Pakistan Institute of Corporate Governance

Detailed Analysis Report
Survey on Board Composition, Practices & Remuneration 2016

Pakistan Institute of Corporate Governance

Contents

A. Abbreviations

Abbreviations	Description
AC	Audit Committee
AGM	Annual General Meeting
BCO	Banking Companies Ordinance 1962
Board	Board of Directors
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGF	Corporate Governance Framework
DTP	Director Training Program
MNC	Multinational Corporation
Ordinance	Companies Ordinance 1984
PICG	Pakistan Institute of Corporate Governance
PRs	Prudential Regulations issued by State Bank of Pakistan
SBP	State Bank of Pakistan
SECP	Securities & Exchange Commission of Pakistan
SOEs	State-Owned Entities
The Code	Code of Corporate Governance 2012

B. Introduction

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, advisory services, raising awareness, undertaking research and evaluations, conducting surveys as well as publishing guidelines and other research material.

Prosperous businesses are the drivers of the economy for any country. To prosper in the long term, companies require sustainable practices and a good corporate governance framework to function smoothly. The achievement of such practices is not possible without a knowledgeable and committed board of directors steering companies in the right direction. For years now, PICG has been involved in research, delving into board practices amongst companies in Pakistan and recommending best practices based on international standards to ensure sustainability and responsible business conduct. In this regard, various research papers, articles and surveys related to key corporate governance issues in Pakistan have been published.[1]

The Code of Corporate Governance for listed companies, first issued in 2002 by the SECP, was established to enhance board effectiveness through a set of principles encouraging listed companies to establish a framework of best practices that would steer them in the right direction and increase accountability, thereby improving their capacity for decision making. Since then, the SECP has issued a revised Code in 2012 along with a number of other codes/ rules and guidelines extending to unlisted, public sector and insurance companies in Pakistan.[2] The purpose of these guidelines is to help companies adopt board practices that would promote a certain standard of functionality, resulting in overall transparency and accountability which in turn would promote investor confidence and stakeholder interest in businesses throughout Pakistan.

PICG's survey report therefore aims to obtain a better understanding of the current state of board practices in Pakistan and the needs and challenges faced by boards with regard to corporate governance and to provide valuable insights to enable those charged with governance of their own companies to identify possible areas of improvement.

[1] Refer http://picg.org.pk/

[2] 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/

C. This Survey

PICG has been closely involved in the development and review of the Code and given that corporate governance is an evolving process and best practices of governance are being encouraged by both regulators and stakeholders, PICG's Research Team has conducted this survey to obtain an overview of current practices and update knowledge gathered from previous surveys carried out in this respect.

The survey was designed in the form of an online questionnaire and sent to directors and executives to obtain direct feedback from them. The questionnaire covered the following broad categories:
1) Board Composition, 2) Board Practices, and 3) Board Remuneration.

The survey questionnaire was sent to PICG's members as well as non-member contacts (as available in PICG's database). In order to get a broad representation of general board practices in Pakistan, no distinction was made with respect to legal status or industry of the companies, and the only criteria required was that the respondents had to represent companies registered under the Ordinance. The survey was requested to be filled by either the Chairman, CEO, a Board Member or the Company Secretary of the organization being represented. We had received requests to allow anonymous responses, however, we could not concede to such requests as we required names of the respondents[3] 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	:	54
Responses accepted[4]	:	50

Consequently, after considering all the above factors, we accepted and analyzed responses received from 50 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.[5]

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 2016

[3] As stated in the prelude to the online questionnaire, names of respondents have been kept strictly confidential.
[4] Two responses were disregarded during the initial review of basic results due to being duplicate entries, and two were noted and disregarded during the further detailed analysis as more than one respondent representing the same company had responded.
[5] All respondents who supplied us with their email addresses were provided a copy of the "Basic Results" of this survey as a token of our appreciation.

D. Executive Summary

Detailed analysis of the results of our online survey on "Board Composition, Practices and Remuneration- 2016" imparted us with in-depth knowledge on practices existing amongst a variety of 50 companies spread across Pakistan including listed/unlisted, state-owned/private, commercial/ not for profit, etc. We are now pleased to provide you with a summary of the results of our detailed analysis as follows:

Responses were received from an equal number of directors and companies secretaries representing their various organizations. Of the directors who responded just over half were 'board members other than the Chairman and CEO'; followed by an equal number of Chairmen and CEO's.

Board Composition

Majority of the companies in our sample were listed, with just over a quarter that were unlisted. Only 10% represented SOE's. Industry-wise, the Commercial Banking and Financial Services industry together constituted 32% (ie. almost a third of the companies in our sample), with Manufacturing companies emerging as the largest 'type' of company (24%). We received no response from the Communications, Computer Sciences, Electronics and Retail Trade industries; followed by minimal responses from the Healthcare, Hospitality, Utilities, Transportation, and Business Services Industries.

The average board size was approximately 8 directors consisting of a majority of non-executive directors followed by a large number of independent ones, together forming over 80% of the composition on the board. 22% of the listed companies have the preferred '1/3rd of total directors or more' as independent directors, as encouraged by the Code.

Companies in Pakistan, however, lack greatly in terms of gender diversity with 66% of the respondents stating that their companies had no female directors. Overall, females constituted only 9.5% of total directors in our sample. On average, there was less than one female director per company on an overall basis; and approximately 2 female directors per company for those who did have female representation on their boards. The overall 'female: male' ratio was much higher in unlisted companies as opposed to listed ones.

We found that more than half of the directors in our sample were aged between 40 to 60yrs. There is a dearth of young directors on boards with 66% of the companies having no directors aged below 40 years. On the other hand 94% of the companies had at least one director over the age of 60 years on their boards. Almost 50% of the companies have foreign nationals on their boards, regardless of whether they are listed, unlisted or SOEs.

As illustrated by the graphs, almost all of the respondents stated that their boards possessed individuals with financial backgrounds, highlighting the expectation of boards to have members with sufficient financial knowledge. This was followed by an obvious preference to have industry specific expertise, followed by engineering and legal knowledge.

Majority of the respondents stated that the roles of the Chairman and CEO were separate. Ironically, 75% of the companies that did not separate these roles were listed. None the less, there is a strong preference for non-executive Chairmen, followed by independent ones.

Board Practices

Annually 4 to 6 meetings of less than 4 hours duration each was the most common practice amongst our respondents. This was followed by about one-third of the respondents stating that each of their board meetings took about half a day. There was less than 20% that held between 7 to 10 meetings annually. The companies that held more than 10 meetings a year were from the Food and Energy industries, respectively. None of the companies held meetings that lasted more than 10 hours at a stretch.

Almost all of the respondents stated that the information provided to them prior to board meetings was concise and disseminated in a timely manner. It is also worth mentioning here that a 'paperless culture' is evolving at board meetings in Pakistan which is evident by a significant majority (almost 80%) of respondents stating that information was given to them either as electronic data, or a mixture of hardcopies and electronic data.

Almost all of the respondents had Audit and Human Resource Committees' in their organizations, while over 25% had a Risk Management Committee. 88% of the respondents said that they had between 3 to 5 members on their AC and HRC, respectively. A small minority of companies had more than six members on their board committees. 64% of the respondents said that four AC meetings were held annually, while 26% of the respondents stated that two HRC meetings were held annually. There was a strong preference illustrated by companies in our pool for '1 or more independent directors' in the AC. The same preference existed in the HRC (that of 1 or more independent directors), however, not to the same extent as that of the AC, as there were also many companies that did not have any independent directors on their HRCs at all. Further, no company had the CEO as Chairman on any of their committees, however, just over 25% had the Chairman chairing both the board and a specific committee (mostly HRC).

A majority of respondents maintained that their boards discussed the company's strategic direction annually, followed by a minority stating that it was discussed every 2-5 years. An overwhelming majority of respondents stated that 'one-third to approximately half' of their board's time was spent on forward looking matters which suggests a strong focus on company direction and planning. More than 90% of the respondents stated that the board oversaw the company's reporting process.

A majority of respondents stated that their respective companies held directors' orientation sessions and ensured their directors attended director training programs (DTPs). Only 10% of the respondents stated that neither orientation sessions nor DTP's were conducted at all, almost half of these are listed companies. The highest number of trained directors on a company's board in our sample was 10**,** with the average number of trained directors per company being 4. On average over 50% of the board members of each company were certified[6], with a majority having between 1 to 6 trained directors.

The majority of respondents had some mechanism of board evaluation in place and more than half of these were carried out in-house. Companies using a third party independent evaluator include banks, a DFI and an energy sector company. Likewise, those that are using a combination of in-house and external evaluation techniques consist of banks, a company in the food industry and one providing security services. Almost all of those conducting evaluations covered the entire board, with only a handful of companies evaluating their individual directors and only 10% assessing the performance of their board committees.

[6] Certified under an SECP approved Directors Training Program

Board Remuneration

Only a slight majority of companies in our sample had a formal remuneration policy. While 44% of the respondents have no remuneration policy in place, there are also companies who never review the policy they do have. Most respondents that review their remuneration policies either do it annually or whenever a new board is elected.

Interestingly enough, it seems to be a ‘more or less’ mentality for listed companies when it comes to remuneration of non-executive directors with very few providing meeting fees within the “mid-scale”. Listed companies are either paying less than PKR 30,000 per meeting or then over PKR 50,000 for both board meetings and committee meetings. Unlisted companies on the other hand are generally paying less than PKR 50,000 per board meeting with a decline in remuneration noted in the case of committee meetings where half of them did not compensate for such meetings, followed by just over 20% who paid less than PKR 30,000. Half of the companies that paid over PKR 100,000 held between 4 to 6 meetings annually, whereas the other half held between 7 to 10 meetings. Most of these companies (that pay over PKR 100,000) were from the Banking and Financial services sector.

80 % of the respondents said that the Chairperson did not receive a higher meeting fee as compared to other board members. The unlisted companies that did pay a higher fee were financial institutions, whereas for listed companies no trend was noted amongst any particular industry paying a higher fee to their Chairman.

None of the companies provided their directors with an annual retainership fee, however, one of the companies did pay their Chairman a monthly remuneration. Other benefits provided to directors include the use of company maintained cars, driver, medical expenses, travel and boarding expenses to facilitate directors attending board meetings and per diem allowance/ reimbursements. Only a couple provided their directors with stock options and about one-third provided liability insurance cover.

Over 80% of the respondents stated that they did not face any hurdles in attracting new directors on their boards. A few companies, mainly SOEs, stated that as the Government appointed most or all of their directors, the board was not involved in the search for qualified board members. Being a public sector company and providing low remuneration packages was also a reason stated for qualified individuals not joining SOEs. Other companies who faced problems stated that finding quality independent directors, especially young and female talent was a problem, whereas others stated that sometimes the preferred directors were not available due to their own prior commitments with other organizations. Stringent regulations in the Banking sector also caused some difficulty in obtaining experienced directors as a banking company director could not be on the board of more than one bank at a time.

There was disparity regarding hurdles faced in implementing the Code of Corporate Governance, as a sizable number of respondents shared their opinions regarding improving the code. Respondents urged regulators to remove ambiguities from board evaluations and the independence criteria amongst others, while also expressing their desire to have Directors’ databanks which could facilitate companies in getting competent individuals on their boards.

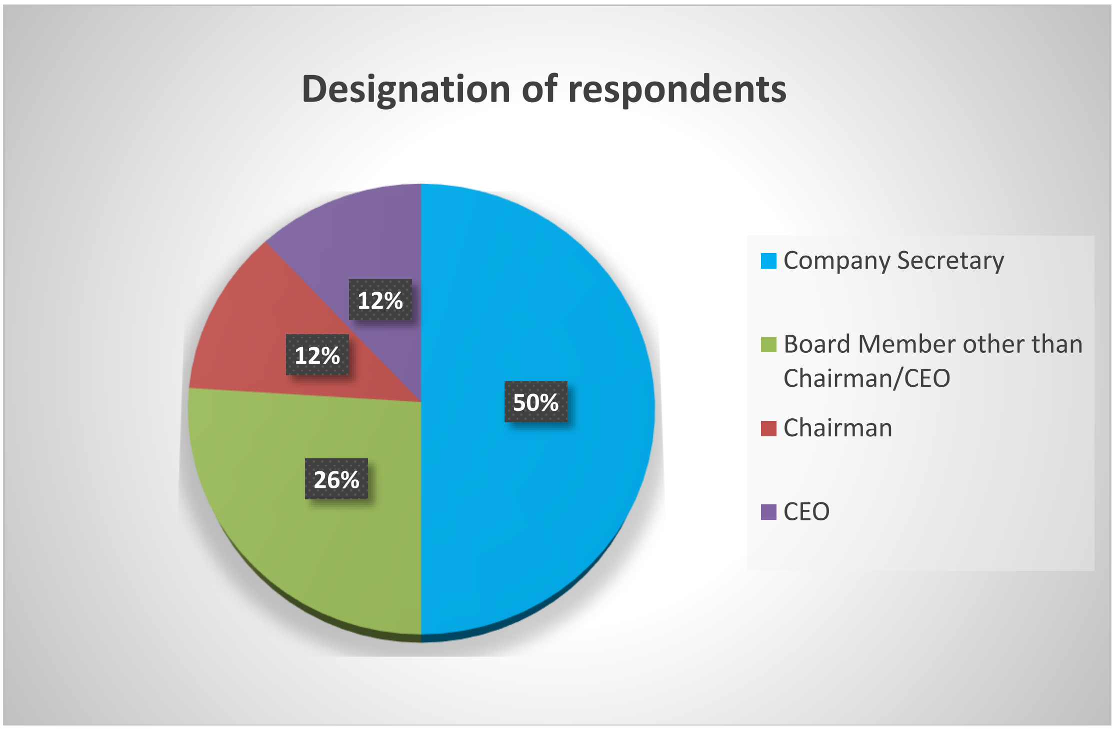
There is an overall consensus that the Rules facilitate governance and sustainable growth of PSC's. However, some PSC's faced restraints in application of the Rules due to lack of orientation of their board members, difficulty in gaining acceptance of board members for formulation of policies required under the Rules, inadequate number of independent directors, lack of empowerment of board on key issues and a general lack of ownership and accountability.

More than half of the respondents stated that they did not face any hurdles in implementing provisions of the Code within their respective organizations. Some companies shared various issues being faced by them and others made suggestions they felt were needed to ease the process of compliance with the Code. Some issues mentioned were the lack of knowledge/ interest of members of the board to ensure timely compliance, non-availability of directors for training programs, time wasted due to the formation of too many committees, etc. Further respondents required more clarity over the mechanism of appointment of independent directors and board evaluation. Changes were requested to be made to various aspects of the Code requiring the "type of company" to be considered by regulators when requiring compliance with various provisions. On the other hand, certain respondents felt the Code needed to be made mandatory to unlisted companies including NGO's and unlisted family-owned companies. Respondents also suggested that more awareness of the Code was required amongst unlisted companies.

E. Respondent Data

Total number of accepted responses[7]: **50**

Designation

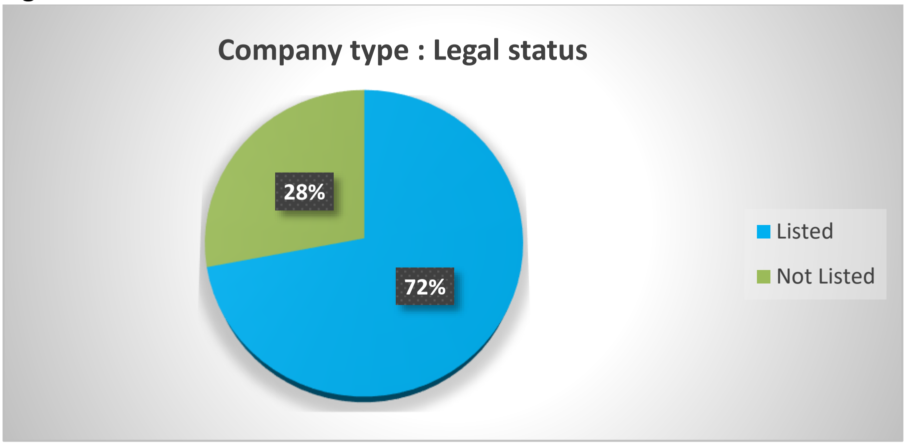


i. Half of the responses came from Company Secretaries, with the other half being from members of the board
ii. An equal number of Chairmen and CEO's responded to the survey.
iii. One respondent provided information for two separate companies, being a representative of both.
iv. Just under ¾ of the companies whose board members (other than Chairman & CEO) responded to the survey have independent directors on their boards.

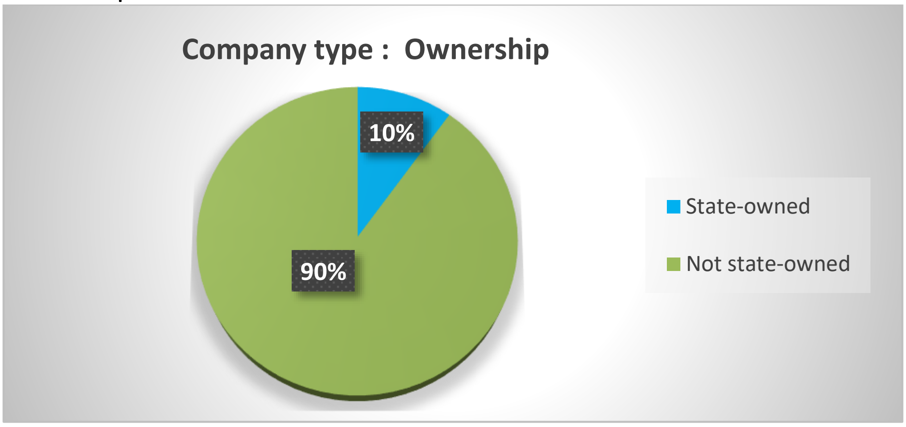
[7] Where more than one response was received from the same company, the additional response was disregarded. Likewise, any incorrect data that came to our knowledge was not considered.

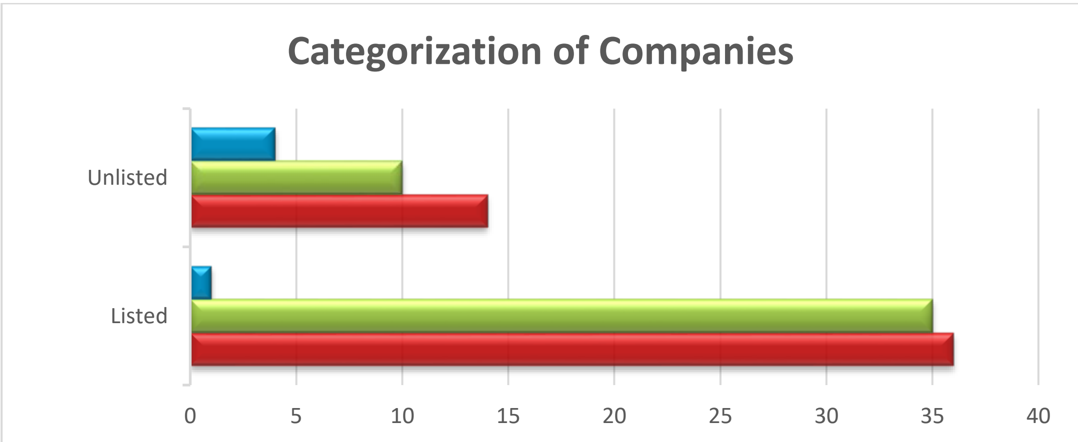
Categorization of respondent companies

a. Legal status



b. Ownership



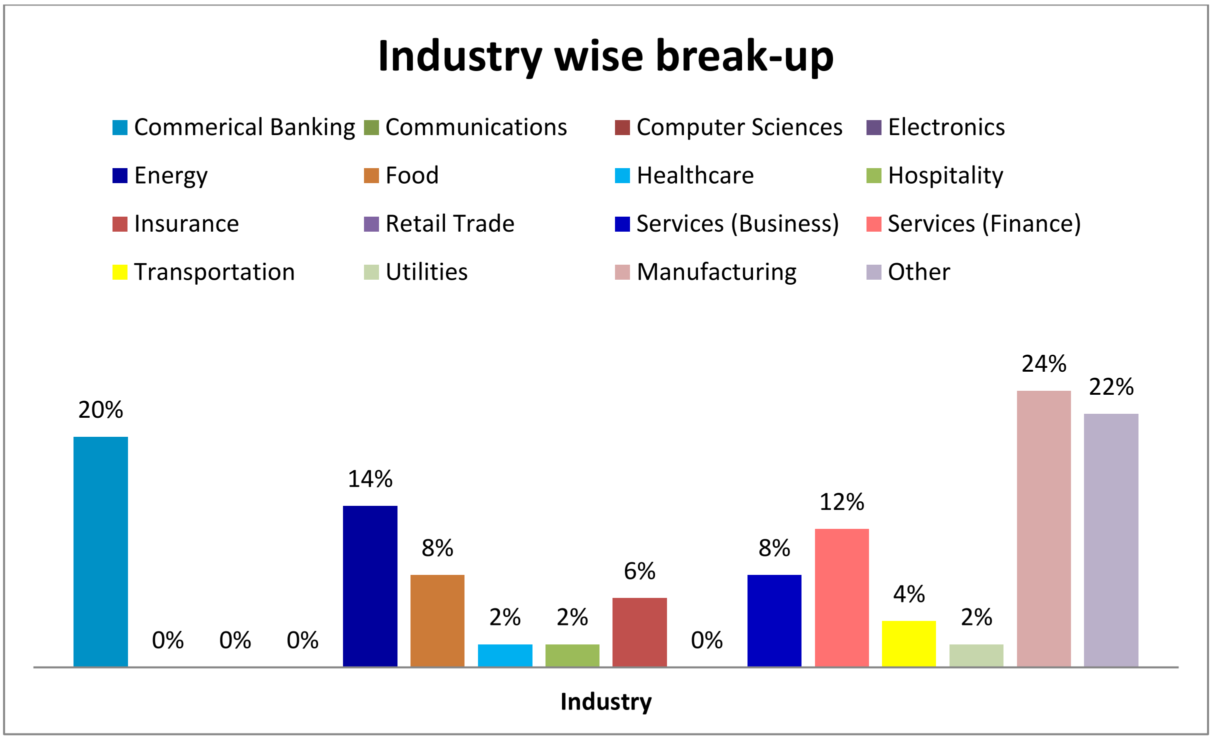


	Listed	Unlisted
State-owned	1	4
Others	35	10
Total	36	14

i. Only 5.4% of the listed respondents are state-owned

ii. 26.6% of the unlisted ones are state- owned.

c. Industry-wise breakup[8]



i. Overall, almost one-third of the respondents represent companies from the Commercial Banking and Financial Services industry, followed by a mix of industries out of which a third are manufacturing in nature.

ii. 16 % of the respondents identified their respective companies as practicing in more than one industry. Most of these are manufacturing in nature.

iii. The handful of state-owned companies did not belong to any one specific industry.

iv. More than half of the unlisted companies belonged to the Banking and Financial Services industry, with the rest being spread over various industries, mainly service-related ones.

v. A third of the listed companies belong to the Banking and Financial Services industry, followed by 17% from the Energy sector. The rest of the listed companies are spread over a number of industries.

vi. No response was received from the Communications, Computer Sciences, Electronics and Retail Trade industries and only minimal responses came from the Healthcare, Hospitality, Utilities and Transportation industries.

vii. The “Services-Business” category includes companies providing Engineering and Security services as well as a Container Terminal Operator.

viii. “Services- Finance” includes Modaraba’s and Asset Management companies.

ix. “Other” industries include businesses involved in Fast-Moving Consumer Goods (FMCGs), import of commodities, distribution, marketing and social work.

[8] Respondents could select more than one industry representing their business lines.

F. Board composition

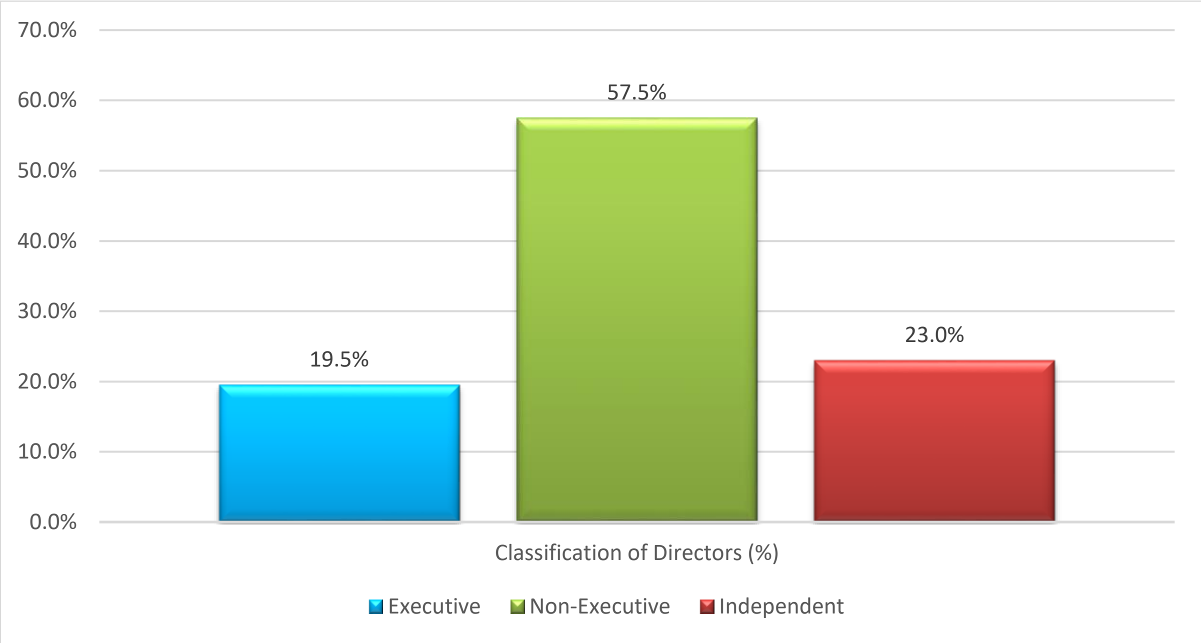
Board size

	Number of Directors on the Board		
	Lowest	**Highest**	**Average**
Listed	7	14	8.14
Unlisted	2	12	6.21
SOE's[9]	4	12	7.40

i. The total number of directors on the board of our respondents ranged from 2 to 14, with an overall average of 7-8 directors.
ii. The highest number of total directors on a board in our sample is 14 (this board includes a director nominated by the Government)
iii. Unlisted boards with 4 or less directors were generally "service provider" companies.
iv. The SOE with 4 directors is an unlisted company.

[9] Five Public Sector Companies (PSC's) responded to the current survey. PICG also carried out a survey specific to Board Practices of PSC's at the beginning of 2016. You may refer the survey for further details on PSC practices in Pakistan using the following link: PICG-Survey on Board Practices of Public Sectors Companies in Pakistan-May 2016-FINAL

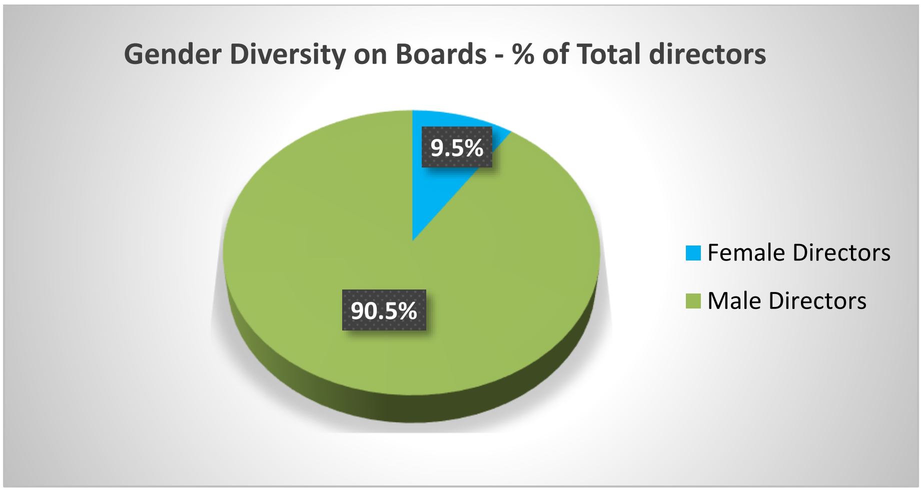
Director classification

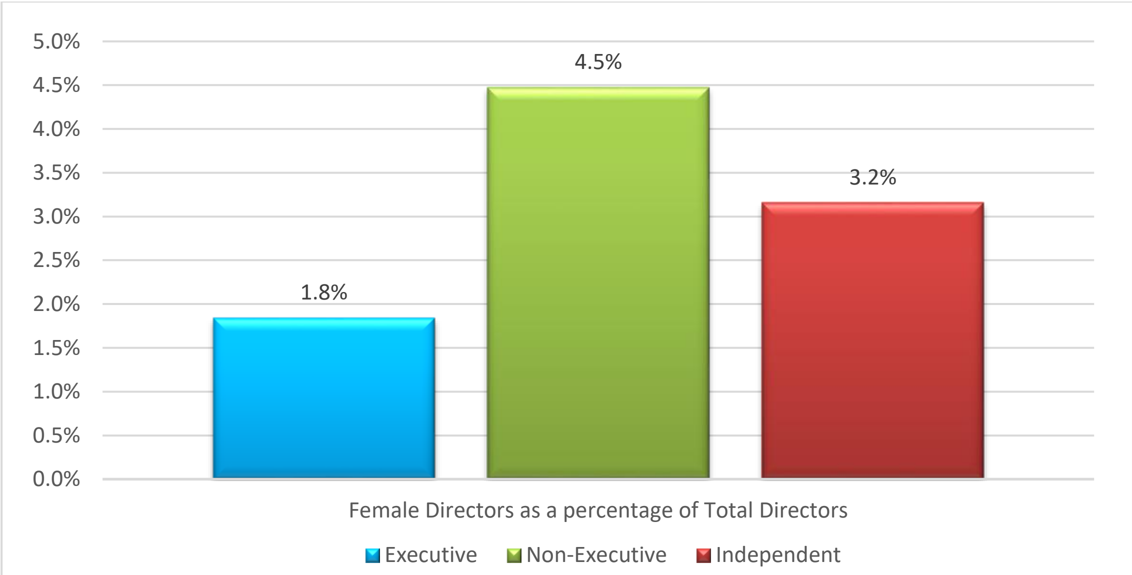


i. The highest number of executive, non-executive and independent directors were **5**, **11** and **6,** respectively.
ii. Almost half of the respondents have only one executive director (most likely the CEO); and the majority (more than 80%) do not have more than two executive directors on their boards.
iii. 8% stated they have no non-executives on their board.
iv. 20% of the total respondents have no independent directors, out of which approximately 1/3rd are listed companies.
v. 22% of the listed companies have the preferred 1/3rd or more independent directors as encouraged by the Code.
vi. Approximately 20% of the respondents have 3 or more independent directors. Of these, over 60 % were from the Banking and Finance sector.
vii. A few of the listed companies (approx. 10%) stated that they still had no independent directors on board. These were not from any one particular industry.

Diversity

a. Gender





Classification of Female Directors

i. Less than 10% of the respondents' boards are represented by females.

ii. Two-thirds of the respondents have no female directors on their boards.

iii. Boards with female directors had from 1 to 7 female directors.

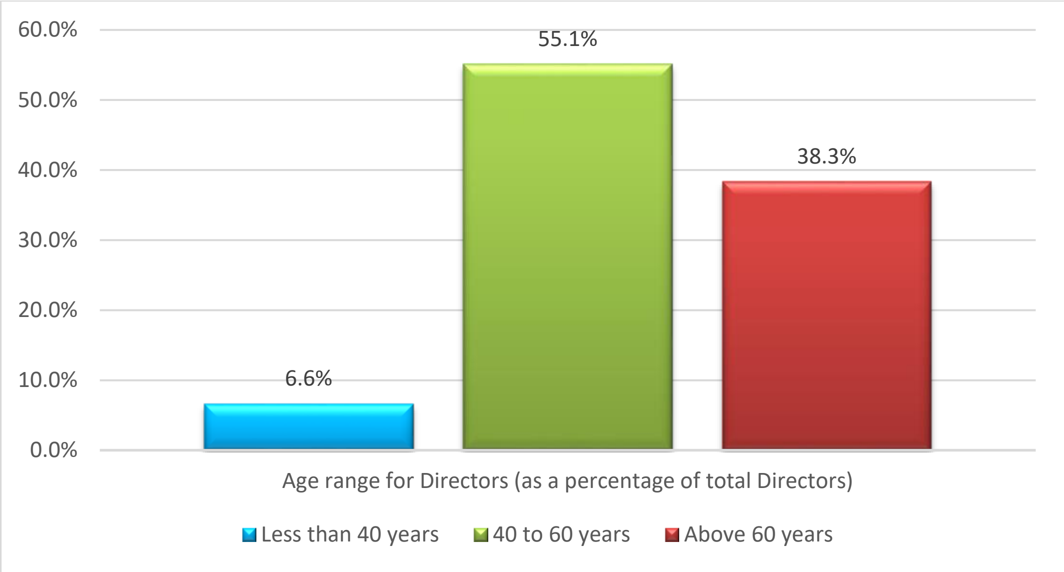
iv. Only 3 companies had 5 or more female directors on their board. Each of these were 'women-based' organizations.

v. Boards with female directors were spread across various industries, with slightly more in the Banking and Finance sector. However, even these had less than 20% females on their boards (apart from a couple of 'women-based' organizations)

vi. The break up for executive, non-executive and independent directors was similar to the breakup of 'total directors' with more non-executive directors, followed by independent and executive directors, respectively.

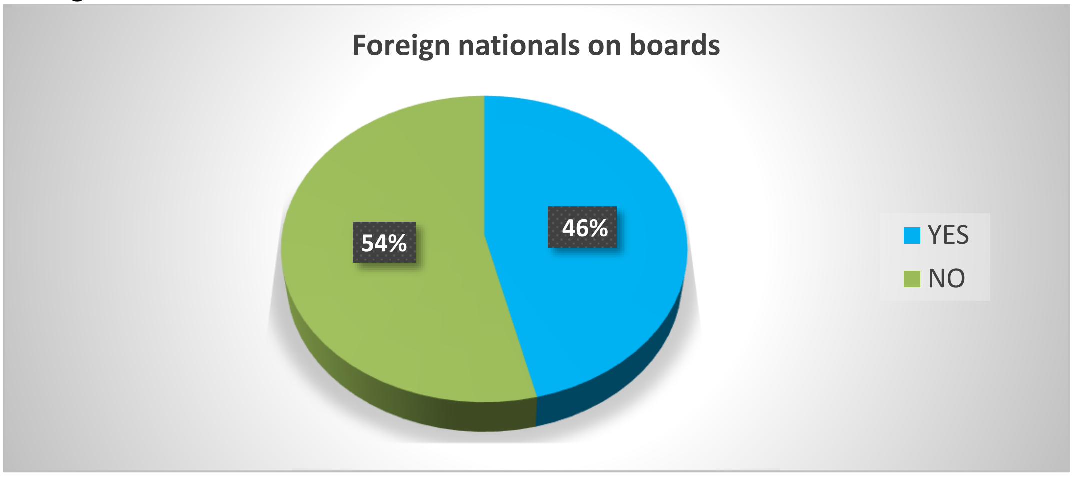
vii. The percentage of unlisted boards with female directors was only slightly higher than listed companies, however, the overall 'female:male' ratio in unlisted companies was much higher than listed companies (ie. approximately '1 female:4 male' for unlisted, and '1 female :15 males' for listed companies)

b. Age



i. More than half of the directors in our sample are aged between 40-60yrs.
ii. There is a dearth of young directors on boards with 66% of the companies having no directors below 40 years of age.
iii. Only a minority of 6% did not have directors above 60 years of age.
iv. Companies with directors under 40 years of age, were not from any specific industry, however, most of these companies had directors with financial, engineering and relevant industry backgrounds.

c. Foreign Directors[10]

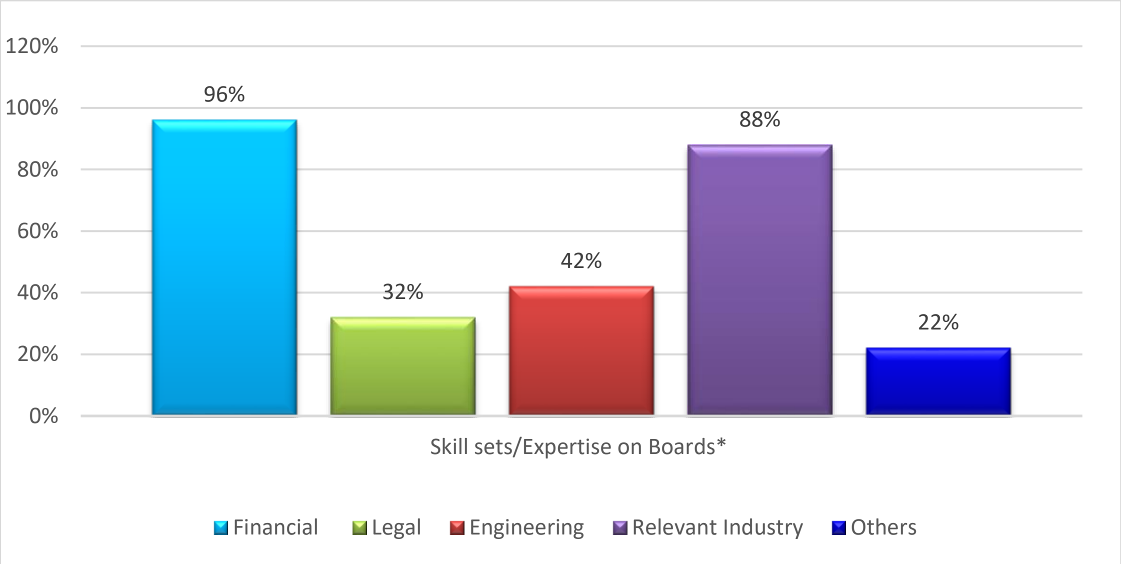


i. Almost half of the respondents have foreign nationals as directors on their boards.
ii. Of the boards with foreign representation, 70% were listed companies and 30% unlisted.
iii. Also, over 40% of these were from the Banking and Financial Services sector, followed by over 25% that were manufacturing companies.
iv. There was a presence of foreign directors in SOEs as well (ie. 40 % of SOE's)

[10] Note: directors having dual nationality should not be considered as foreign nationals

Skill set

Expertise/ general skill sets possessed by directors[11]

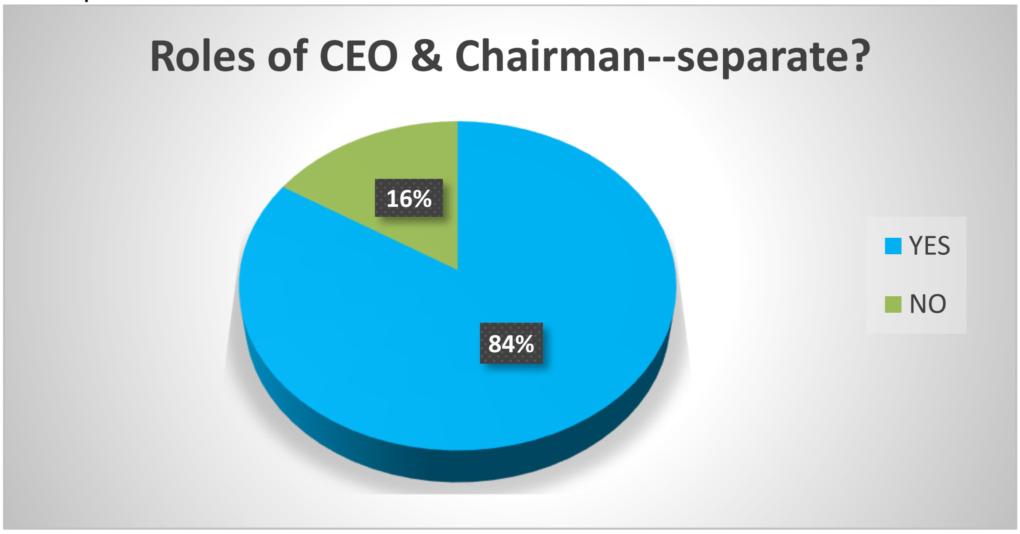


i. As illustrated above, almost all of the respondents stated that their boards possessed individuals with financial background/ knowledge.
ii. This was closely followed by an obvious preference to have industry specific expertise.
iii. Other areas of expertise mentioned by respondents include Human Resource, Islamic Finance, Audit, Risk Management, General Management, IT, Educational, Economic and Commercial and even possessing experience of working for the government and on other boards.

[11] Skill sets are not restricted to only professional qualifications and may include relevant experience/ knowledge. More than one area of expertise could be selected by the respondents depending on the skills their directors possessed.

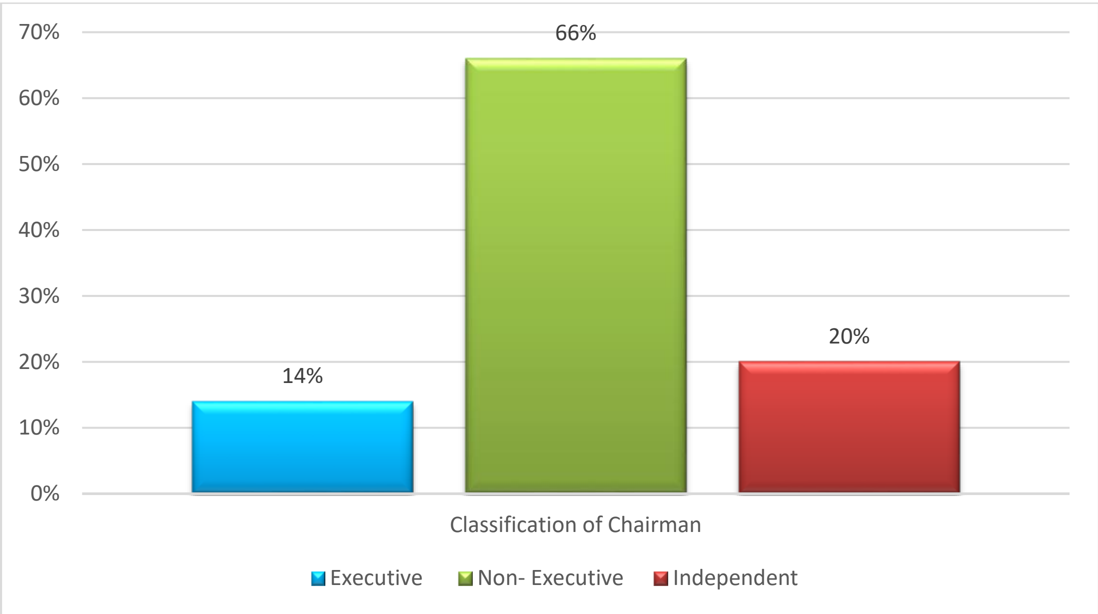
Chairman

a. Separation of CEO & Chairman



i. Out of the 16% of respondents who stated that there was no separation of roles between the CEO and Chairman, 75% were listed companies.
ii. One SOE also did not have a separate CEO and Chairman.

b. Classification of Chairman

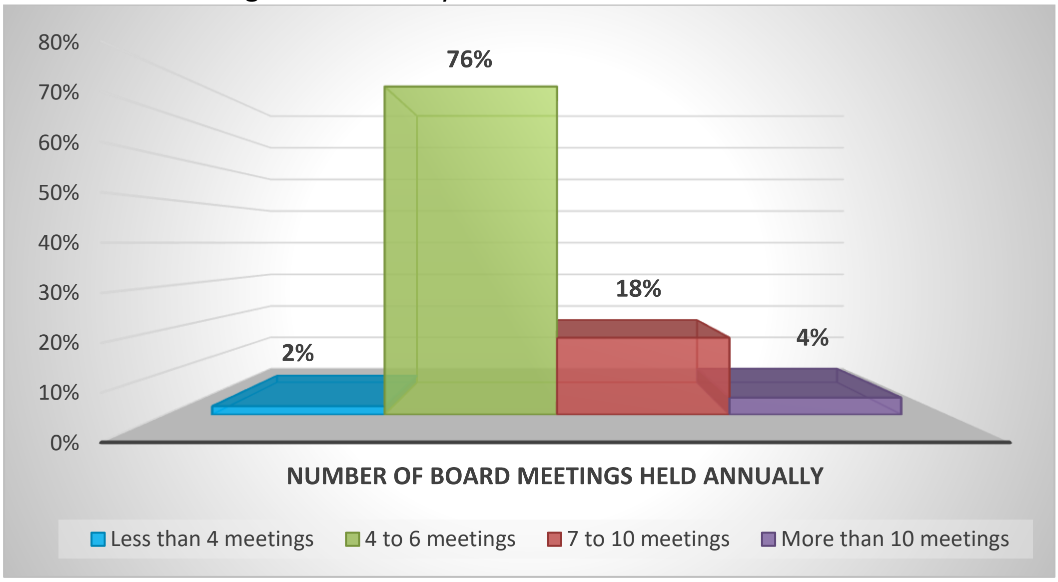


i. More than half of the chairmen in our sample were non-executives, followed by only a third being either independent or executive directors respectively.
ii. Majority of the 'executive' chairmen belonged to listed companies.

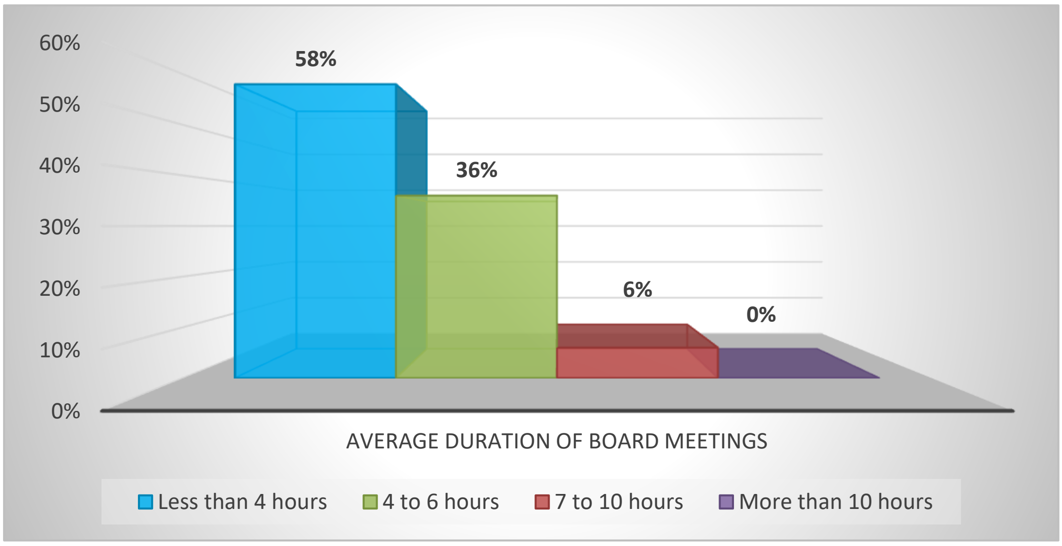
G. Board Practices

Meetings

a. Number of meetings held annually



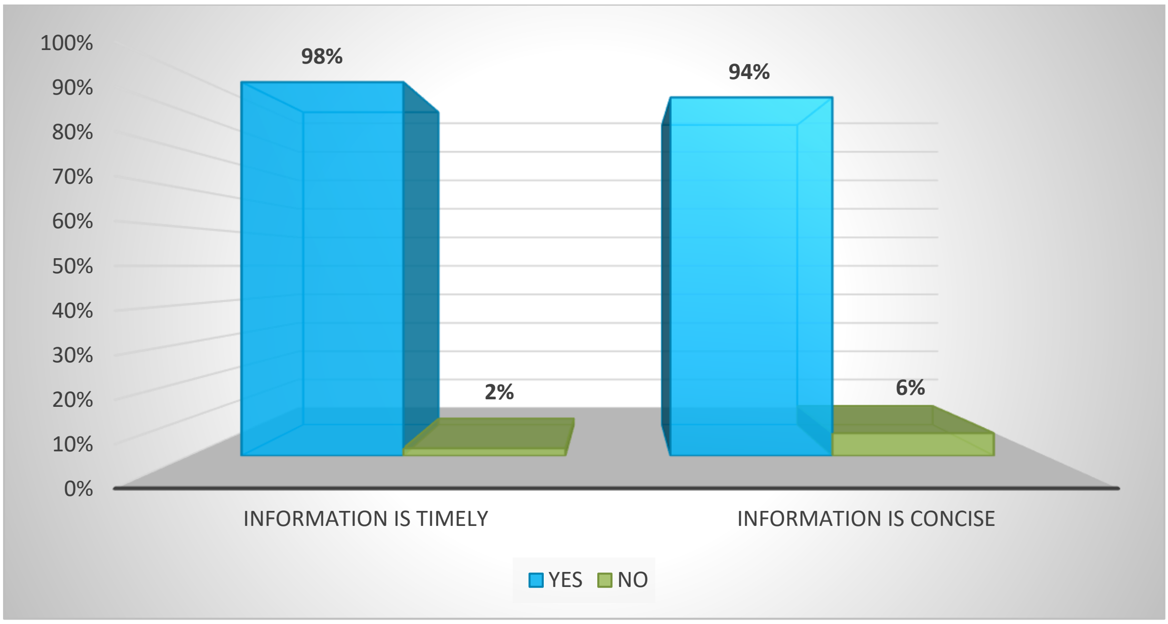
b. Duration



i. Generally, 4 to 6 meetings of less than 4 hours duration each were held annually.
ii. Just over 20% of the respondents held 7 or more meetings annually; almost half of these were banks.
iii. About 25% of the Banking and Financial Services sector companies held between 7 to 10 meetings a year. The rest held 4 to 6 meetings.
iv. The companies that held more than 10 meetings a year were from the Food and Energy industry, respectively.
v. One unlisted company from the Engineering industry said that they held less than 4 meetings annually.
vi. Over one-third stated that their meetings took about half a day.
vii. No respondent stated that meetings lasted over 10 hours.

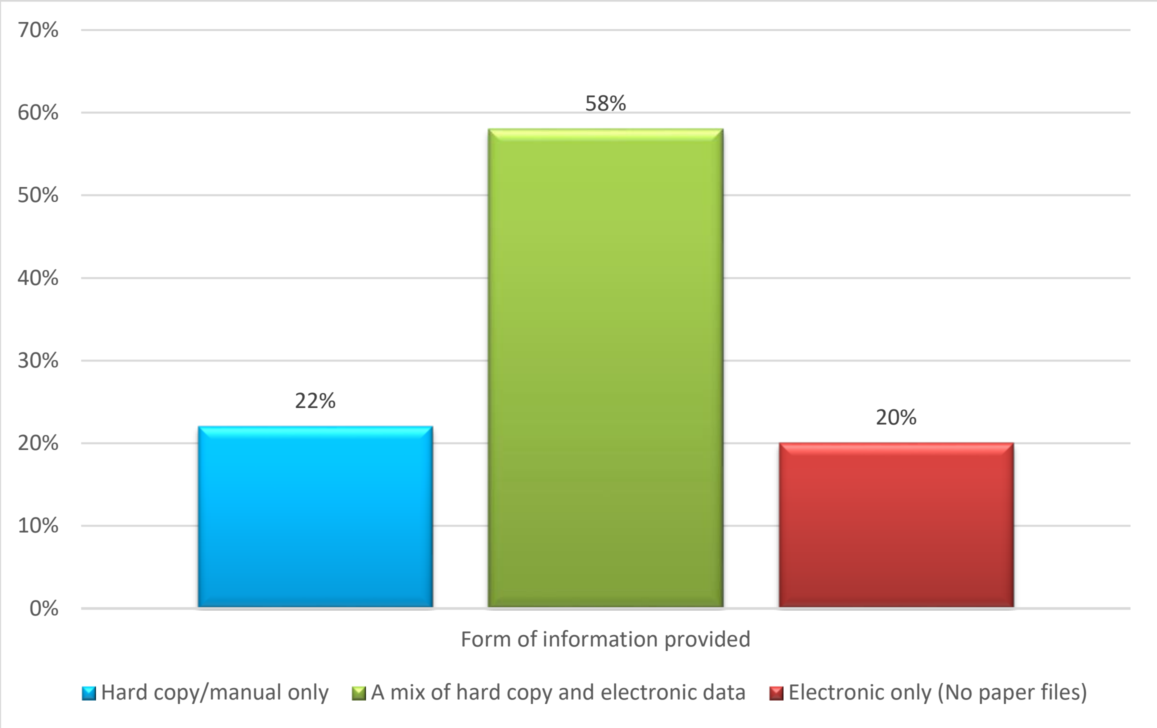
Information for the board

a. Background materials for board meetings



i. One respondent from the Financial Services industry stated that information wasn't available on a timely basis.
ii. A couple of respondents from banks and one from the oil marketing sector said that information provided at their board meetings wasn't concise.

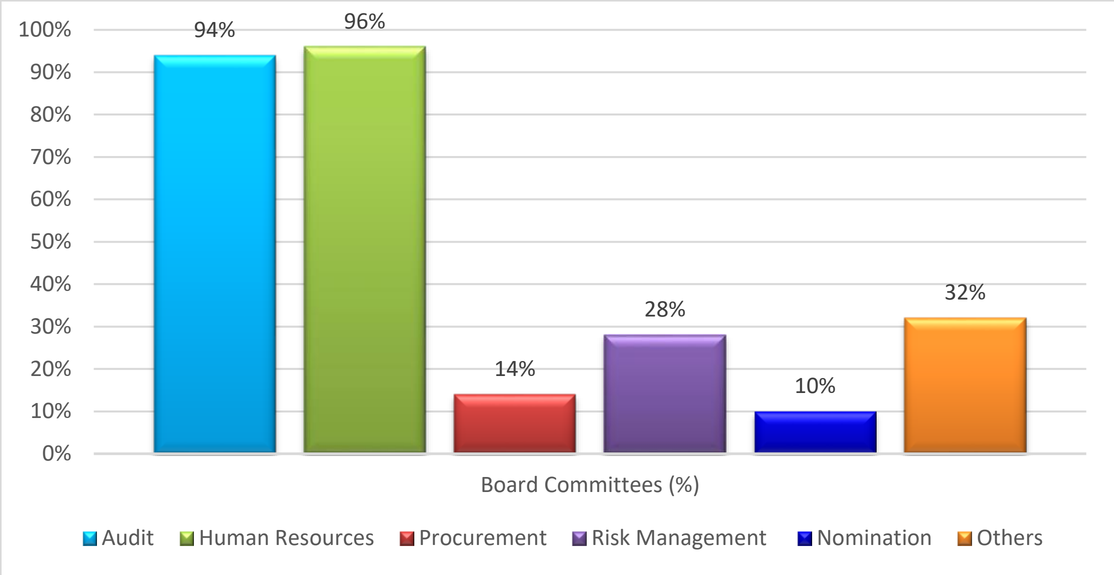
b. Form of information



i. More than half the respondents stated that both electronic and hard copy data is provided to directors for their meetings.
ii. Those companies that provided only hard copy data were only slightly higher in number than those that provided only electronic data.
iii. Most of the companies that provide electronic only data are listed, whereas half of the 'electronic-only' boards comprise of commercial banks and other financial institutions.
iv. On the contrary, over 1/3rd of those that provide only hard copy data are from the banking and financial services industry.

Committees

a. Types of Board Committees[12]



i. Audit and Human Resource Committees existed in almost all of the respondent companies.
ii. There is one unlisted company that has no board committees.
iii. More than a quarter have a Risk Management committee – a majority of these companies were Commercial Banks or related to the Financial Services sector.
iv. 'Others' include: Investment Committee, Claims Committee, Strategy Committee, Credit Committee, Share Transfer Committee, Information Technology Committee, Executive Committee, Finance Committee and the Ethics Committees.

b. Number of Committee Members:

i. Audit Committee (AC)
- Number of members: 3 or more members.
- 48% of the respondents stated that they have 3 members in their AC, followed by 26% who have 4 members.
- Only a minority of 8% have 6 or more members.
- A couple of companies have no AC. These are unlisted companies.

ii. Human Resource Committee (HR)
- Number of members: 2 or more members.
- More than 50% of the respondents said that they have 3 members
- 22% have 4 members
- Only 4 % have 6 or more members
- A couple of companies have no HR Committee. These are unlisted companies with one unlisted SOE stating that although there is no HR Committee per se, this function is performed by another Committee under the terms of their arrangement with the Government.

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[12] Many companies had multiple committees. Besides selecting the options given, they were also given the option to list down other committees as well.

iii. Others

- 28% of the respondents stated they have a Risk Management Committee. These were predominately banks.
- 14% said they have a Procurement Committee. These represented a variety of different companies, mostly unlisted ones.
- Another 10% of respondents have a Nomination Committee. These were predominately financial in nature
- The respondents have between 2 to 6 board members in the above committees.

c. Number of meetings held for each Committee:

i. 64% of the respondents said that 4 AC meetings were held in their organization & 28% of the respondents stated that 5 or more AC meetings were held.

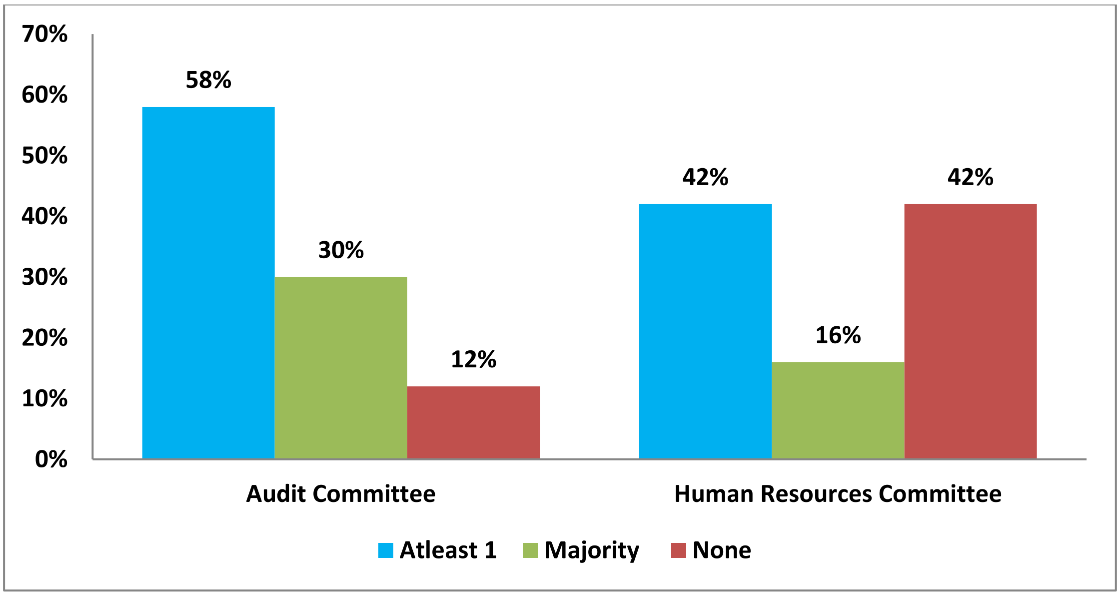
ii. 26% of the respondents said that 2 meetings of the HR Committee were held during the year, followed by 20% of respondents stating that only one meeting was held. The remaining respondents with an HR Committee held between 3-6 meetings.

iii. 20% of the respondents said 4 meetings were held for the Risk Management Committee during the year.

iv. Those respondents with a Procurement Committee in their organization held 4 or more meetings during the year.

v. The number of meetings for the Nomination Committees varied from 1 to 5.

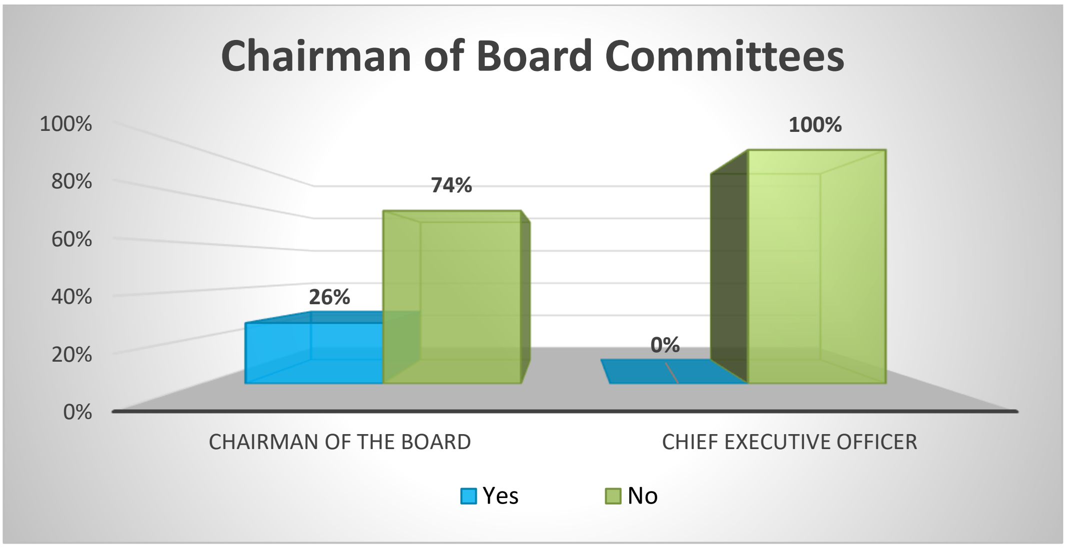
d. Number of Independent Directors on Board Committees



i. Out of those AC's that have a majority of Independent Directors, 60% were from the Banking and Financial Services sector and two-thirds were listed companies.

ii. Likewise, 75% of the respondents with a majority of Independent Directors on their HR Committees are listed companies, and all but one are from the Banking and Financial Services sector.

e. Chairman of Board Committees
   - Is also Chairman of the board
   - Is the Chief Executive Officer

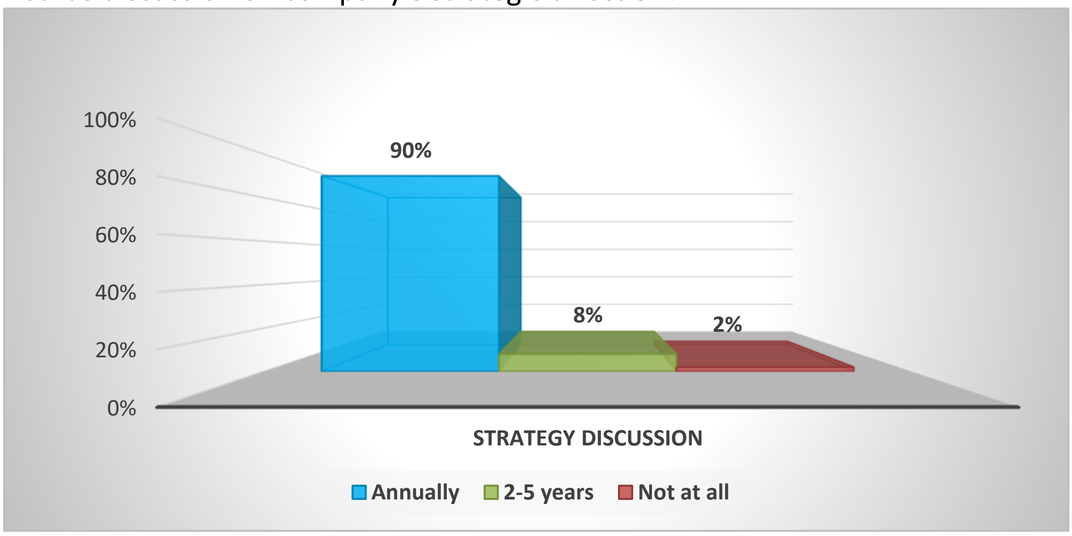


i. Of those companies which had their Chairman chairing both the board and a committee:
   - Over 90% had the Chairman of the board as Chairman of their HRC (with the remaining stating the AC).
   - 60% were listed companies. (For all but one of these listed companies, the committee being referred to was the HRC)
   - The industries were varied ones.

ii. No company had the CEO as their Chairman on any committee.

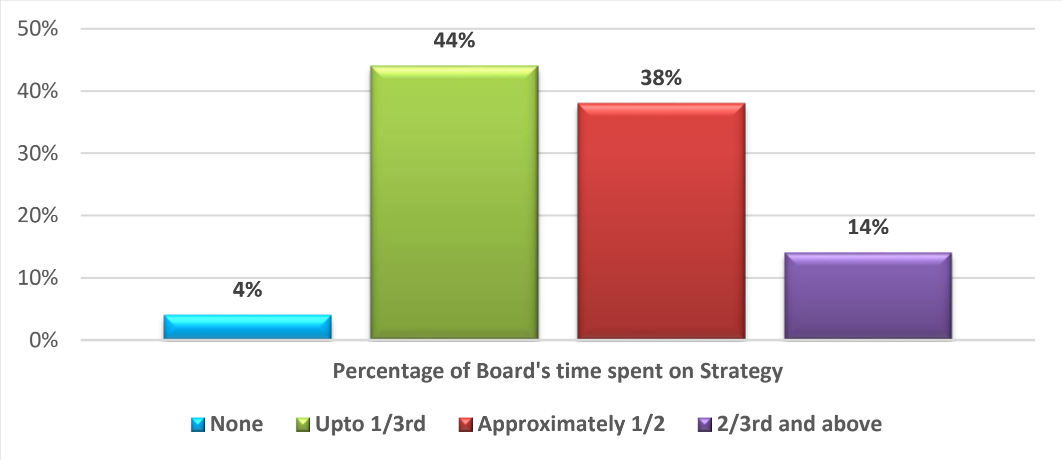
Strategy

a. Boards discussion on company's strategic direction?



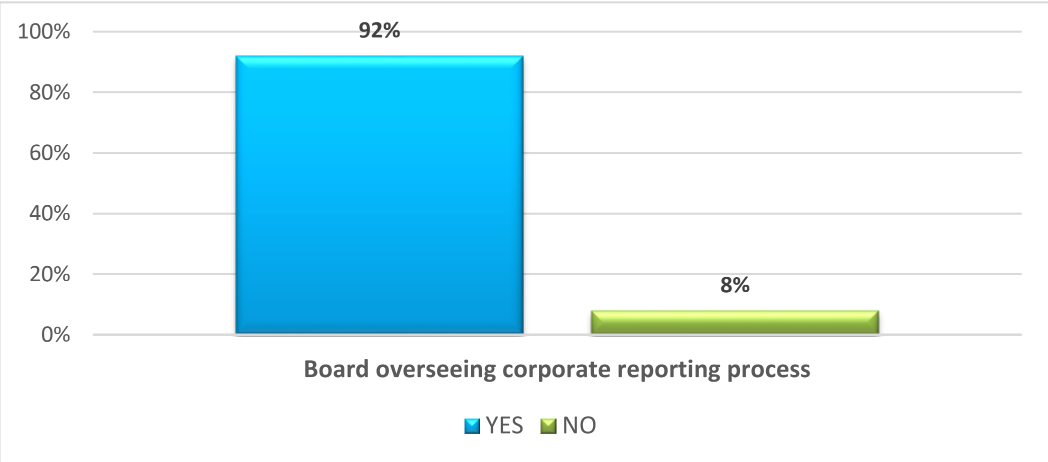
i. Generally all companies discuss their strategic direction at least on an annual basis.
ii. The companies that discuss strategy every 2-5 years are Banks or from the Financial Services sector. 3/4ths of these are listed.
iii. One listed SOE from the Transportation industry claimed that they never discuss the strategic direction of the company.

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



i. Majority of the respondents' boards spend one-third to half of their meetings discussing strategy and forward looking matters.
ii. Over half of the respondents who stated that they spend most of their meetings discussing strategy and future plans are listed companies. Likewise, half are from the Banking and Financial Services Sector.
iii. Surprisingly, both the entities that claim not to indulge in any strategy discussions during their board meetings were listed companies, one of which is a listed SOE.

b. Board's oversight of the company's corporate reporting process?[13]

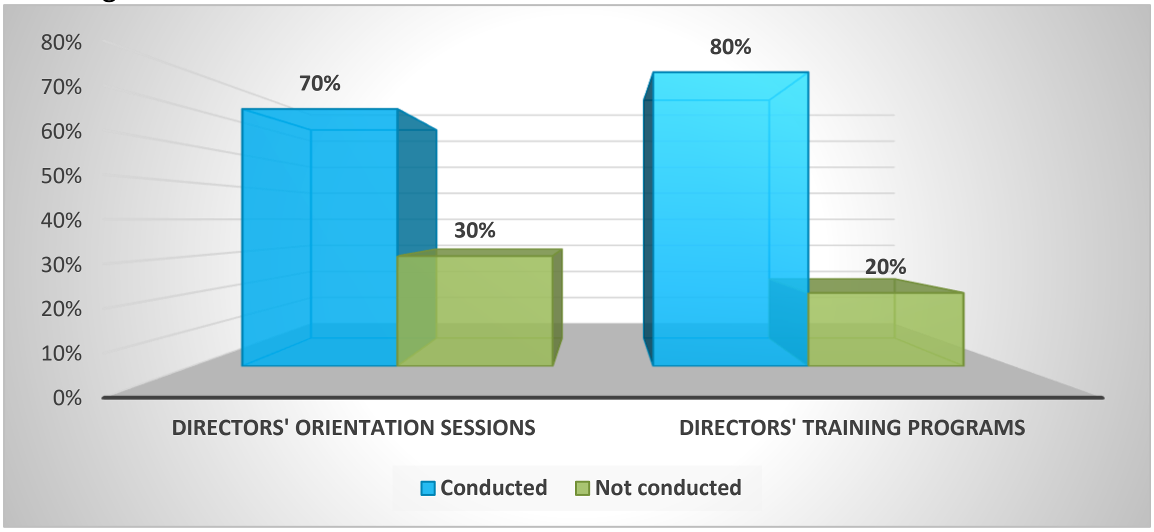


i. Out of the handful of respondents whose board do not oversee the corporate reporting process:
   - 3/4ths are listed, including a listed SOE.
   - 1/2 are banks, and the other 1/2 consisted of companies from the Transportation and Fast Moving Consumer Goods industry.

[13] That is, oversight by directors to safeguard the integrity of corporate reporting

Professional Development

a. Training and Orientations Sessions



i. Companies that did not conduct Director Orientation Sessions or attend Director Training Programs (DTP's) did not belong to any specific industry.
ii. More companies sent directors for DTP's as opposed to orientation sessions
iii. Over 70% of those that did not conduct Orientation Sessions are listed companies.
iv. On the contrary, 60% of the companies whose directors have not attended DTP's are unlisted.
v. 10% of the respondents stated that neither Orientation Sessions nor DTP's were conducted, almost half of these are listed companies.

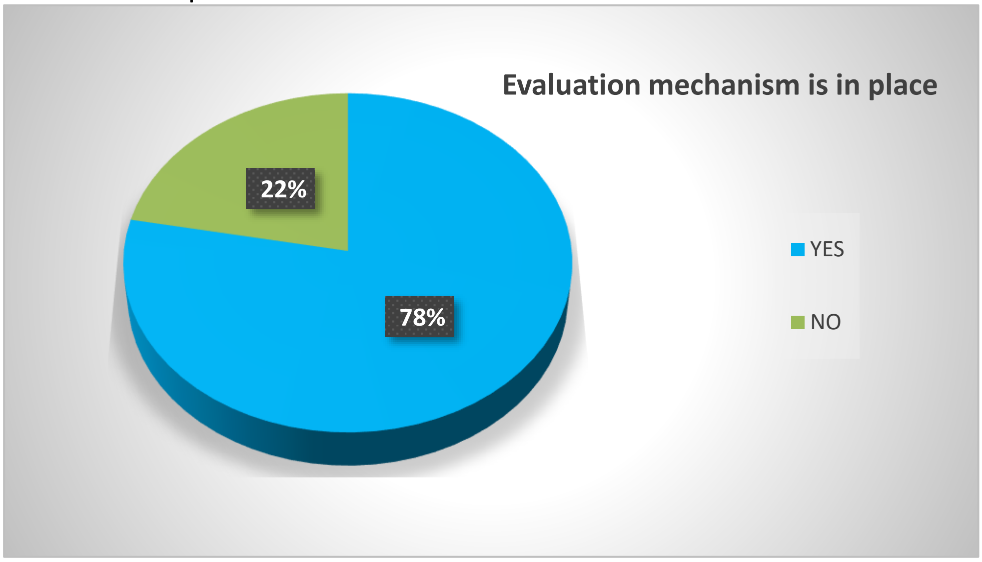
b. Directors certified under the Directors' Training Programs[14]

i. The highest number of certified directors on a company's board in our sample is 10, while there were also companies with no certified directors.
ii. Average number of trained directors per company is 4 (ie. almost 3 per unlisted company and average of just over 4 for the listed companies).
iii. On average over 50% of the directors of each company were certified, with a majority having between 1 to 6 trained directors on their boards.

[14] DTP's as approved by the Securities and Exchange Commission of Pakistan

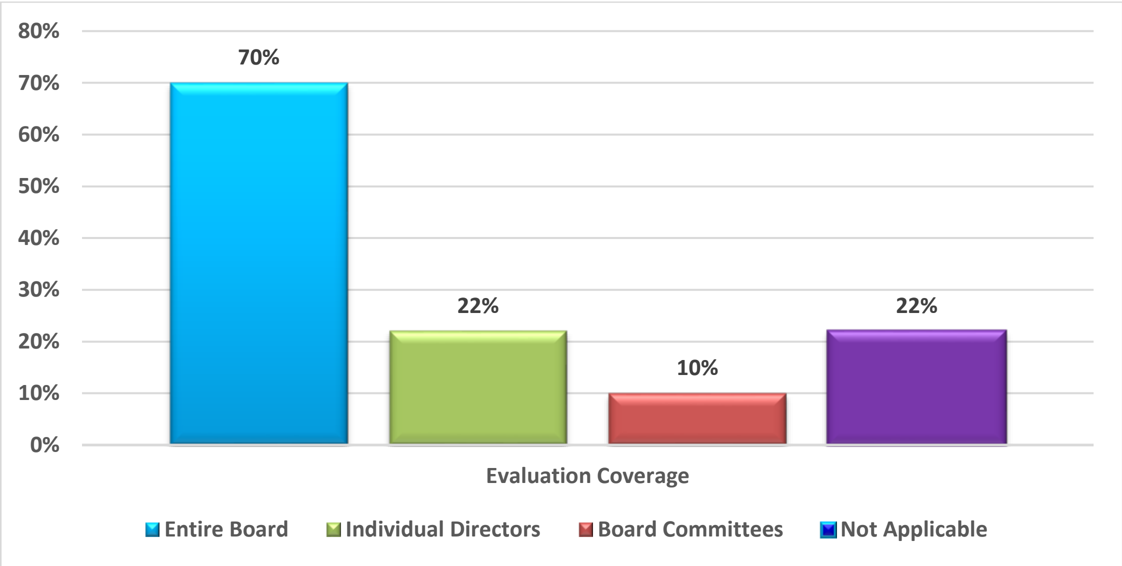
Evaluation

a. Annual Board performance evaluation mechanism



i. Most companies did have a board evaluation mechanism in place with 25% of such entities being unlisted companies.
ii. The 22% that did not conduct board evaluations were from a variety of industries and two-thirds of them were listed entities.

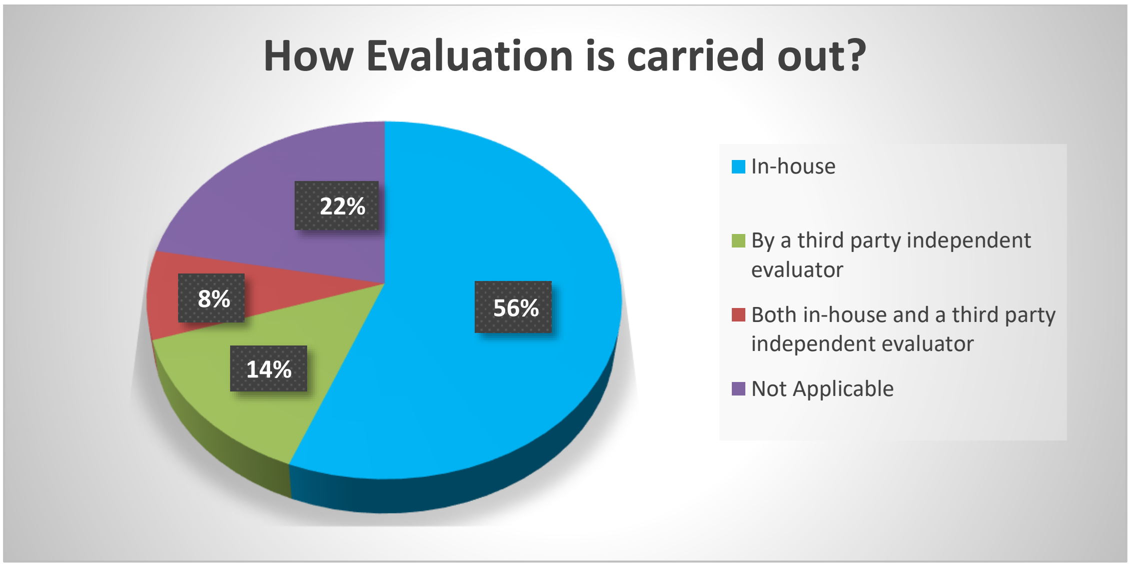
b. Board evaluation coverage[15]



i. The evaluations generally cover the entire board, with only a handful who evaluate the individual performance of board members. Out of these, more than half are from the Banking and Financial services sector and majority are listed companies. There were some listed companies which responded with 'Not applicable' to this question.
ii. Only 10% evaluate their board committees. Again, all but one (a very large listed company in the manufacturing sector) are from the Banking and Finance sector.

[15] One of more areas could be selected depending on coverage of company's evaluation procedure.

c. Board Evaluation – method used:



i. A majority of respondents said that evaluations were carried out in-house.
ii. Those that use a third party independent evaluator include banks, a DFI and an energy sector company.
iii. Likewise, those that use a combination of in-house and external evaluation, consist of banks, a company in the food industry and one providing security services.

Code of Corporate Governance- difficulties in implementation

As mentioned in the introduction to this survey report, many changes and updates have taken place in the Code over the years, with the most current version of the Code for listed companies being issued in 2012, along with a number of other "Codes" being issued/revised for specific areas such as Public Sector, Insurance Companies and Non-listed Companies. [16]

As corporate governance is an ever-evolving phenomena that must keep up with ever-changing times, PICG requested respondents of this survey to provide feedback on any areas of the Code where they have faced/ are facing difficulties in implementation for us to gauge the effective application of the Code and whether it is being implemented in its true spirit to ensure sustainable development.

More than half of the respondents stated that they did not face any hurdles in implementing provisions of the Code within their respective organizations with a respondent stating that it has been a number of years since the Code came into effect and as such its implementation is smooth and sound principles of corporate governance are applied in all key areas. One respondent appreciated the fact that "everyone" has been cooperative, while another stated that their board was very active and up to date with their strategies and, hence, no such difficulties were faced. Another respondent remarked that while their company was largely compliant with the code, the board still strived to eradicate any areas where they may be falling short to ensure complete compliance.

Respondents that did face difficulties discussed factors such as issues in understanding the requirements of certain provisions or problems in implementation due to either a) lack of interest on the part of the board, or b) practical constraints that they had to deal with. Various matters mentioned are as follows:

Board Practices

- Timely implementation of the Code is dependent on quick responses from directors. In this regard, one respondent claimed that they faced problems in obtaining timely responses due to other pressing business engagements of their directors.
- One respondent stated that too much time was wasted on too many committees.
- The parameters and metrics of board evaluation lacked clarity.

Independent Directors:

- Mechanism regarding appointment was not clear; with respondent further adding that there was ambiguity related to the remuneration of directors which needed to be removed.
- One respondent complained about the ambiguity in classifying directors as independent, with another lamenting that the independence criteria was too rigid.
- Competent independent and non-executive directors were not readily available which made it difficult to fulfill composition-related requirements of the Code.
- Given the number and ratio of independent and non-executive directors, having independent directors on all board committees becomes difficult.

[16] https://www.secp.gov.pk/corporate-governance/corporate-governance/

Professional Development

- The scarcity of time to fulfill the training course was an issue.
- One respondent felt that the requirement for Directors' Training was stringent for qualified and experienced directors who have been on boards for a number a years; and suggested that the 15 year requirement for exemption should be reduced to five years.
- Directors of one company were stationed in interior parts of a province due to which it was difficult for them to make themselves available for training.
- One respondent stated compliance with Directors Training due to 'time scare'

Type of company and applicability of Code

- A respondent from a SOE stated that being state-owned, the mindset is archaic and regressive, so difficulty was faced as changes are not accepted and challenged aggressively.
- Another SOE faced issues in implementing several clauses of the code including defining the Terms of Reference for the Nomination Committee with respect to selection of new directors, and with respect to the requirement of submission of monthly, quarterly and half yearly accounts.
- A suggestion was made to allow relaxation for family-owned listed companies as compared to other listed companies, adding that the UK's footsteps should be followed in this respect by introducing a concept in the Code where you either 'comply or explain'.
- Further, it was suggested that where a company has outsourced its Internal Audit Function, it should not be mandatory to have a Head of Internal Audit.
- One respondent stated that as their company had to adhere to a joint venture agreement between two governments, hence, any clause of the Code that was in conflict with the agreement was legally superseded by the joint venture agreement. Hence, they could not comply with every requirement of the Code.
- An unlisted company stated that implementation of the Code was "informal" at this point in time.

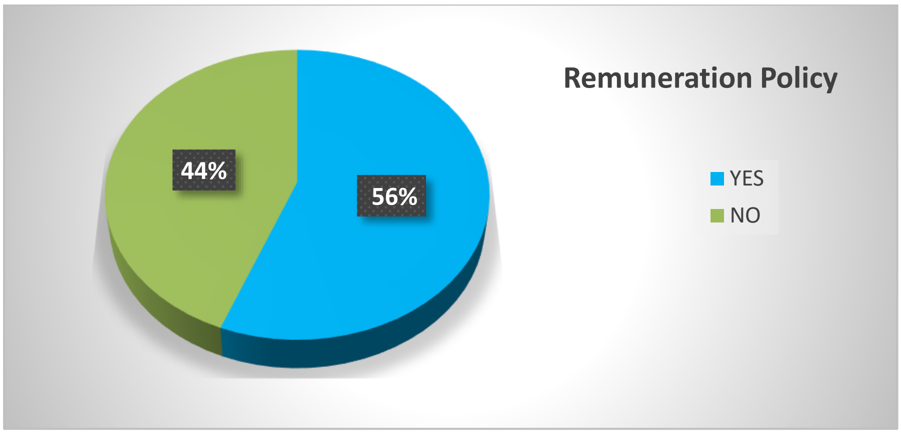
General

- An unlisted company stated that there is a general lack of awareness and understanding regarding the Code, with another stating that it took time to understand the importance and then the overall process.
- One company found it difficult to disassociate their legal function from the secretarial function with respect to the responsibilities of the company secretary, adding that they found it difficult to meet various filing deadlines as the process was not a facilitative one.
- This respondent further added that the code was too stringent and with the passage of time was being made too complex.
- A listed company stated that they faced problems due to a shortage of staff.
- A banking company stated that it was time to clear up legacy issues and disseminate new standards.
- Another banking company felt there were contradictions between the Code and corporate law in the country thereby making it difficult to implement certain concepts of the Code.

