



CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE

PAKISTAN INSTITUTE OF CORPORATE GOVERNANCE

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

CORPORATE GOVERNANCE BEYOND LISTED COMPANIES

A Business Policy Roundtable

November 29, 2006, Institute of Chartered Accountants of Pakistan Building, Karachi

Recommendations by Stakeholders

1. Non-listed sector has tremendous economic importance. Compared to about 650 listed companies, there are about 50,000 non-listed companies. They are a diverse group, with both for-profit and not-profit entities of various legal forms and business size.
2. Internationally, Corporate Governance codes for listed companies are an established practice and this phenomenon is now expanding to segments other than listed companies, including State Owned Enterprises (SOE), Not for Profit companies, family businesses, Small & Medium Enterprises (SME). