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Corporate Governance Best Practices aligned with Oman Vision 2040 – The Way Forward

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Abstract

Purpose: Oman is moving towards Vision 2040 with the aim to transfer the economy through economic diversification and empower the growth of the private sector. The success of this vision will be driven by corporations following the best practices of good corporate governance. Therefore, the aim of this study is to assess the corporate governance practices in Oman and to identify the potential areas of improvement.

Design/Methodology/Approach: The study uses primary and secondary data. Literature review on the best corporate governance has been used as secondary data. Moreover, a survey and a structured questionnaire have been selected to collect the primary data. The approach which has been followed is to allow as many respondents to have easy access to participate. Also, it was designed to allow the participants to share their views/opinion honestly and transparently, which will help to understand the actual practices and the actual board structures of the corporate governance in their organizations.

Findings: The most important finding of this study is the absence of corporate culture and the real implementation of governance. There are also various aspects to research that need further attention and improvement to ensure governance effectiveness.

Research Limitations/Implications: The response rate was low as this was one of the key challenges to identify directors and inviting them to participate in the survey.

Practical Implications: The study recommends that Oman should not wait to learn from its governance's failure experiences or weak performance rather, it must be proactive in a sense to continue to improve the Code of corporate governance based on the world best principles and recommendations.

Originality/Value: There will be always new issues emerging related to the principles of corporate governance. The regulator must maintain continuous review where opportunities can be found to address any gaps and weaknesses of the corporate governance practices.

Keywords: Corporate Governance, Corporate Performance, Corporate Culture, Board of Directors
Category: Applied paper

1. Introduction

In today's economy, good corporate governance can lead to higher economic growth. The governance framework aims to assist corporations to improve the best business practices, which in return affect economic growth and development. Putting this in the context of Oman's economy and for many decades, the economy was driven by non-renewable resources such as fossil fuels and natural gases. For the last five years, the oil price was volatile for many reasons, either because of geopolitical tensions or because of the recent global pandemic. As a matter of fact, it has an impact on economic stability. With the existing financial and economic challenges, the government set a new strategy and vision 2040. This vision will assist the government and the society to have a real transformation towards a prosperous future. The vision aims to shift the economy through economic diversification and empower the private sectors within the Sultanate. The recent promulgation of several laws acts as a motive to improve the business investment environment within the country. One of the key achievements towards vision 2040 is the establishment of the Oman Investment Authority (OIA) by Sultani Decree No. 61/2020 dated 4 June 2020. It was established to combine all government companies and its affiliated companies under one legal structure. The purpose of such restructuring is to improve the efficiency and the performance of these companies to assist them to participate more widely in the economic system in Oman. Having said that, this will lead to the importance of corporate governance. The presence of good governance leads to better business sustainability and economic development.

The concept of effective corporate governance is kept evolving over time. The idea behind learning from previous governance scandals and failures is quite odd. The reason is that the failure of any corporations due to poor governance will have its impact on the livelihood of people and many other stakeholders, and the society at large. Moreover, the impact might be extended to affect the investor groups and their trust in the legislative system, driving a robust economic system within the country.

Sultanate of Oman is moving towards vision 2040 with an aim to transfer the economy through economic diversification and empower the private sectors growth within the Sultanate. This vision must be supported with modern corporate governance with less likely of failure. The governance should not be perceived as a box-ticking exercise in which organizations have to comply with its provisions and rules. Instead, it must be perceived as principles of a collective governance code that enhances transparency, fairness, and accountability (Edwin, 2020). The key message of this research is that Oman shouldn't wait to learn from its governance's failure experiences or weak performance rather, it has to be proactive in a sense to continue improve the Code of corporate governance based on the world best principles and recommendations.

This research aims to review the corporate governance in Oman and other modern governance practices for all types of companies. In the second part of the article, the focus will be on a literature review of corporate governance for specific functions and principles. The third part presents the research methodology. The final part will focus on the study findings and the way forward as how to improve the corporate culture in Oman and how to drive dynamic governance that assists vision 2040 to be attained.

2. Literature Review

Many organizations seek the best practices that assist corporate leaders in managing the governance activities within their organizations and their communities. This will lead to the concept of corporate governance and how it can enhance the company's performance. In this literature, the term of corporate governance will be defined, and specific principles will be reviewed. Moreover, in this review, the Code of governance of other jurisdictions like Australia and the UK as modern governance will be reviewed on specific principles.

Corporate governance is a term that defines the structure, policies, and processes that the company must adopt to manage and direct its business and operations. It works to organize and enhance the relationship between the board of directors and the shareholders through a process of individual's duties and accountabilities. It can establish a strong position for the company to gain competitive advantage as an efficient and the most reliable for investors and other stakeholders. (Humera Khan, 2011). Moreover, the corporate governance Council in Australia defines the corporate governance as the framework of processes, systems in which the authority is being controlled and exercised within organizations. It includes certain mechanisms that clearly define the accountability of those who are in control. The Australian Code provides eight principles and 38 recommendations as a framework of governance for the Australian listed companies. (ASX Code, 2019).

The UK Code defines the corporate governance as the system to direct and control the companies. The responsibilities to govern the company's affairs are held by the board of directors. The Code also determines the role of the shareholders in appointing the directors and their rights to ensure that proper governance structures are in place. The Code identifies the board's duties in leadership, supervision and reporting on their stewardship and all their actions must be within the specified rules and regulations. The UK Code provides five sections and 18 principles as a framework of governance for the UK listed companies. (FRC, 2016).

The aim of the literature is not to review all the principles and the recommendations of the Oman corporate governance and the other two governance of Australia and UK, instead is going to be more selective to those principles which have more influence on the effectiveness of the corporate governance. The authors view is that all principles are vital and valuable to the corporate governance but due to the limitation to cover all these principles, the authors will focus on some of these principles.

2.1.Board of Directors: A board of directors is a group of people who have been appointed by the shareholders to represent them on their companies. The board role is to oversee the business on behalf of the shareholders and to ensure that proper governance is in place. The size of the board varies from one company to another where the minimum number is three and the maximum number can be more than 15 members in other jurisdictions. The main roles and responsibilities of the board can be summarized as: performing strategies formulation, appointing and removal of the Chief Executive officer, senior executives, and the secretary, overseeing the implementation of the management performance, ensuring a proper system of disclosure, appropriate framework of risk management, compliance with all regulatory and legal requirements, etc. (The Oman Code, ASX & FRC).

2.2.Board Composition: Nowadays, the trade globalization and the technology trends are shaping the board composition for good corporate governance. The board composition is being perceived as critical requirements for the high quality of board's performance. It can place solid emphasis on the high quality of governance performance. Board composition reflects a mix of characteristics and components such as the director's professional skills, diversity, board size and independency to provide different ways of thinking and dynamic oversight of the business. Having the right directors in the boardroom can enrich the board with different thoughts and perspectives and avoid any sort of group thinking.

- ***2.2.1 Skills and Qualifications*** The board must ensure that its members are qualified with the right skills, qualifications, and experiences to discharge their duties and responsibilities. A boardroom with diversified skills and competencies can enhance the corporate governance. In today's competitive business environment, the board must possess multi skills which can bring new innovative ideas and new perspectives. With the appropriate skills, the shareholders and other stakeholders like investors and regulators will be confident with the corporate decisions and compliances within the organization.

- ***2.2.2 Board Size*** Usually, the right size of the board members relies on the type of the corporation. In large public stock companies, the number of the board is typically high compared to government and private owned companies. Many researches and studies are showing that irrespective the company's size, the smaller board is more effective than the large boards. The small board are more collaborative and faster in decisions making. (Nicholas J Price, 2017) On the other side, the larger board is still a good option for regulated sectors like banking. The advantage of larger board is the diverse skills and experiences that directors can be brought with various perspectives and thoughts. They have better exposures to the business environment and networking with other stakeholders which will have its positive impact on long run.

- ***2.2.3 Independency*** It is important that the board composition to consist of independent directors. Independent director is an individual who doesn't have any relation or material relation with the executive management or with the company. His opinion and judgment based on his experience, knowledge, and proficiency with a direct focus to achieve the company's objectives. One of the good corporate governance practices is the appointment of independent directors. According to Steven. W (2015), the independent director can add value to the board through impartial in dealing to the business matters and more objective towards the business objectives without any personal interest.

- ***2.2.4 Gender Diversity*** Many literatures have discussed the impact of the gender diversity on boards and different researches have been conducted to understand the relationship between the company's performance and the women representation on the corporate boards. According to Reddy & Jadhav (2019), there were some studies which are showing positive relation between the company performance and the presence of women in board. They found also that other studies from different countries are showing no evidences regarding such relation.

2.3. Chairperson: The chairperson is a director who is usually appointed to chair the board of directors. He is responsible for leading the board effectively and ensuring that the board is performing its roles and responsibilities. The chairperson is different than other directors in his ability to balance the board discussion and to resolve opposing views. He has also the ability to influence and motivate the other board members to achieve the best interest of the organization. The chairperson has the considerable amount of responsibility in implementing corporate governance. (The Oman Code, ASX & FRC).

2.4. Chief Executive Officer: The CEO is representing the top of the executive management and he is responsible for managing the company's business. His role is to execute the company's strategies and plans and to make corporate decisions for the best interest of the business. The CEO is also responsible for setting the tone and the vision which can lead to the success of the business. In many organizations, other titles such as managing director or president are being used instead of CEO. The Chief Executive Officer is appointed by the board's decision and sometimes by the shareholders. He is accountable in front of the board and he must report directly to them regarding the business performance (The Oman Code, ASX & FRC).

3. Research Methodology

Research methodology is a technique that the author can use it in a manner to assist the reader in evaluating the information and understanding to what extent the information is reliable and effective. In this study, the survey methodology has been selected to collect the primary data. The advantage of using this method is that many respondents can have an easy access to participate. Moreover, this method allows the participants to share their opinions honestly and transparently. The advantage of this methodology is that it can help understanding the actual practices and the actual board structures of the corporate governance and whether they are aligned with the governance framework.

There are many different options in terms of how the data will be collected and analyzed. The data collection methodology chosen for this study is the survey questionnaire. The survey questionnaire included 22 questions which is highlighting directors' views in certain areas of corporate governance. All the questions were formulated as multiple-choice questions to make easy for participants to participate in this survey. The collection of data was carried out using the google forms and the link for the survey has been sent out to the directors/officers working in various companies in Oman. The sample size of the study was not determined at the start of administering the survey but managed to get the responses from 12 participants and the excel sheet has been used to tabulate the data collected.

4. Data Analysis

The number of participants in this survey were 12 participants which can be considered as a good number to understand and analyze the data in Omani Companies. There were no participants from public stock companies, and this was one of the key challenges to find these directors and to invite them to participate in the survey. Table 1 represents the participation of following types of companies, where the highest percentages were from the government-owned companies (66.7%).

Table 1 : Type of Companies

	Percentage
Private owned company	16.7%
Government owned company	66.7%
Company Secretary	8.3%
Other	8.3%

Fig 1 shows that the directors' types of directors, where 50% were classified as non-executive directors and 8.3% represents only independent directors. Also, there are 33 % of the respondents are executive directors. These percentages will be analyzed and interpreted in the context of good corporate governance in the coming sections.

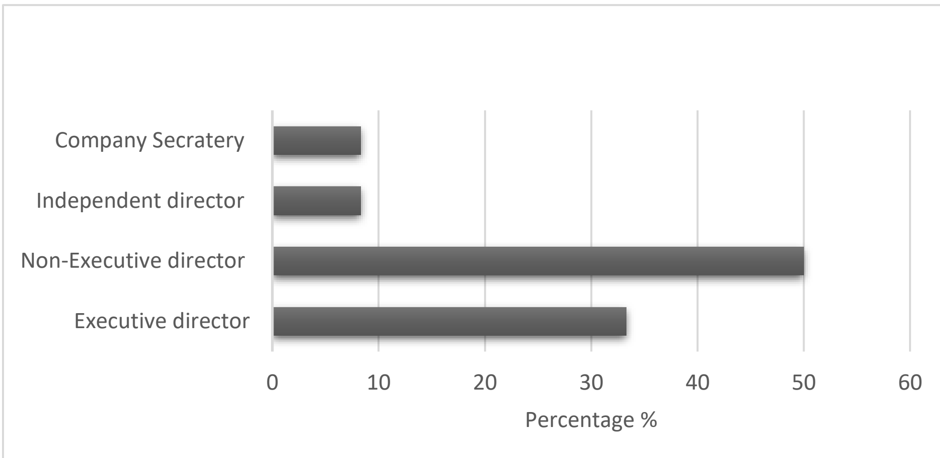


Figure 1: Types of Directors

The respondents to this survey represent both gender. The male directors represent 75 % while the female directors represents 25 % as indicated in Fig 2.

4.1 Benefits of Good Governance

The survey examined the respondents' perception on the benefits of good corporate governance. The high rate of the respondents as displayed in Fig 3 believed that the good practice of governance could promote strategic decision-making within the organization. They also believed that other benefits such as business sustainability and wealth maximization could be attained through good practices of governance. However, a rate of 16.7 % of the respondents viewed the governance as merely a compliance requirement, while a small rate of 8.3 % perceived that there are not any benefits on business by adopting the governance. The most important aspect is that the gap in perception must be reduced to the minimal. It is important to note that companies are working to enhance the concept of corporate governance as a tool that can thrive the business through the integration between the best practices and compliance.

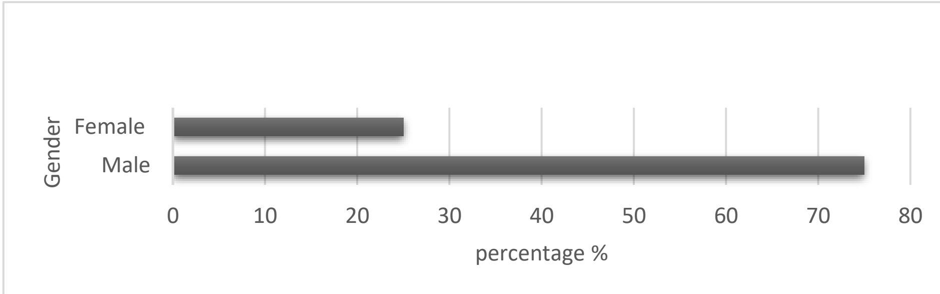


Figure 2: Percentage of Gender

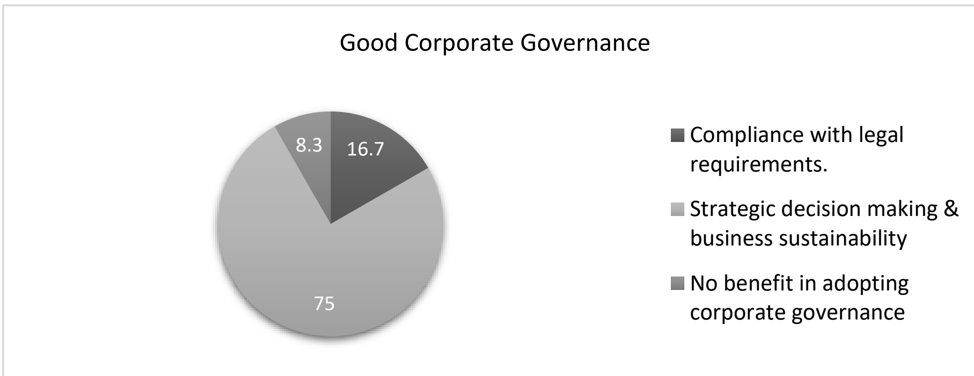


Figure 3: Good Corporate Governance

4.2 Corporate Governance Implementation

The participants have been asked whether they have real opportunity on actual training during their roles as board of directors. The purpose behind the question is to understand the level of governance know-how within their companies. The skills in how to implement the corporate governance is crucial for the effective implementation. The findings from the survey illustrated in Fig 4 that 50% of the respondents have the actual training program whereas the other half was through the practices and experiences. Those who have the proper training can add more value to the business and they have the appropriate skills in how to translate the governance policies and procedures into real practices.

Figure 4: Actual Training Opportunity

There are potential risks for those who don't have the opportunity to learn the governance through the actual training. Many of them might make their business's judgments based on their own knowledge away from the proper framework of good corporate governance. As a result, the business efficiency is being exposed to a risk which can easily be mitigated through the appropriate training for all board members.
In the same context, the survey explored further the area of training and asked the respondents whether the civil or criminal liabilities due to misrepresentation or negligence have been well explained to the board's members. The finding in Fig 5 is showing that 41.7% of the respondents were not aware of such legal liabilities. Disappointingly, the rate is considerably high, and which can indicate that individuals at this level of the board haven't been educated fairly about the serious consequences in case of any failure in their fiduciary duties.

Figure 5: Civil and Criminal Liabilities

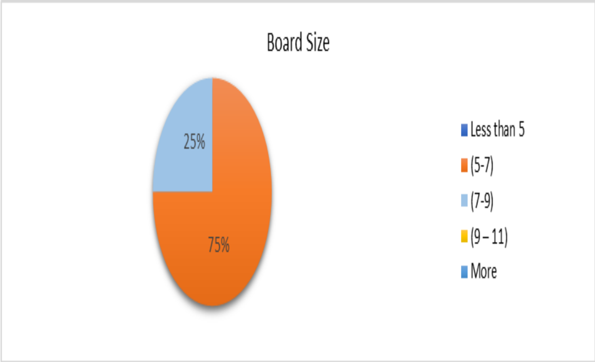
Shareholders or regulators have to consider carefully the importance of such training and have to recommend that all members of board of directors shall undertake training to enable them to discharge their roles and responsibilities based on the best practices of corporate governance. Many jurisdictions among the world mandate the training through professional institutions before allowing the individuals to be a member in their board.

4.3 Board Composition

The code of corporate governance and shareholders are putting more attention on board composition. The effective composition can shape the high performance of the corporate governance which can facilitate proper decisions and communication.

4.3.1 Board size Effective board will require appropriate number of directors. The board needs to have adequate size so that the business can manage its affairs in effective manner. The size of the board enables the meeting to be more productive and efficient. This area has been explored to seek the respondents' views about the best size of the board. The survey showed that 75% of the respondents in view that the best size is between 5 to 7 and 25% of the respondents believed that 7 to 9 members in the boardroom is the appropriate size as displayed in Fig 6.

4.3.2 Board Balance The board composition related to board balance is significantly important. Usually the shareholders prefer having directors with financial background and auditing proficient. They believe that those individuals having the skills of understanding financial statements and identifying financial issues can bring more value to the company. Those directors have the experience to detect problems and able to understand the business risk financially. Many can argue that the industry skills are the executive management roles and responsibilities and it is not required that the board of directors have the diversity of skills and expertise as long the management is fulfilling that role. This area is worth to be investigated and seeking the respondent's views in this matter. The question has been asked to assess whether the industry experience can add value to the board's discussion. The survey revealed, as illustrated in Fig 7 that a vast majority of the participants, with a rate of 91.7% believed the industry experience is important within the board members to enable the board to see the business risks and opportunities and to make the right judgments.



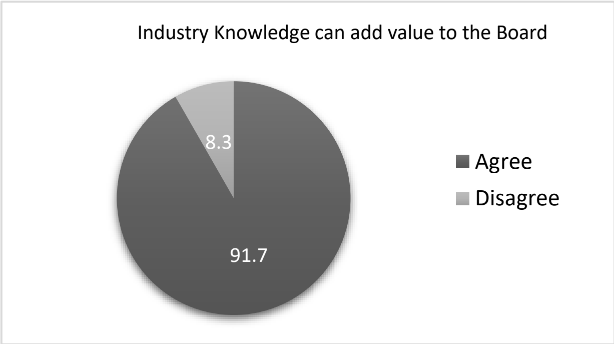


Fig 6 Board Size

Figure 7: Industry Knowledge

With the industry and technology expertise, the boards will be able to understand the dynamics and the operational aspects of their industries. Accordingly, they can contribute along with the executive management to set the appropriate strategy in the long term, which can create value for their business. The boards also will be able to review the real performance of the business and to challenge the executive management from sensible perspectives. Nowadays, the business to compete and survive, must be creative and innovative to ensure business growth. Boards members with one single demographic of skills will not be aligned with other stakeholders and will always see things from either a profit perspective or a compliance perspective. On the contrary, a diverse board will be able to understand the business environment and the customers' needs in which the business is operating.