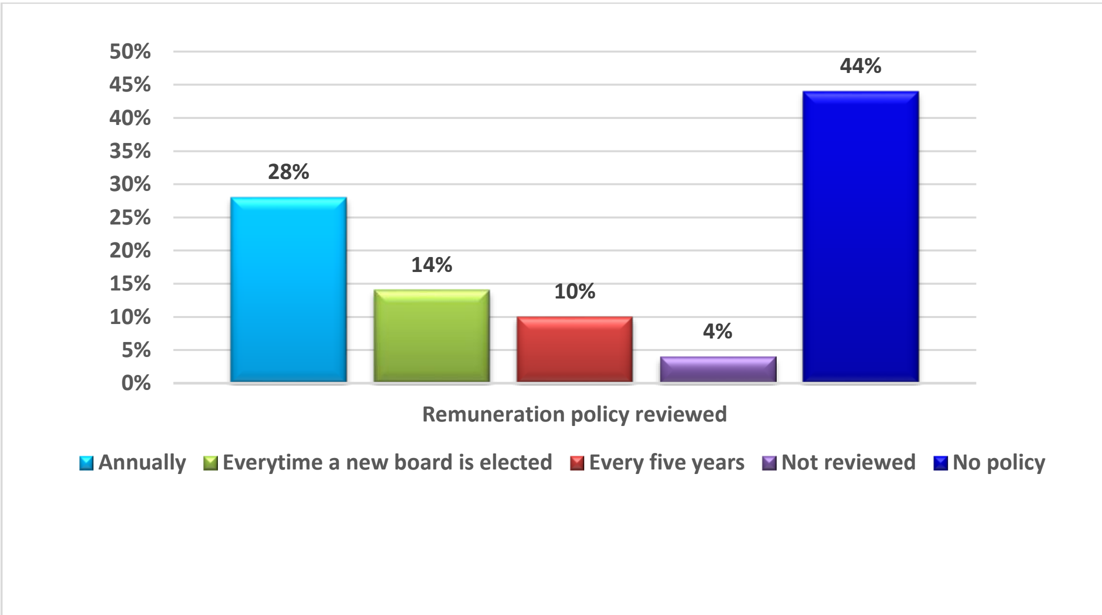
H. Board Remuneration

Policy

a. Directors' remuneration policy?



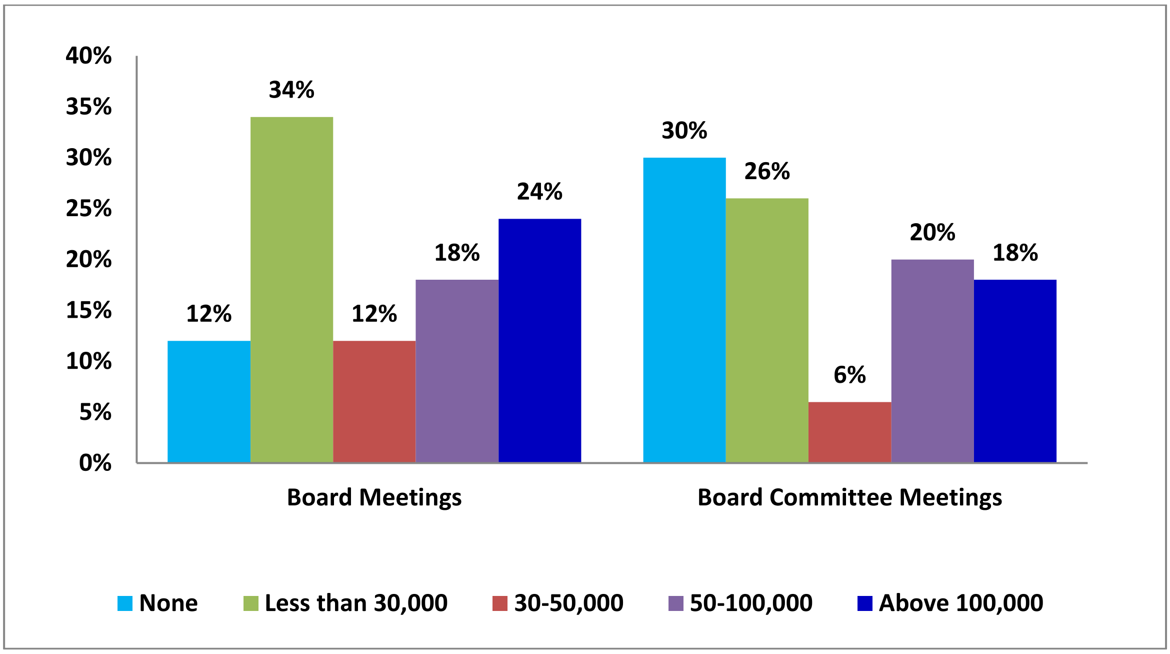
b. Review of remuneration policy:



i. Only a slight majority of respondents have a formal remuneration policy.
ii. While 44% of the respondents have no remuneration policy in place, there are also companies who never review the policy they do have.
iii. Most respondents that review their remuneration policies either do it annually or whenever a new board is elected.
iv. No significant correlation of data was noted as there are SOEs, listed and unlisted companies that do have a policy, and similarly, there are also those for all three categories who do not have a remuneration policy in place.
v. Likewise, no specific industry was noted to be more likely to have a remuneration policy as compared to others.

Meeting fees

a. Fees for Non- Executive Directors (in PKR)

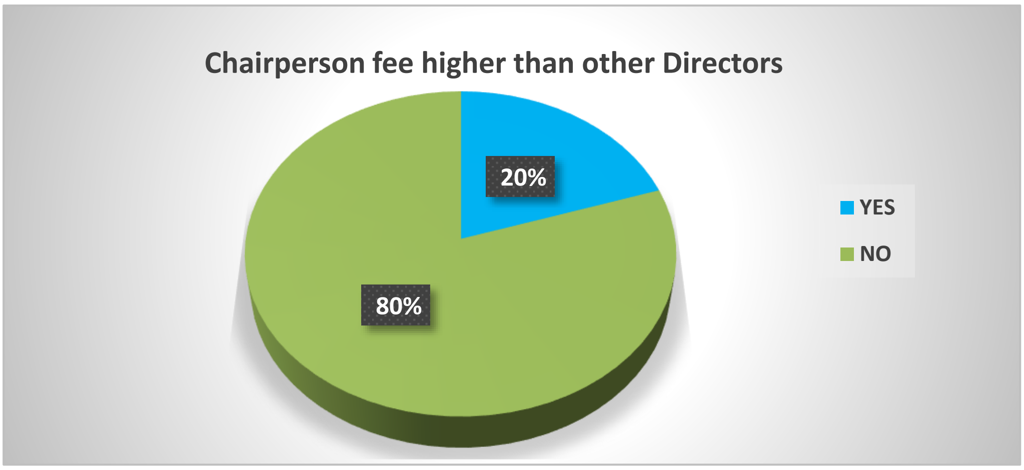


Remuneration for Unlisted Companies (amounts in PKR)	Board Meetings	Board Committee Meetings
No remuneration paid	35.7%	50.0%
Less than 30,000	21.4%	21.5%
30,000 to 50,000	21.4%	7.1%
50,000 to 100,000	7.2%	7.1%
More than 100,000	14.3%	14.3%

Remuneration for Listed Companies (amounts in PKR)	Board Meetings	Board Committee Meetings
No remuneration paid	2.8%	22.2%
Less than 30,000	38.9%	27.8%
30,000 to 50,000	8.3%	5.6%
50,000 to 100,000	22.2%	25.0%
More than 100,000	27.8%	19.4%

i. Listed companies generally paid either less than PKR 30,000, or over PKR 50,000, for **board meetings**, whereas unlisted companies normally paid less than PKR 50,000
ii. The same trend was noted in the case of **board committee** meetings for listed companies where they generally paid either less than PKR 30,000 or over PKR 50,000. However, for unlisted companies a decline was noted in the case of committee meeting remuneration as half did not pay anything followed by 21.5% paying less than PKR 30,000.
iii. There was only one listed company that stated that no fees were paid to non-executive directors for board meetings. On the contrary, over one-third of the unlisted companies paid no remuneration for board meetings.
iv. Over 20% of the listed companies, and half of the unlisted companies paid no remuneration for committee meetings.
v. Except for a listed Modaraba, the companies that did not pay any fees for board and committee meetings were unlisted. (The listed modaraba does, however, provide directors with liability insurance cover).
vi. Companies that paid over PKR 100,000 per board meeting as remuneration:
    - Were from the Banking and Financial Services sector, except one company from the Food and Energy sector
    - Paid the same or less for committee meetings, with the exception of one listed SOE not paying anything at all for committee meetings.
    - Half of these held 4-6 meetings during the year, with the other half holding 7-10 meetings. Hence, <u>annual</u> remuneration of such directors would be significantly different from one another.
    - Perform board evaluations, either in-house or through an independent evaluator (or both)
vii. Companies that paid over PKR 100,000 for <u>committee</u> meetings, also paid the same for board meetings, except one company that paid less than PKR 30,000 for <u>board</u> meetings (possibly indicating that fees are paid according to functional roles of the directors as opposed to general role)
viii. Though the number of respondents from SOE's in our sample was small, the results displayed a clear split between SOE's that either paid less than PKR 30,000 or those that paid in excess of PKR 100,000. Both the SOE's that paid more than PKR 100,000 for board meetings had foreign affiliation. (One of them stated that while they did pay in excess of PKR 100,000 for board meetings, they however paid no remuneration for committee meetings).
ix. Companies that paid less than PKR 30,000 per board meeting are spread over a variety of industries and include Manufacturing, FMCG, Energy, Food and a number of Service providers.

b. Chairperson fee



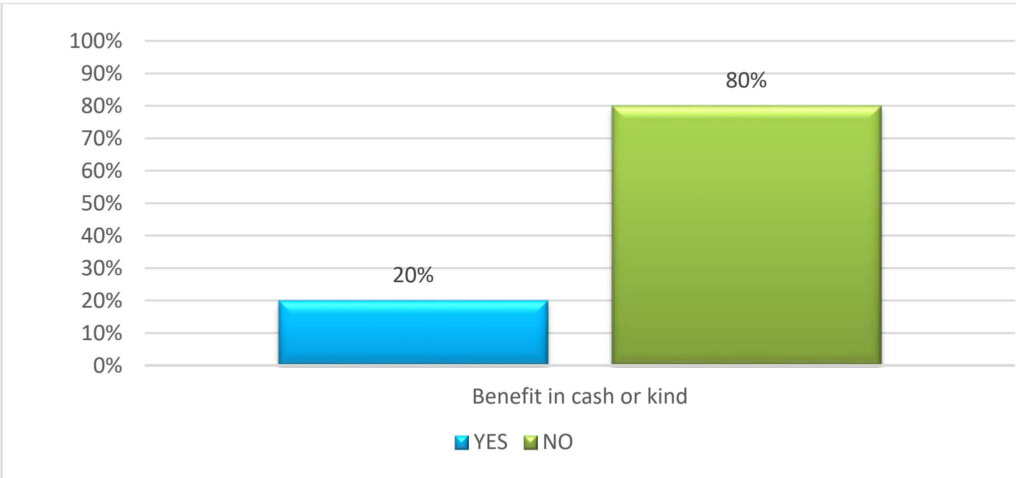
i. A majority of respondents stated that the Chairperson did not receive a higher meeting fee.
ii. Half of those who did pay a higher fee to the Chairperson are from the Financial sector, with the other half being Energy, Food, FMCG and Manufacturing companies.
iii. The 30% unlisted companies that paid a higher fee to their Chairperson were all financial institutions, 2 of which had foreign affiliation.

Other fees and benefits

a. Annual retainership fee

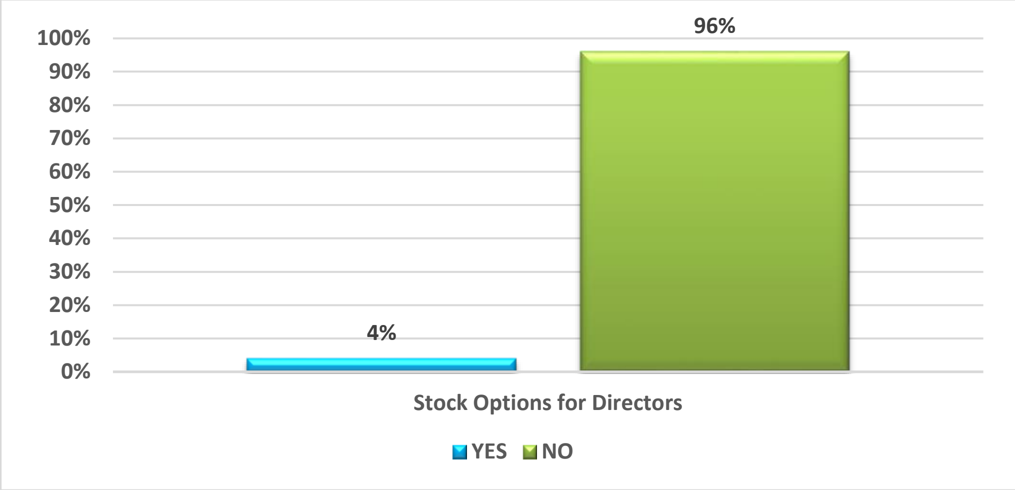
None of the respondents paid their Directors an annual retainership fee.

b. Are directors provided any other form of benefit in cash or kind?



