub-committee meetings

v. The Chairman of the board gets a company maintained car and reimbursement upto a limit assigned by the board. Other directors only get air tickets to attend meetings only.

vi. Connection services etc provided by a company in the communication industry (ie. its own services) capped at a certain rupee amount.

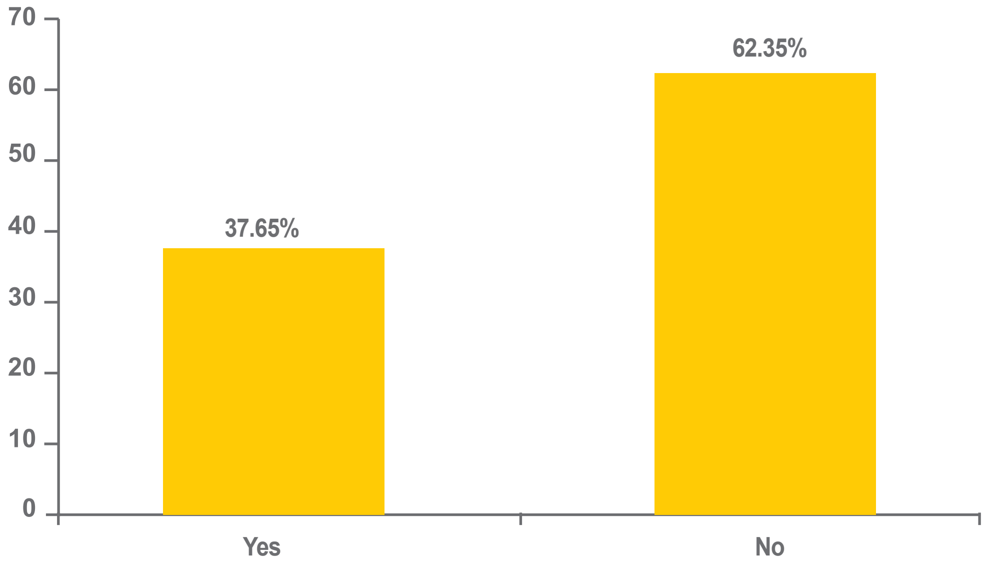
vii. Chairman is paid a fee for advisory.

viii. Company maintained car, laptop and use of office premises - only on need basis.

ix. iPads for accessing board and its committees' agenda/circular resolutions.

x. Company maintained car with driver provided to the Chairman.

2.5 Liability Insurance Cover

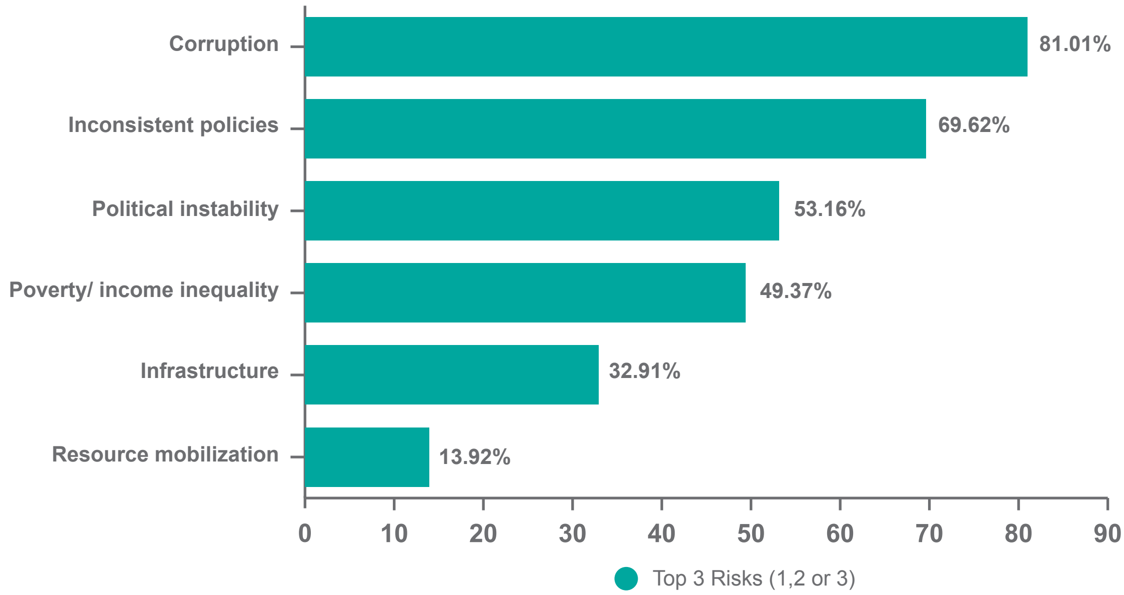


Of the respondent companies that provide liability insurance, a majority are listed companies and one third are from the banking and finance sector. Only 3 are public sector companies.

VIII. General

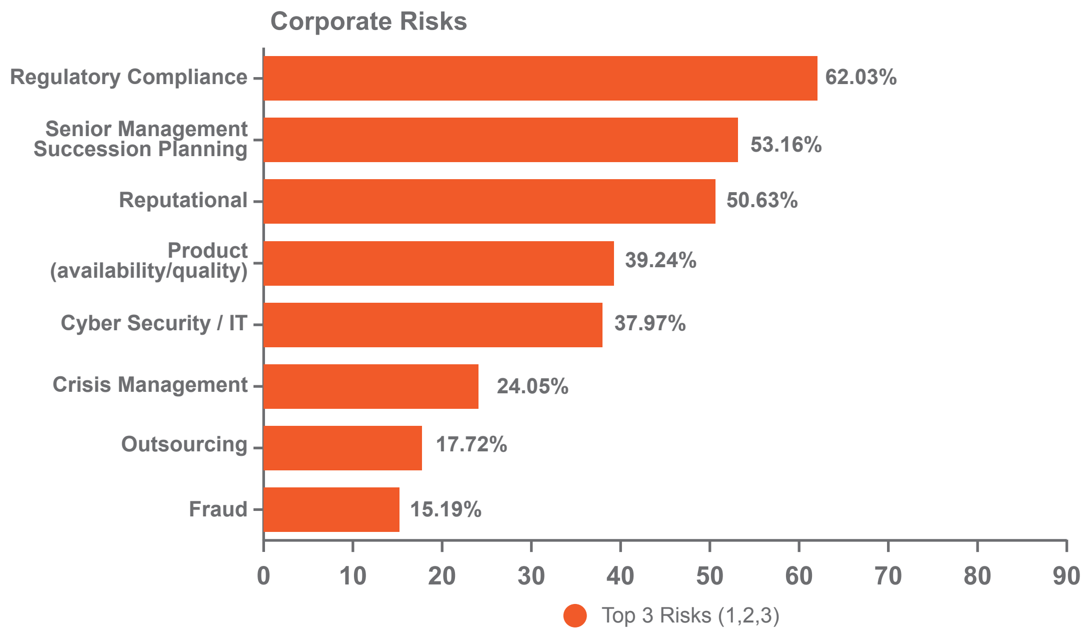
1. **Business Risk**
   Responses: 79

1.1 Top 3 social and economic problems facing Pakistan.



A majority of the companies selected corruption as either the first, second or third biggest socio-economic problem that Pakistan is faced with. One third of the respondents selected it as the top most problem. This was followed by a fourth of the respondents selecting poverty and inequality & a fifth of them selecting inconsistent policies as the number one risk. No respondent selected resource mobilization as the number one risk.

1.2 Top 3 risks respondent companies are confronted with

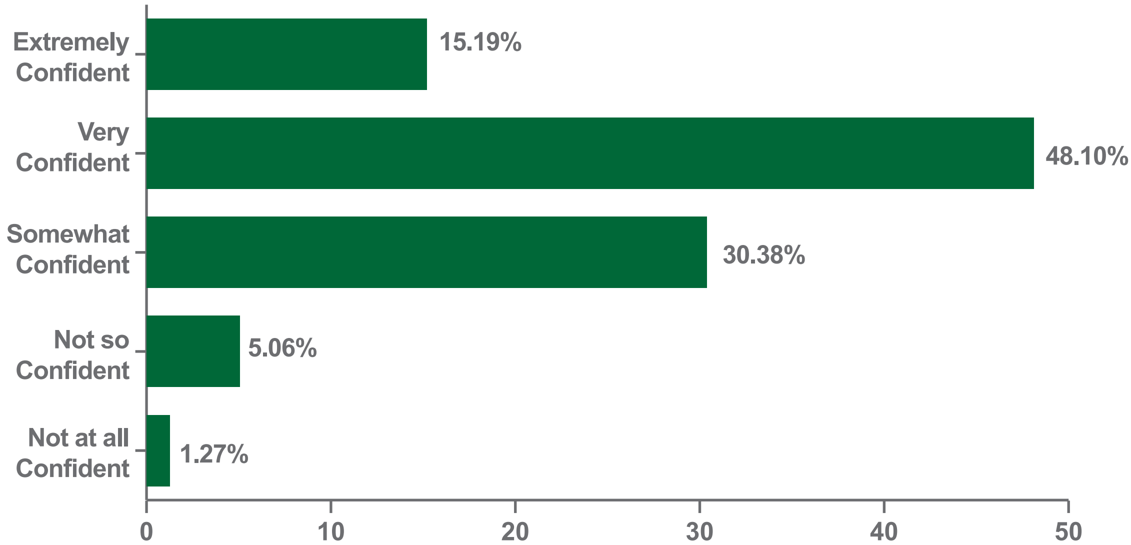


As illustrated, on the previous page, a majority of the respondents are concerned with regulatory compliance as one of the top 3 risks, however, it was not necessarily considered the number one risk by the respondents. Senior management succession planning and reputational risks were each selected by 20 % of the respondents as the number one risk, with regulatory compliance and cyber security close behind for the top slot. It was interesting to note, however, that each of the factors given above was selected as number one risk by at least a couple of respondents.

2. Growth Prospects & Disruptions

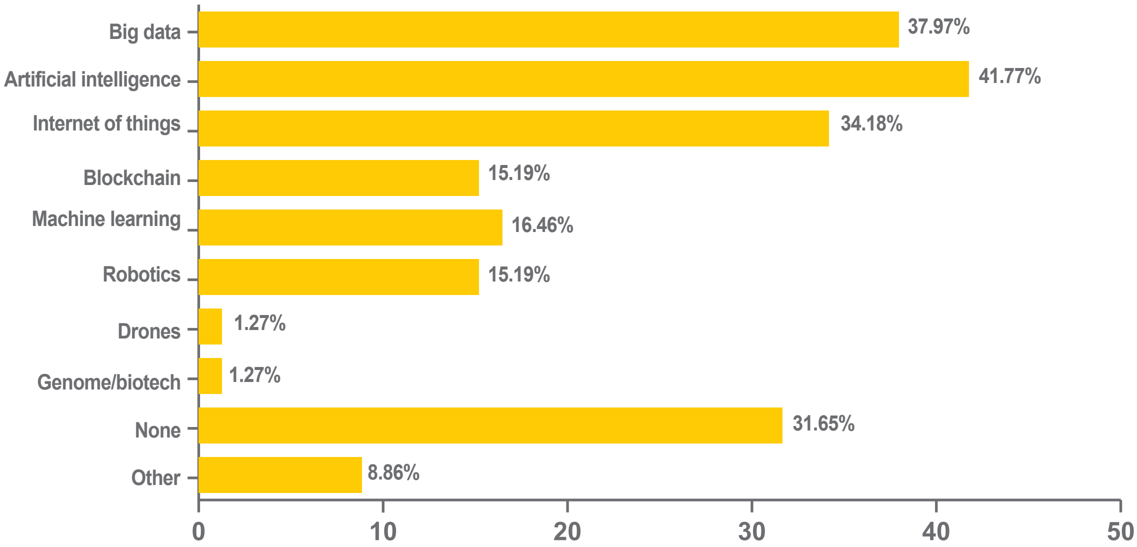
Responses: 79

2.1 Prospects for growth in your organization for next year compared to previous year



There was a mixed reaction to this question, even for those respondents who assessed their boards as being effective. The companies confident about growth represent a variety of industries from banking and finance to cement, food, insurance, textiles etc. Hence, no particular sector stood out in this category. Of the four 'not so confident' companies, two were from the automobile sector, one a fertilizer company and one a manufacturer of steel pipes etc. Likewise, the sole company that is not expecting any growth in the coming year is a cable and wire manufacturer.