4.3.3 Independent directors' Independent directors are playing a vital role on boards in two aspects. In this research, the respondents have been asked about the level of the representation of the independent directors within their companies. It was not obvious whether the respondents know the difference between the non-execute directors and the independent directors. Nevertheless, the survey is showing that more than half of the respondents stated the number of independences in their companies is less than 20 % as appears in Fig 8, whereas the percentage in companies of the modern corporate governance is much higher with more than 60 percent of independent directors.

Figure 8: Level of Independence

The directors, either non-executive or independent, must take a high level of care to avoid any sort of conflict of interest and to ensure the maximum interest of the company. The survey sought the respondents' opinions on what are the most factors that affect their independent judgments. Surprisingly, the results in Fig 9 show that the majority of 75 % of the respondents believed they are not truly independents and their judgments are being influenced by many factors.

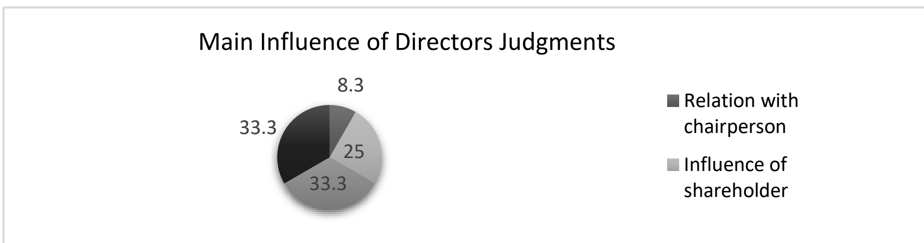


Figure 9: Main Influence of Directors Judgments

4.3.4 Gender Diversity There is always studies on how to improve the board performance. Many studies are showing that women have different characteristics than men, which can add more value to the business atmosphere. Figure 10 shows that 83.3% of the respondents believe that women on the boardroom can add value to the business performance. The research didn't explore why the participants have such an impression. Most of these participants have real experience that women can change the culture and balance those areas that are missing from the men.

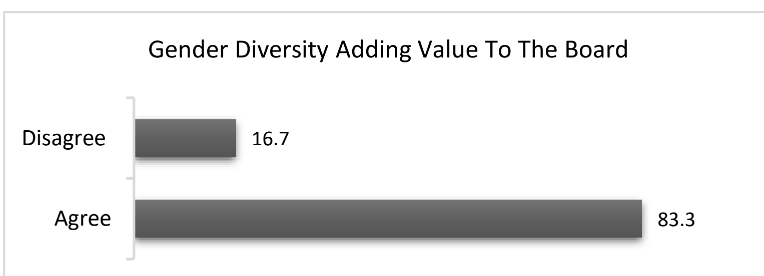


Figure 10: Value of Gender Diversity

The women directors tend to be fairer while making the decision. They are more collaborative and more inquisitive towards new ideas and solutions. Women are well known in their nature of well governance and tend to follow the structured way while making the decision. As we know, females represent half of the society and half of the population that companies provide products

and services. Therefore, women on the board will be much better to mirror their customers' tastes, preferences and behaviors and make better decisions and much return on sales. (Frances, 2018)
Many countries have set legislative requirement within the Code of corporate governance to implement quotas for gender on the boards. Our view at this stage, this area must be monitored closely and through statistics and boards performance and to make a proper correlation between the business improvement and women contribution on the board. In addition to that, companies must select female directors based on their qualification and talents and should avoid appointing women as a token for the sake of diversity. The respondents have been asked whether the Code of corporate governance must be implemented by the government-owned companies. 63.65 % of the respondents supported the concept of extending the implementation of the Code to cover government-owned companies. 36.4 % of the respondents disagree with the concept as depicted in Fig 11.

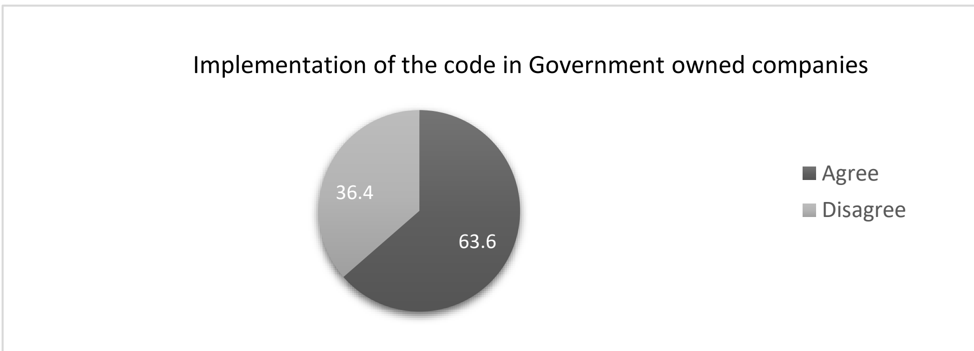


Figure 11 Implementation of Code

5. Conclusion and Recommendations

This research aims to explore the areas of improvement of corporate governance to be aligned with the government vision of 2040. Through the research, it was a challenge to recognize the best practices of corporate governance. The most important aspect is the need for strong corporate governance culture. The regulators are required to extend the corporate governance framework to cover other aspects of corporate governance culture. From the survey findings, it was obvious that there is a lack of know-how and the actual skills as to how to implement the governance. The survey results show that only 50% of the directors have the opportunity for real training. Imagining that if this rate represents all the directors in the companies in Oman, the impact will be significant. When the directors engage in corporate governance business, many of their thoughts and conceptions might be flawed, which might diminish the good governance practices. Therefore, the regulator has to enforce the training, and the director has to be certified from accredited institutes; otherwise, he or she will not be qualified as a potential candidate to work in the boardroom.
Oman's CG Code for the public stock companies is designed for a large and complex business environment. The implementation of such a Code is quite expensive. In order to instill the culture of good governance in Oman, the Code has to be extended to cover the other types of companies such as closed joint-stock companies and limited liability companies, either government-owned or private owned. The regulators can develop and propose new codes which can be fit and relevant to the nature, size, and complexity of those types of companies. The aim is to enhance the concept of good governance and to integrate all these codes in a manner that can serve the economy

development in the long term. Adopting these codes should not be mandatory to the companies rather than a guideline to assist them to develop a culture of good governance.
The economy in Oman like any other economies is kept changing and evolving. There will always be new issues emerging related to other principles of the Code. The regulator in Oman has to maintain a fixed interval for the review where it will be an opportunity to address any gaps and weakness of the previous edition. This review and amendment will assist in capturing any changes in the economic and social environment. Following the history of Code in Oman, the first Code was issued in 2001. Then the second and third amendments took place in 2003 and 2012, respectively, till the final new Code of corporate governance issued in 2016. It is worth noting that the journey of governance doesn't follow regular review and improvement. Therefore, it is highly recommended that the regulator fixes a periodic interval for comprehensive review and amendment.

6. Implications and Future Scope:

As we said previously that the corporate governance is not a rigid type of principles and recommendations, it is a more dynamic and adaptable code. In Oman, there are different agencies that are responsible for developing and monitoring governance practices. These agencies play the role of regulators such as Capital Market Authority (CMA), Muscat Securities Market (MSM), Ministry of Commerce, and Central Bank of Oman. The coordination between these agencies and other industry associations might take a long time, affecting the quick response to the governance changes. An institute can be formulated to work as the ground and advisor for the best international governance practices while working with other regulators. The institute can study the implementation of the existing governance and propose any areas of improvement. It can also help to raise the level of awareness through studies and research.
Many governments and private-owned companies have directors who serve in many numbers of board positions simultaneously. As a consequence, the director ability to participate and monitor the business will be affected and diminished. Companies and shareholders have to realize that the director's position is not prestigious rather a high position of accountability and ethic. The regulator has to monitor this area of directorship closely to address if there are adverse consequences of multiple directorships and to recommend the appropriate number the director can hold. There are many areas to be studied and improved of the best corporate governance to bring efficiency and credibility to all organizations and the whole economic system.

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