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Obstacles and possible enablers to corporate governance practices in Yemen

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ABSTRACT

The main objective is to measure and evaluate the stakeholders' views regarding the barriers and potential enablers to the application of corporate governance in Yemen. Executives and internal auditors are working in the banking sector as internal stakeholders and external auditors as external stakeholders. A questionnaire is the data collection tool. The study concluded that 'the spread of corruption in the government sector' is the most crucial barrier. Simultaneously, 'the cost of applying governance is higher than its benefits' is the least affected barrier. In contrast, enhancing professional accounting and auditing bodies, the inclusion of corporate governance in the University Education program; the adoption of international accounting and auditing standards are the most crucial enablers. A study recommended that the government should update financial and supervisory laws and legislations, and the executive authority should monitor their implementation, supporting the anti-corruption process, establish the stock market, spreading the concept of governance in Yemeni society, adding corporate governance as a scientific subject taught in universities and develop and implement training programs to raise the awareness of corporate governance among employees.

Keywords: Corporate Governance, Obstacles, Enablers, Governance Practices, Banks Sector, Yemen

1. INTRODUCTION

Corporate Governance is a contemporary approach, the urgent need for its existence emerged with the appearance of the era of globalization and global openness with its advantages and disadvantages, and the capitalist economy was one of the reasons for the emergence of this approach (Almoneef, 2005). They have also become one of the 12 basic standards for global financial stability and are used as a standard for international financial institutions (Cornford, 2004). However, there are only a few topics whose significance can outweigh the significance accorded to the Corporate Governance of international business companies (CIPE, 2002). Former World Bank President J. Wolfensohn says that the idea of Corporate Governance is about responsibility, accountability, justice, and transparency (Ahmed & Rathi, 2013).

Corporate Governance is "the system by which the company is managed and controlled" (J. Napier & Shah, 1992). Another definition is "the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity" (Solomon & Solomon, 2004). IFAC has defined governance as "the set of responsibilities and practices exercised by the board and executive management ("the governing body") with the goal of providing strategic direction; ensuring that objectives are achieved; ascertaining that risks are managed appropriately, and verifying that the organization's resources are used responsibly" (IFAC, 2009). Its importance is represented in stabilizing the financial markets, raising the level of transparency, attracting investments from abroad and internally, and decreasing the risks (CMA, n.d.).

The economies of developed and transitional countries have been greatly affected by the financial crises that occurred in recent decades, so how will this affect the third world countries? The practice of corporate governance is weak in developing countries because of their lack of legal protection mechanisms for investors (Shleifer & Vishny, 1997). Corporate governance should have an increasing priority among policymakers in developing countries because weak governance can lead to lower investment in long-term projects, which negatively affects social welfare and many lives. In the same context, the OECD stressed that the quality of corporate governance is paramount for developing countries to achieve sustainable national development (Arun & Turner, 2009).

Institutional environments in developing countries are rife with low economic, social, and infrastructural indicators; political instability; and governance challenges including corporate mismanagement and managerial deficit that impede economic development. Good corporate governance practice is crucial to encourage strong economic development.

Yemen, one of the developing countries located in the Middle East, has a weak background of economic and social indicators and weak infrastructure. It has suffered from political instability, widespread corruption, and the capability and management deficits that are the main obstacles to good corporate governance that helps to mitigate poverty. Besides, the absence or weakness of implementing corporate governance in various Yemeni institutions is among the factors that limit the flow of investments to Yemen.

Yemen - from an economic point of view - is known for its small economy that includes informal enterprises and a few joint-stock companies. As well as, the majority of companies in Yemen are companies owned by individuals and families (Ahmed & Rathi, 2013). Contractual relations, regarding ownership, highlighted the need to pay attention to the interests of various stakeholders and reduce the agency problems granted by owners to the agents. The concept of corporate governance appeared in Yemen recently after several local crises, so it is not surprising that this concept has gained the attention of experts, businessmen, and researchers in their attempts to understand and explore the aspects of corporate governance and how to apply it in Yemen whether through holding conferences and seminars or conducting studies and research.

Very poor corporate governance practices in Yemen are regarded as the key gap. Hence, the research question is what are the barriers and potential enablers to corporate governance practice in Yemen? To answer the study question, the structure of the study consists of the Review of Literature, the objective of the study, the methodology used in the study, study results and discussions, and finally conclusions and recommendations.

2. REVIEW OF LITERATURE

The proper application of good corporate governance in developing countries faces many potential obstacles, including weak legal controls, the weak infrastructure of financial institutions, and weak financial and non-financial disclosures (Ayalew Wondem, 2018). Argentino, Sousa, Nose, Petraglia, Rosini, and Marco (2017) investigated the analysis of the barriers using the communication and dissemination of information in Scielo and Spell libraries and found that executives were interested in making profits in the short term without paying attention to the protection of companies in the long term. Further, in Bangladesh, Haque, Arun, Kirkpatrick, and Colin (2014) found that the biggest barriers were law enforcement and promoting the quality of accounting and financial education. Otherwise, Iu & Batten (2014) concluded that cultural variations hinder the implementation of general rules of governance issued by OECD and that a long-term shift in practice needed a cultural change in the philosophical and financial bases of the companies.

Gawdah et al. (2008) identified the obstacles facing the application of corporate governance principles in Palestine. The most significant obstacle was the low level of awareness among individuals and entities concerned with disseminating and applying the principles of corporate governance to support and develop various sectors. Quaider & Abu-Alros (2015) indicated that the most important obstacle to implementing corporate governance in Palestine was corruption and its spread to government departments responsible for combating corruption.

Mallin (2013) informed that the MENA region, in terms of education quality, was still lagging behind and that corporate governance was less understood in these countries compared to Western countries. Abdelkarim & Ijbara (2010) concluded that the most important obstacles in Palestine were the absence of an applicable code of governance, outdated corporate law, and family domination of corporate affairs. According to Diab & Almashhrawi (2014), the most significant obstacles were the weak investment awareness of individuals, the lack of proper organisation of the audit profession, and superior ownership of individuals in the private sector. Otman (2014) revealed that the culture of the UAE community was possibly the main obstacle.

To know the most important requirements for applying corporate governance in Arab countries and the obstacles that prevented the actual application of their principles, Moussa (2013) concluded that there was a positive trend in some Arab countries to adopt the issue of corporate governance through issuing legislations, laws, and regulations and the establishment of governance committees and hosting conferences and seminars that promote governance culture. Furthermore, he showed that most Arab governments controlled and monopolised most commercial and service companies. Also, the biggest obstacles were weak legal and legislative structures, poor appropriate organisational structure, and low political and economic will to come out with a shared Arab vision.

On the contrary, the possible enablers for good corporate governance application included raising the awareness and education of board members, executives, and managers; training and other means of support; establishing an institute for training directors; and participating in international events, meetings, conferences, and committees dealing with corporate governance (Ayalew Wondem, 2018). Haque et al. (2014) found that enablers improved corporate governance practice by establishing an institute for training directors and including governance education in university programs.

According to Diab & Almashhrawi (2014), the most important factors to improve good governance practice were as follows: the company made future decisions, which were considered as an early warning before any risks occur; the clarity of the Board's vision; and the board was developing a plan to improve its relations with investors. Otman (2014) revealed that the broad adoption of international accounting standards was the most effective enabler.

3. THE OBJECTIVE OF THE STUDY

The main aim is to identify the obstacles and possible enablers for the application of corporate governance in Yemen.

4. RESEARCH METHODOLOGY

4.1 Population and sample size

The study population represents the Yemeni banking sector. The number of final targeted banks is 13 and their main offices are in the capital, Sana'a. The purposive sample consists of three stakeholders: the executive managers, internal auditors working at the main offices of banks, and external auditors who are licensed to practice the profession and resided in the capital, Sana'a. The total number of executive managers and internal auditors reached (119, 126) respectively. They were counted through what the banks disclosed in the annual reports, the website of each bank, and the researcher's field visits for each targeted bank. In contrast, the external auditors were counted through a statistic issued by (<https://moit.gov.ye>, 2020), and the total number reached (194). The overall number of the sample is (439).

4.2 Data sources and methods of data collection

The data source for this study was the primary data collected by the hand-delivered and collected questionnaire and the online questionnaire. A five-point Likert scale was used, which proved helpful in selecting several options by respondents: 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree, and 1 = strongly disagree. This study's survey questions were excerpted from (Ayalew Wondem, 2018; Otman, 2014; Diab & Almashhrawi, 2014) and the list of items in Annexures No.1, No.2. The number of questionnaires that are valid for analysis was 337.

4.3 Methods of data analysis

The research uses descriptive statistical tests like mean, standard deviation, and rank; in addition, Cronbach's alpha test to measure the questionnaire's internal consistency and determines the reliability of the questionnaire see (Annexure No.3).

5. DATA ANALYSES AND DISCUSSION

5.1 Demographic analysis of the selected respondents

Table No.1 showed that 89.9% of the respondents were male while 57.3% of the total sample individuals were internal stakeholders. 30% and 27.3% were respectively executive managers and internal auditors working in the banks. In contrast, 42.7% were external stakeholders, mainly external auditors. Additionally, the majority of respondents who held the highest academic qualification was (94.7%); they completed their bachelors' degree or higher. Approximately, Seven out of 10 (67.4%) respondents had a bachelors' degree while (24%) had a master's degree, and 5.3% had a Ph.D., only (3.3%) had a diploma as their highest education. Further, most of the respondents with academic qualifications in the business field were 91.4%. Likewise, (67.7%) of the respondents had more than ten years of experience while (21.1%) of the respondents had from 5 to less than 10 years of experience, and the rest (11.3%) had less than five years of experience in the field.

Table 1: Distribution of Frequency and Percentages of the Sample Characteristics

Sample Characteristics	Number of respondents	Percentage
Gender Group		
Male	303	89.9%
Female	34	10.1%
Total	337	100%
Type of Stakeholders		
Internal Stakeholders	193	57.3%
External Stakeholders	144	42.7%
Total	337	100%
Job Position		
Executive Manager	101	30%
External Auditors	144	42.7%
Internal Auditor	92	27.3%
Total	337	100%
Age Group		
30 years or less	38	11.3%
31–40 years	184	54.6%
41–50 years	96	28.5%
More than 50 years	19	5.6%
Total	337	100%
Work Experience		
5 Years or less	38	11.3%
5- Less than 10 years	71	21.1%
More than 10 Years	228	67.7%
Total	337	100%
Educational Level		
PhD	18	5.3%
Master	81	24%
Bachelor	227	67.4%
Diploma	11	3.3%
Total	337	100%

Educational Qualification		
Accounting	251	74.5%
Banking and Financial	20	5.9%
Management	37	11%
Other	29	8.6%
Total	337	100%

Source: field survey

5.2 Descriptive Analysis of the Respondents' Responses to the Obstacles and Possible Enablers for the Application of Corporate Governance

5.2.1 Descriptive Analysis of the Obstacles to the Application of Corporate Governance: Table No.2 shows that 43.1% and 87.5% of the respondents agreed on the items listed as obstacles that may affect the application of corporate governance in Yemen. The overall mean of the respondents' opinions regarding the barriers that may affect the application of corporate governance in Yemen is (3.90). That means the participants' level of perception in the study sample toward these obstacles is high, indicating a high agreement with these statements as barriers to applying corporate governance in Yemeni banks. Likewise, the standard deviation value means convergence and homogeneity of the opinions regarding those obstacles, as its value is (0.555). The results in Table No.2 demonstrate the statements' analysis, which will be categorized according to the value of the mean:

Statement 2, "Corruption and it is widespread in the government sector," and statement 1 "Lack of an organized securities market," were ranked as the top three possible obstacles, with mean scores of 4.26 (85.4%, SD=0.806), 4.24 (84.3%, SD=0.835), respectively. This indicates that there is very high agreement among the participants regarding these statements. Statement 8, "Individual and family ownership is concentrated in companies," was ranked as the third among the potential obstacles with a mean score of 4.20 (86.6%, SD=0.731). While, the statement "Weak awareness and understanding of the concept of governance among individuals" was ranked as the fourth potential barrier, with a mean score of 4.18 (SD=0.753). On the other hand, the statement "few companies that can be classified as public shareholding companies" came in fifth place regarding the level of agreement (81.9%, mean=4.06, SD=0.813). The statement, "Culture of Yemeni society towards public shareholding companies," came in sixth place (82.5%, mean=4.04, SD=0.751). The participants ranked the statement "Scarcity of consultants in the field of governance as individuals or bodies" as the seventh possible obstacle (78.4%, mean=4.02, SD=0.861).

The statement "absence of democratic practical practices" was ranked as the eighth possible barrier (78.1%, mean=3.99, SD=0.921). On the other hand, the respondents ranked the statement "weaknesses in the areas of disclosure and management" as the potential ninth obstacle (77.8%, mean=3.93, SD=0.774). Furthermore, the statement "Weakness in the outputs of the relevant university education" was ranked as the tenth potential barrier (64.4%, mean=3.65, SD=1.078).

Table 2: Descriptive Statistical Analysis of the Responses towards the Possible Obstacles to Corporate Governance Practices

Items No.	n/%	SDA	DA	N	A	SA	Mean	SD	Rank
1	N	3	9	41	134	150	4.24	0.835	2
	%	0.9	2.7	12.2	39.8	44.5			
2	N	4	4	41	141	147	4.26	0.806	1
	%	1.2	1.2	12.2	41.8	43.6			
3	N	3	28	43	160	103	3.99	0.921	8
	%	0.9	8.3	12.8	47.5	30.6			
4	N	14	71	73	118	61	3.42	1.131	12
	%	4.2	21.1	21.7	35	18.1			
5	N	10	52	58	142	75	3.65	1.078	10
	%	3	15.4	17.2	42.1	22.3			
6	N	3	7	32	181	114	4.18	0.753	4
	%	0.9	2.1	9.5	53.7	33.8			
7	N	15	72	105	104	41	3.25	1.062	13
	%	4.5	21.4	31.2	30.9	12.2			
8	N	2	4	39	172	120	4.20	0.731	3
	%	0.6	1.2	11.6	51	35.6			
9	N	1	17	57	193	69	3.93	0.774	9
	%	0.3	5	16.9	57.3	20.5			
10	N	1	18	42	176	100	4.06	0.813	5
	%	0.3	5.3	12.5	52.2	29.7			
11	N	2	10	47	193	85	4.04	0.751	6
	%	0.6	3	13.9	57.3	25.2			
12	N	6	49	91	142	49	3.53	0.970	11
	%	1.8	14.5	27	42.1	14.5			
13	N	4	14	55	162	102	4.02	0.861	7
	%	1.2	4.2	16.3	48.1	30.3			
Total							3.90	0.555	High

Source: field study

The lowest three levels agreed upon among the respondents are as follows "there is a good relationship between the management of the company and the external auditor" (56.6%, mean=3.53, SD=0.970), "Weakness in the profession of accounting and auditing" (53.1%, mean=3.42, SD=1.131), and "The cost of applying governance is greater than its benefits" (43.1%, mean=3.25, SD= 1.062).

From the above, it is clear that the respondents' level of agreement regarding the obstacles that may affect the application of corporate governance in the Yemeni banks' sector is 'neutral,' 'agree,' and 'strongly agree' because the highest degree of the mean is 4.26, and the lowest degree of the mean is 3.25. These degrees are between three levels of score categories (2.61-3.40), (3.41-4.20), and (4.21-5.00). Additionally, the overall mean is 3.90, which indicates a high agreement of the respondents.

5.2.2 Descriptive Analysis of the Possible Enablers for the Application of Corporate Governance: Table No.3 shows that the respondents agreed on the importance of all statements in increasing the application of corporate governance in Yemeni banks. Most of the items record a percentage over 80%, and the mean scores are higher than 4.20. Roughly nine out of 10 respondents ranked "enhancing the role of professional accounting and auditing bodies" (90.8%) and "Establishing corporate governance education programs at universities" (91.4%) as the first and second enablers, with mean scores of 4.34 and 4.33 (SD = 0.699 and 0.707), respectively. On the other hand, the statement "ensuring wide adoption of international accounting and auditing standards" was ranked third (mean = 4.32, SD = 0.676).

5.2.3 The statement "encouraging research into corporate governance in Yemen" was ranked fourth (90.5%, mean=4.32, SD=0.706). The fifth rank was for the statement "establishing an institute of directors for training, raising awareness and education for CEOs, directors and board members" (91.1%, mean=4.30, SD=0.712). Further, the statement "using training and other means of support" came in sixth place in terms of the level of agreement (90.8%, mean=4.29, SD=0.681), and the statement "Developing incentive programs for compliance with principles of corporate governance" was ranked seventh (89.7%, mean=4.28, SD=0.706).

Table 3: Descriptive Statistical Analysis of the Responses towards the Possible Enablers to Corporate Governance Practices

Items No.	n/%	SDA	DA	N	A	SA	Mean	SD	Rank
1	N	1	2	28	162	144	4.32	0.676	3
	%	0.3	0.6	8.3	48.1	42.7			
2	N	2	1	28	171	135	4.29	0.681	6
	%	0.6	0.3	8.3	50.7	40.1			
3	N	1	5	29	167	135	4.28	0.706	7
	%	0.3	1.5	8.6	49.6	40.1			
4	N	2	4	23	161	147	4.33	0.707	2
	%	0.6	1.2	6.8	47.8	43.6			
5	N	2	5	23	168	139	4.30	0.712	5
	%	0.6	1.5	6.8	49.9	41.2			
6	N	1	4	26	153	153	4.34	0.699	1
	%	0.3	1.2	7.7	45.4	45.4			
7	N	2	6	32	175	122	4.21	0.733	10
	%	0.6	1.8	9.5	51.9	36.2			
8	N	1	5	26	158	147	4.32	0.706	4
	%	0.3	1.5	7.7	46.9	43.6			
9	N	2	4	31	159	141	4.28	0.729	8
	%	0.6	1.2	9.2	47.2	41.8			
10	N	2	5	35	173	122	4.21	0.732	9
	%	0.6	1.5	10.4	51.3	36.2			
Total							4.29	0.708	Very High

Source: field study

The eighth rank was for the statement "learning from the experiences of other countries concerning corporate governance practice" with (89%, mean=4.28, SD=0.729). As well, the statement "initiating regional corporate governance partnership programs with international organizations such as the OECD" was ranked ninth (87.5%, mean=4.21, SD=0.732). Lastly, the statement "Participating in international events, conferences, meetings and committees dealing with corporate governance" came in tenth place (88.1%, mean=4.21, SD=0.733).

From the foregoing, it is clear that the respondents' level of agreement regarding the enablers that may affect the application of corporate governance in Yemen is very high because the mean scores are above 4.20. This degree is between the score categories (4.21-5.00). Additionally, the overall mean is 4.29.

6. CONCLUSION AND RECOMMENDATIONS

The results show that the participants agreed (mean=3.90) with the items related to the obstacles to applying corporate governance in the Yemeni environment. The results indicate that the spread of corruption in the government sector is the most crucial barrier, followed by the following: the absence of stock exchange markets, family and individual ownership of companies; the weak

understanding and awareness of individuals of the concept of governance; the presence of a small number of joint-stock companies; the culture of Yemeni society towards joint-stock companies; the scarcity of experts in the field of governance as individuals or bodies; the absence of democratic practical practices; weaknesses in the areas of disclosure and management; weakness in the outputs of the relevant university education; there is a good relationship between the management of the company and the external auditor; weakness in the profession of accounting and auditing; and the cost of applying governance is higher than its benefits.

In contrast, the results show that the participants strongly agreed (mean=4.29) on the items related to the enablers for applying corporate governance in the Yemeni environment. The results indicate that "enhancing professional accounting and auditing bodies" was ranked as the most enabling factor, followed by the following: the inclusion of corporate governance in the University Education program; the adoption of international accounting and auditing standards; supporting research and studies in Yemen, especially in the field of governance; establishing a specialized institute for the training of managers and BOD members; designing an incentive plan to comply with corporate governance principles; using training and other support methods; benefit from corporate governance practices in other countries; creating broad corporate governance partnership programs in cooperation with international bodies like the OECD; and engaging in global meetings, events, and conferences concerned with corporate governance.

The study recommended that the government should update financial and supervisory laws and legislations in line with changes in the business environment, and the executive authority should monitor their proper implementation; besides, supporting the anti-corruption process, adopting governance rules to monitor business, and providing multiple communication channels for reporting corruption cases while providing legal protection for whistle-blowers. Additionally, the government should act urgently to establish the stock market, spreading the concept of governance in Yemeni society, adding corporate governance as a scientific subject taught in universities, and encouraging scientific research related to it, ensuring wide adoption of international accounting and auditing standards; furthermore, the government and banks should develop and implement training programs for the employees and organise and participate in conferences and workshops to raise the awareness of corporate governance among employees.

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ANNEXURES

Annexure No.1 List of items used to measure potential barriers of practicing corporate governance in Yemen.

Items Number	Items Statements
1	Lack of an organized securities market.
2	Corruption and its widespread in the government sector.
3	Absence of democratic practical practices.
4	Weakness in the profession of accounting and auditing.
5	Weakness in the outputs of the relevant university education.
6	Weak awareness and understanding of the concept of governance among individuals.
7	The cost of applying governance is greater than its benefits.
8	Individual and family ownership is concentrated in companies.
9	Weaknesses in the areas of disclosure and management.
10	Few companies that can be classified as public shareholding companies.
11	Culture of Yemeni society towards public shareholding companies.
12	There is a good relationship between the management of the company and the external auditor.
13	Scarcity of consultants in the field of governance as individuals or bodies.

Annexure No.2 List of items used to measure potential barriers of practicing corporate governance in Yemen.

Items Number	Items Statements
1	Ensuring wide adoption of international accounting and auditing standards
2	Using training and other means of support
3	Developing incentive programs for compliance with principles of corporate governance
4	Establishing corporate governance education programs at universities.
5	Establishing an institute of directors for training, raising awareness and education for CEOs, directors and board members
6	Enhancing professional accounting and auditing bodies
7	Participating in international events, conferences, meetings and committees dealing with corporate governance
8	Encouraging research into corporate governance in Yemen
9	Learning from the experiences of other countries concerning corporate governance practice
10	Initiating regional corporate governance partnership programs with international organisations such as the OECD

Annexure No.3 Chronbah’s Alpha test

Statement	No. of Items	Chronbah’s Alpha
Obstacles of Corporate Governance Practices	13	87.3%
Possible Enablers of Corporate Governance Practices	10	96.2%
Total	23	96.4%