2.2 Technological disruptions that your company will be impacted by in the next 3 years



Artificial Intelligence (AI), big data and internet of things have emerged as the top concerns for companies. AI, big data and the internet of things are the main concerns for the banking sector as well. Surprisingly, a third of the respondents do not expect any of the above technological disruptions to impact their business.

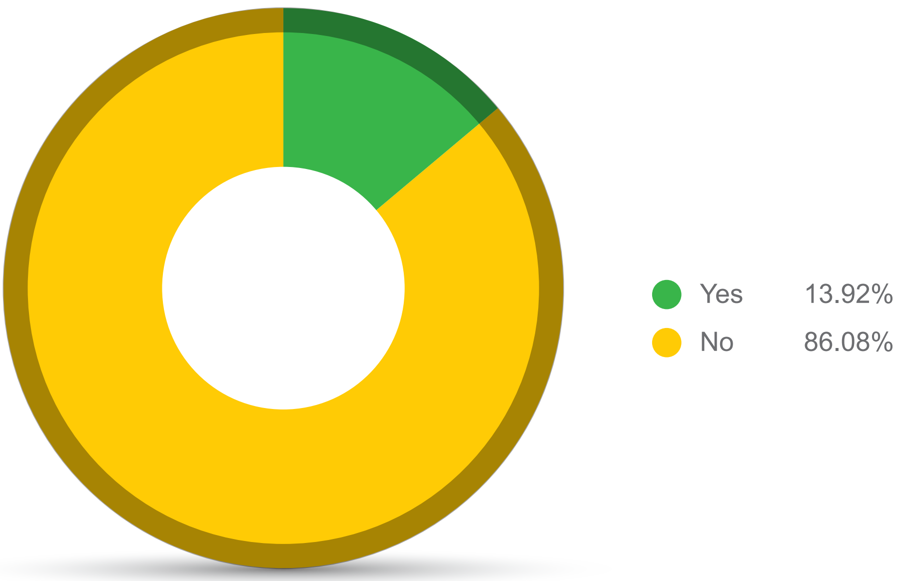
The respondent expecting that drones may disrupt business is in the construction industry; whereas the one expecting Genomes/Biotech to have an impact is from the pharmaceutical and healthcare industry. Further, over half of the respondents expecting blockchain to affect business are from the banking and finance sector, but no specific sector was noted for those expecting machine learning and robotics as a disruption.

Other disruptions highlighted by respondents include:

i. Fintech will drive the new service model - Banks will be challenged to overcome this continuous alignment with new services.
ii. 'Sharing economy' will be embedded on almost all the financial systems - soon banks will be required to expose their systems to non-financial institutions.
iii. Robotics and AI: there are already alliances between leading incumbent financial services and technology companies using robotics and AI to address key pressure points, reduce costs & mitigate risks. They are targeting a specific combination of capabilities such as social & emotional intelligence, natural language processing, logical reasoning, identification of patterns and self-supervise learning, physical sensors, mobility, navigation, and more and they are looking far beyond replacing the bank teller
iv. Existing plants required to be replaced with state of the art technology.
v. Acceptance of technological changes
vi. Advancements in renewable energy
vii. Government policies on import of required products

IX. Corporate Governance in Pakistan

1. **Hurdles faced during the implementation of the Code of Corporate Governance:**
   Responses: 79



Respondents provided comments as to whether they faced difficulties in implementing the code in their respective organizations. The following is what they had to say:

i. Hiring of Independent Directors is an issue
ii. Those areas of the code which lead to increase in costs and unnecessary paperwork.
iii. For all new requirements sufficient time should be given for implementation.
iv. Various requirements for disclosure of interest in companies by directors are contradictory and impractical.
v. Resistance to change; which is natural human behaviour.
vi. Certain provisions of the code do not take into account the fact that privatized entities are bound by the terms of their privatization agreements. This leads to conflict and implementation issues.
vii. Directors training for foreign directors and obtaining MoI clearance for such directors.
viii. The governance structure is strong. However the code is not applicable in the case of my company.

Public sector -specific

i. Being a government entity people resist change. The organization should link performance with profit sharing.
ii. Peculiar organizational culture prevalent in the public sector with lack of transparency and accountability
iii. As the government is the majority shareholder it is used to treating it as their own bank and one has to simply follow instructions

2. **Corporate Governance in Pakistan – Respondent perspective and suggestions**
   Respondents were invited to give further remarks or suggestions pertaining to corporate governance in Pakistan. A third of them provided us with the following valuable insights/ suggestions:

The Regulator & Regulation

i. The regulator entrusted with enforcement of good corporate governance practices, must be made completely independent of government influence and allowed and urged to take strict action against violators of the governing statutes
ii. I think regulatory institutions like SBP and SECP would do well to observe the rules of good corporate governance and also see themselves more as facilitators and bridges towards better work practices through incremental changes rather than a "stick bearing" authority whose own middle and junior officers and occasionally the senior ones have no idea of the ideal end result they should be aiming for.
iii. A much greater need for industry consultation is required before new requirements are enacted.
iv. Corporate governance regulations should be implemented keeping in view the local conditions and environment of companies/ Needs to be more relevant with the local norms
v. It should have a simple process of exemption for privatized entities from provisions that these entities cannot legally enforced.
vi. We suggest limited CCG practices for private limited companies
vii. Code is vague in certain circumstances
viii. Definition of Related Parties needs to be changed
ix. Various regulatory authorities are highly inefficient, bureaucratic and ineffective.
x. Transparency may be ensured
xi. All recommendation should be based on comply or explain
xii. Corporate Governance regulation needs to make available a window for such companies which have in one way or the other public control and are caught between a rock and a hard place.
xiii. There is far too much importance attached to regulatory reporting requirements in the CCG. These need to be simplified. More regulatory control breeds resentment, not efficiency.
xiv. Regulatory capacity and understanding remains a key impediment in facilitation of the growth of the sector.
xv. More awareness and education
xvi. There is a need to assess the positive or negative impact of enhancement of compliance requirements
xvii. The members of Audit committee and Procurement committee may not be same as it raises the issue of conflict of interest.
xviii. Board should be independent
xix. Has to be more strongly implemented in Pakistan.
xx. Application of Corporate Governance in corporate sector crystalize overall performance of the organization
xxi. Retired employees should not be hired in the same entity in a public sector company.

General

i. Corporate governance is in evolutionary stage in Pakistan / The system is gradually improving / Long way to go but it has started...
ii. The desired results from Corporate Governance have not been achieved since its introduction in 2002.
iii. Generally , quite weak
iv. The code is taking the industry in the correct direction
v. Regulations, 2019 are very effective for listed company boards to carry out their fiduciary duties with a sense of objective judgement and in good faith in the best interest of the company as well as its stakeholders.
vi. Corporate Governance in Pakistan is very much necessary and important
vii. It is not at par with the corporate governance which is observed in developed countries.
viii. Things are moving in right direction but it should be encouraged for adoption as best practice not merely compliance
ix. Improving but at a snails pace
x. Very vital for managing and stewarding organisations and institutions

X. Conclusion & Recommendations

A good corporate governance system aims to ensure commitment of the board in managing the affairs of a company in a transparent manner and maximizing long-term value for its shareholders and other stakeholders. Corporate governance is an evolutionary process. It is, therefore, important that corporate governance does not become a 'one size fits all' compliance matter. Instead, it should be about how the company is run at the top – with principles and people being of utmost importance; and with this mindset good governance trickles down to all aspects of company culture.

The boards' role is not only to review and question various aspects of the company's business and operations, its organizational structure or its resources, but also to guide and steer the company in the right direction. In the face of continuous change the capability to adapt is a key competency. Organizations – and boards – must be able and willing to modify direction if and when required. Good governance is as much about looking forward, aware of strengths and weaknesses, as it is about being fully cognizant of lessons from past performance.

The Regulator and the Regulated

The results of this survey demonstrate an overall improvement in corporate governance practices in companies across Pakistan, both listed and unlisted. In fact, the differences between listed and unlisted companies were generally only evident where "listed company-specific" compliance matters existed (eg. board composition requirements), with overall good governance practices being adopted by most respondent companies. Likewise, when respondents were asked to remark on corporate governance in Pakistan and any implementation issues they may have faced, a majority chose to discuss the regulator and basis of regulation, as opposed to specific corporate governance practices. This definitely indicates that companies have a better understanding of overall corporate governance requirements than in our earlier 2016 Survey, where most of the comments were based on seeking clarity on particular provisions of the code that respondents had not fully comprehended or where there was ambiguity and more information was required regarding their application. The current report suggests that organizations generally understand what is required, and are now more concerned about the overall relevance of the regulations and how to implement the same within their respective governance structures and organizations.