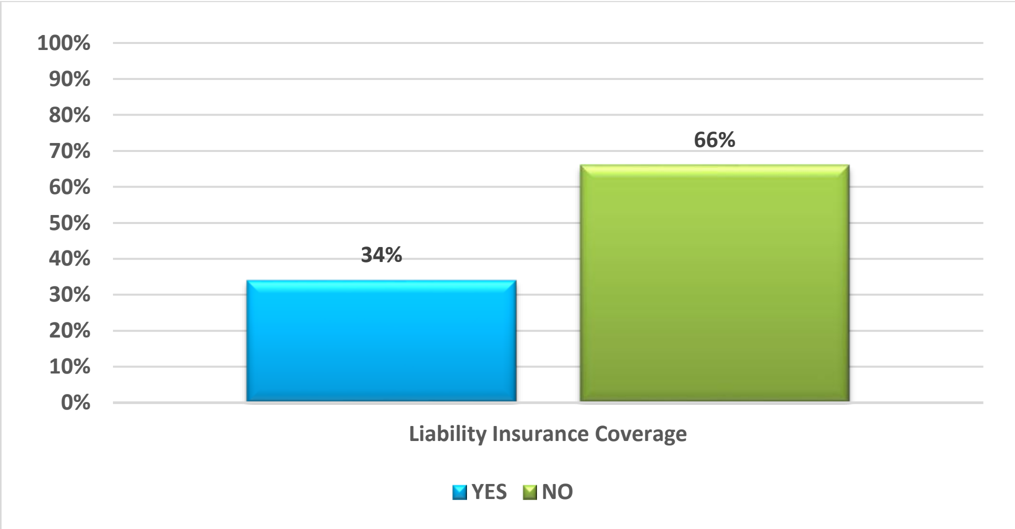
i. Other benefits include the use of company maintained cars, driver, medical expenses, travel and boarding expenses to facilitate directors attending board meetings and per diem allowance/ reimbursements.
ii. A listed company whose Chairman receives a remuneration higher than other directors provides the Chairman with a monthly remuneration and 2 cars.
iii. A couple of companies restrict the use of company maintained cars to Executive Directors only.
iv. Companies that provide other benefits were not linked to any one particular industry

c. Stock options for Non-Executive & Independent Directors



i. Both companies that offer stock options to their directors are listed and belong to the manufacturing sector.

Insurance Coverage



i. About half of the companies that provide insurance coverage to their directors were from the Banking and Financial services sector, followed by 1/4th from the Energy sector.
ii. Besides one unlisted SOE, all the companies providing insurance coverage were listed.

Hurdles in attracting qualified directors

Over 80% of the respondents claimed that they did not face any hurdles whatsoever in attracting new directors on their boards. A respondent from a banking company stated that this was because they were able to attract directors through their own networking.

An MNC stated that new directors were hired after approval of the parent group. Likewise, SOE's stated that as the Government appointed most or all of their directors, they did not have much involvement in the procedure of appointment, with one SOE stating that elected directors usually stay on the board for years so frequent change or appointments do not occur.

The companies that did find it challenging to attract independent directors possessing the required qualification and experience on their boards were mainly from the Banking sector followed by the Energy and Transportation sectors.

Some matters highlighted by them were:

- A respondent stated that identifying quality independent directors is always a challenge and another held that finding young and female talent was especially hard.
- Another stated that they only faced issues with respect to availability of prospective directors as a result of prior commitments of those directors.
- An SOE stated that due to being a public sector entity as well as the low level of remuneration, attracting competent individuals is difficult at times.
- One of the CEO's remarked that requiring SECP's approval for appointments irritated directors.
- Similarly, a respondent from the banking industry remarked that difficulties were faced due to restrictions imposed by the State Bank of Pakistan via the Prudential Regulations, whereby no elected director was allowed to be represented on the board of more than one Bank simultaneously. The respondent asserted that this restriction hampered the banks ability to acquire services of experienced Bankers due to their occupation on the boards of other banks. The respondent went on to suggest that rules should be formed to avoid conflict of interest to deal with the issue of independence rather than an all-out restriction that was a bit too rigid.

I. Corporate Governance in Pakistan

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 Code:

- Complied with but often not in spirit
- Still has a long way to go to get fully recognized in the corporate culture of Pakistan.
- Should not be reduced to a 'box-ticking exercise'
- Should be extended and made applicable on NGOs
- Needs to be implemented by even non listed companies
- More liberty for the board of SOE's
- Company law should be amended to incorporate provisions of the Code, while increasing penalties for non-compliance to ensure better governance in companies.

- There must be more emphasis on training and awareness building so that corporate governance is truly able to impact the performance of companies, especially those which are family owned or private limited.
- The Directors' Training Program should have an on-site test and required refresher.
- There is a lack of trained directors and many are not fully aware of their responsibilities.
- There still remains ambiguity when it comes to the implementation of corporate governance practices and at times difficulties are faced in deciphering the same. It is understood that the underlying spirit of corporate governance is to ensure transparency and create discipline, however, the procedures need to be further sophisticated in line with the nature of the organizations.
- Qualification and experience requirements of the CEO should be specified in the Code.
- Restriction of reporting of Head of Internal Audit to CFO should be removed and synchronized as in USA.[17]
- The earlier mandatory requirement of having an independent director as the Chairman of the Audit Committee has been revised to preferable which should not have been the case. It is in essence, taking a step back.
- While it is understood that corporate governance is a very healthy mechanism to ensure smooth functioning of organizations, some guidelines should be in place for the regulatory bodies to ensure compliance in a timely manner.
- In few areas practices are being developed in the name of corporate governance which are in conflict with the companies' law which is the prime law, and this trend needs to be checked. The foremost objective of corporate governance should be the adherence to Companies Law and not creating practices separate from it.
- In Pakistan all listed companies have at least one majority shareholder who is also the sponsor shareholder of the company, whereas, in order to implement corporate governance in letter & spirit, in particular with regards to independence, selection and nomination of directors there is a need to develop 'true corporate structure' (i.e. where no one holds more than 5% shareholding).

[17] The respondent may have meant "CEO" as opposed to "CFO" (it may be a typo error) as clause *5.19.21(a) of the Code states:"* The Head of internal Audit shall functionally report to the Audit Committee and administratively to the CEO".

- The sponsors and majority shareholders are being guided on corporate governance, however, there are no guiding principles or code of conduct for smaller or minority shareholders. Consequently, they either remain disengaged or they disrupt proceedings at the general meetings for very small gains, because of which the process of general meetings in Pakistan has become a meaningless and even a risky exercise.
- There should be some benchmarks or guidelines for determining directors' remuneration as at present the only guidelines that are somewhat available are market surveys.
- The frequency of board meetings should be more than the minimum of 4 annually, as this would fully engage directors and would provide them an opportunity to become more familiar with the company and its businesses.

A board member of an unlisted company recognized that lot of work was being done and was hopeful that in the near future we would be able to see the code of corporate governance implemented in all companies. Another respondent also reiterated this sentiment by stating that corporate governance plans/ frameworks should be implemented in all organizations.

J. Conclusion

An equal number of responses were received from directors on the board of companies and company secretaries possibly suggesting that directors liked to keep themselves up to date regarding trends in board practices in Pakistan, and the fact that they must be possessing extensive knowledge about the companies they supervise to be able to complete such a detailed survey, especially since over half of the responding directors were those other than the Chairman and CEO.

The average board comprises of almost 8 directors of whom 4-5 are non-executive and 2 are independent, indicating a downward trend in the general size of boards since 2009[18], where the average board had 9 directors. Similarly, the number of non-executives at that time was also higher, however, this may be due to the fact that there were not as many independent directors back then. None the less, having a majority of non-executive and independent directors is encouraging as impartial boards shield the company from undue influences which increase shareholders' confidence, leading to improved performance that contributes positively to the country's economy. Globally also the trend is towards having directors that are not directly involved in managing the affairs of the company. According to a study conducted in the UK, 71.5% of the directors on boards were non-executive.[19] Surprisingly in our survey, approximately 10% of the respondents stated that they had no executive directors on their boards who were on the payroll of the company. There is still a minority of companies, mostly listed ones, who have not as yet separated the role of the Chairman and CEO, however, this is expected to change over the next year or so as the Code has required listed companies to ensure separation during the next reconstitution of the board.

Our boards lacked greatly in terms of gender and age diversity; there was a dearth of younger as well as female directors. Younger directors can effectively contribute to a board by bringing in modern perspectives on key issues, however, less than 7% of the boards had directors under the age of 40 years, indicating that experienced directors were still preferred over fresh ones. Similarly, companies in our survey had less than 10% of the total directors as women, with unlisted companies having a much better ratio of female to males on their boards. On the other hand, in the UK for instance, the number of women directors continues to increase steadily with 24% women directors working in the top 150 FTSE companies. In this regard, while Pakistan may be lagging behind the UK in terms of gender diversity, it is not far behind the global average of 12.7% of female directors on boards[20]. Good corporate decision-making requires the ability to hear and consider different points of view, which comes from people who have different backgrounds, experiences, and perspectives.

About a third of our respondents were from the Banking and Financial Services sector, with no response from the Communications, Computer Sciences, Electronics and the Retail Trade industries. It was especially disappointing not to receive information from the IT sector in Pakistan as this sector is one of the most booming industries in the world today with 2 of the most valuable global companies being from the IT sector.

Directors' skills sets on boards in our survey were dominated by finance, followed by engineering and legal, which shows there is an inclination towards technically sound board members, especially those with industry specific knowledge.

[18] In 2009 PICG carried out a survey on Compensation Policies for Directors and Companies in Pakistan

[19] "UK Board Index 2015 - Current Board Trends And Practices At Major UK Companies"

[20] Refer article on "Why Family Enterprises Lead on Gender Diversity" in the September –October 2016 edition of the 'Director Journal' of the Institute of Corporate Directors, citing a global survey carried out by Ernst & Young.

The fact that generally 4-6 meetings of less than 4 hours each were held annually for most companies makes one wonder whether companies are making the most of these meetings or just aiming to "tick the box" of minimum regulatory compliance. Then again, if quality is being considered over quantity, then companies are headed in the right direction. This may be evident by the fact that a majority of respondents stated that one-third to half of the board's time was spent on forward looking matters, which indicates sufficient focus on company direction and planning. The UK Index Report 2015 states that boards help foster long-term shareholder value by deepening their understanding of their company's culture, placing it on the board agenda and ensuring management is forging a culture aligned with the business strategy. The Chairmen of the boards should therefore continue to ensure that appropriate time is allocated to all significant agenda items, without losing sight of the overall strategic planning and oversight role of the board.

A large number of respondents had at least one or a majority of independent directors on their board committees which shows that companies realize the importance of the notion that impartiality of boards leads to better strategizing. Respondents did however mention that the overall mechanism of classification of directors as "independent directors" was not fully understood and more clarification was required in this regard. Further, some felt that the requirement was too rigid and faced problems in identifying suitable directors possessing the right skills and experience.

Most companies provided the board with a combination of electronic and hardcopy data before board meetings. Whereas companies that provided only hard copy data at for meetings were only slightly higher in number than those that provided only electronic data, which shows that boards in Pakistan are gradually moving towards a paperless environment. Companies are encouraged to use electronic data reports such as dashboards that are directly linked with their internal reporting systems, using minimal human involvement, to obtain a clear overview of operations/ performance at a glance.

Boards utilized various committees in performing their roles with almost all companies having an Audit and Human Resources Committee, and a quarter of respondents that had a Risk Management Committee. There were a sizable number of other committees which were largely industry specific in nature.

Most companies ensured that some form of training was provided to their directors, however, it was surprising to note that organizations conducted less orientation sessions for their board members as compared to having directors attend formal Director Training Programs; many do not carry out regular orientation sessions for their directors to provide them with updates regarding recent changes in regulatory requirements or recent information pertaining to board responsibility, with some providing information via letters/ emails. Providing such updates in a face to face environment is extremely important as it ensures that all board members are up-to-date with various requirements affecting both their role as directors and the company in general. Many companies have third parties conduct such sessions as an agenda item at meetings to apprise their board on a regular basis, whereas others conduct the same annually as a separate event.

Evaluations generally cover boards with not many assessing their individual directors or performance of board committees. It should be noted here that evaluation of the board is not only assessed by the financial performance of the company, but also by the involvement of the directors in their roles as directors on both the board and their committees. Hence, the trend of covering both individual directors and committees in the evaluations should increase. Further, more than half of the respondents stated that such evaluations were conducted in-house, and about 20% used independent third party evaluators (including those that use a combination of both in-house and external evaluators). Using a third party evaluator provides an unbiased independent assessment into performance and has also been encouraged by SBP at least once every 3 years in their recently issued guidelines on performance evaluations of boards. The guidelines were issued to streamline evaluation procedures and bring uniformity to the existing practices of performance evaluation amongst banks/ DFI's. Other sectors should also consider adopting such procedures.

A large a majority of respondents said that they paid less than PKR 30,000 for board meetings and a third of the companies did not pay any fees for board committee meetings. Although this number is quite low, it has still increased from 2009 when we conducted our survey (mentioned above) where half of the respondents did not pay any fees for committee meetings. However, the trend with respect to the Financial sector generally providing the highest remuneration has not changed over the years. Respondents voiced their desire to be provided with some benchmarks or guidelines with respect to the mechanism that should be considered to compensate members of the board. Director remuneration has become a prime area of focus internationally as well, with compensation packages being on an all-time high and stakeholders expressing their concerns with respect to the same. Once again, SBP has taken a lead with respect to banks/ DFI's and issued "Guidelines and Disclosures on Governance and Remuneration Practices" as they felt the need to align remuneration practices with internationally adopted best principles and standards. Again, other sectors should follow suit.

The percentage of companies providing liability insurance cover has more than doubled over the years (ie. from 16% in our 2009 survey to 34% in this survey). This may be due board members demanding coverage considering the volatility of business and the overall environment in this day and age; or because of the increase in the number of independent directors who may not be willing to join various boards without being provided with such coverage.

While most respondents did not face any problems complying with various provisions of the Code some desired more clarity with respect to certain aspects, specifically evaluation and remuneration, and stated that such matters should be supported by definitive guidelines. Requests were also made to Regulators to ensure that the Code did not conflict with prime laws in the country and instead of running parallel to them, should be incorporated within those laws. Some respondents felt that certain provisions of the Code should be adjusted considering the type of company requiring compliance, whereas others felt that the Code should be made mandatory and extend to unlisted entities including family-owned companies and NGO's.

It is extremely important for boards to have a solid corporate governance framework in place within their organizations which is communicated to all existing and future board members to ensure everyone is on the same page with respect to the overall strategic aims and operations of the company. The general attitude of the board is key to implementation of the Code, both in form and spirit, and is necessary for timely compliance thereto. As very nicely put by one of our respondents "embedding corporate governance as a concept is an evolutionary process which requires policies, procedures, training and constant monitoring". This constant monitoring and cooperation between the board, stakeholders and regulators ensure that companies move in the right direction and further improve the overall governance structure in Pakistan.