It will be interesting to observe what effects the advent of the "comply or explain" era for listed companies will have on corporate governance practices in the country. As mentioned earlier, this survey comes at a time of change, and lays out existing corporate governance practices. These can later be compared to the effects that the new "comply or explain" approach may have on listed companies in Pakistan, disclosing whether the change is:

- premature and regressive - setting corporate practices back in time; or
- progressive and a breath of fresh air for companies and investors - setting apart the leaders from the followers.

This has yet to be seen.

The boards' role is not to find fault with the company's business and operations, its departmental structure or its resources, but to guide and steer the company in the right direction.

Respondents recommended that in order to ensure adherence to good corporate governance, regulators should position themselves more as facilitators working towards betterment of the overall corporate culture in the country rather than be seen as a "stick bearing" authority. With respect to the regulations themselves, respondents desired formal 'industry consultation' before new regulations are introduced along with sufficient time for implementation of the same; and exemptions from specific provisions for companies established under Special Acts and privatized entities. The size of companies must also be taken into account when requiring companies to follow certain aspects of the code (such as appointment of INEDs) which may be more difficult for the small-scaled companies who fall under the ambit of a particular code.

Regulatory change should be based on empirical evidence and feedback and should be designed bearing in mind relevance to the local environment. In this regard, it is important that impact assessments are conducted to measure the outcome of various practices and identify where gaps exist; after which attention should be focused on areas of significance that require improvement.

The World Bank's 'Report on Observance of Standards and Codes (ROSC)'*[12] is one such initiative that assesses corporate governance standards in Pakistan against international benchmarks of good governance. Local regulators should also consider establishing a means of obtaining sufficient data about current practices existing in various sectors/ industries and compare them to what has been mandated by regulation, in order to be able to suggest appropriate reforms, where needed. An example of a local body that has initiated the process of gathering annual data is the Ministry of Finance (MoF) by way of its report "Federal Footprint - SOE Annual Report"*[13], (a report on the performance of state-owned enterprises in Pakistan, which was initiated by the World Bank a few years ago, and is now being updated annually by the MoF itself). Likewise, a consolidated report on corporate governance practices within various sectors should be periodically prepared. PICG, as part of its 3 year strategy, intends to further delve into sector-specific research on corporate governance practices, however, such initiatives cannot be fruitful without the cooperation of regulators to promote responses and encourage data gathering.

Respondents from the public sector advocated the avoidance of Government interference in public sector organizations at all costs, with regulatory capacity and understanding remaining a key impediment in facilitation of the growth of the sector. Some of the challenges facing PSC's may be on account of the amendments made to the Public Sector Companies (Corporate Governance) Rules, 2013 in April 2017, which seem somewhat regressive with the Government being granted the option to appoint the Chairman and / or the CEO on the board of PSC's, possibly taking away control of the board in this respect. Further, the Government is now responsible for carrying out performance evaluations of directors based on performance contracts; however, the question of how to adopt this practice arises, as, even after over 2 years, a formalized procedure for evaluation has not yet been defined by the Government, leaving PSC's in a state of limbo. The SECP needs to ensure that regulations do not portray a lack of trust in PSC boards, and must also be practically enforceable with guidelines for implementation being issued where there is any ambiguity.

Dialogue between the Government and the boards of PSC's is vital to the success of such companies. The boards should regularly engage with their respective sector Ministries to define the company's objectives, specific financial indicators, basic financial policies, and key targets, as is done in New Zealand where state-owned enterprises negotiate a statement of corporate intent with their shareholding minister each year.*[14] With mutually agreed goals and regular updates, responsibility and ownership by all parties involved would also be ensured.

Implementation of the Code

In general, there has been notable improvement in areas of gender diversity, increase in independent directors, separation of the role of Chairman and CEO, increased training of directors, and adoption of various Environmental, Social and Governance (ESG) policies. However, despite a marked improvement, a number of listed companies are still not meeting the minimum compliance requirements, especially with respect to board composition, in particular the number of independent directors and female directors on boards.

While the Companies Act 2017 envisaged greater gender diversity on the boards of all "Public Interest Companies", the SECP has so far only specified the requirement for listed companies. The requirement for other public interest companies needs to be specified as well through changes in their respective rules and regulations. With respect to evaluation and accountability of the board, directors should be briefed at the time of constitution of the board regarding matters that the board and individual directors will be evaluated against. Findings of evaluations must be utilized to improve board effectiveness, and this can only be done when the results of the

*[12] ROSC corporate governance initiative is administered by the World Bank to assess the degree to which a country observes the G20/ organization of Economic Cooperation and Development (OECD) Principles of Corporate Governance (OECD Principles), the international reference point for good corporate governance and develop a series of recommendations to reduce or close identified gaps.

*[13] Refer: http://www.finance.gov.pk/publications/SOE_Report_FY17.pdf

*[14] Refer : Corporate governance of state-owned enterprises : a toolkit

evaluations are discussed at board meetings and/ or plans for improvement are developed. Such matters should also be included in the letter issued to directors by the Chairman, at the time of their appointment. Also, directors must ensure that adequate information is provided to enable them to carry out their fiduciary responsibilities and work in the best interests of the company. 'Board packs' given to directors at the time of joining an organization should contain all necessary details about the business, board members, risk management and internal control framework etc. However, orientation workshops (both in-house and through an external facilitator) tend to be a more effective means of communication as various questions and matters are clarified through interactive sessions which may involve senior management as well. The terms of reference of each board committee must also be clarified, with care taken to avoid unnecessary overlap or conflict between committees.

Way forward

With the ever-changing regulatory environment in the country, boards should be kept abreast about impacts, if any, that new regulations may have on the business and operation of the company. Hence, regular professional development and training of directors and executives is a must and the Human Resource (HR) Committee should play a key role in this regard by preparing and recommending annual training requirements for board members and executives alike. With senior management succession planning emerging as one of the top concerns for corporations, the HR/ Nominations Committee should also recommend formal policies and procedures in this regard for approval of the board. Board work plans can assist in ensuring that sufficient attention is given to various board functions (such as succession planning and director development), which may otherwise be deferred or even overlooked because of other pressures.

In a world of high exposure to reputational risks, the board should be well aware of the company's data governance policies including the organizations data privacy and usage. Social media and communication policies should be reviewed by the board to protect the company from unnecessary internal and external exposure; and policies on crisis management should be laid out and communicated to all levels within the company. Surprisingly, one third of the companies did not expect any technological disruptions to affect their companies over the next three years, none the less boards should be briefed and kept up to date regarding technological advancements made in their respective industries or overall business environment.

With the significant number of new regulations that have been issued in the recent past, a collaborated effort between the regulator, the regulated, other stakeholders and promoters is required to ensure a robust corporate governance environment exists for companies in Pakistan. The same should be practical and easy to follow, thereby facilitating compliance and overall growth to the economy. Periodic dialogue at all levels between the regulator and the regulated should enable compliance and implementation to process smoothly. Good corporate governance systems work towards creating progressive company culture and mindsets that effect the overall corporate environment in the country leading to greater financial intermediation and economic prosperity for all.

The results derived from this survey, while providing a snapshot of the current corporate governance climate in the country will hopefully lead to more informed policy decision making in the future. Policies cannot be made in a vacuum. It is imperative that Surveys such as these are regularly conducted and facilitated by the policy makers to keep a finger on the pulse of the economy, supplemented with continuous feedback and dialogue with those most affected by the regulatory reforms. The PICG will, as part of its ongoing strategy, continue conducting research as the basis for its policy advocacy role, use the findings to improve its ongoing training of directors and senior management, as well as design new in house corporate advisories and interventions to play its pivotal role in enhancing good corporate practices within the country.

Pakistan Institute of Corporate Governance
Suite # 316, The Forum Khayaban-e-Jami, Block-9, Clifton, Karachi – 75600.
Phone: +92 (21) 35306673-74 | Fax: +92 (21) 35306672 | Email: info@picg.org.pk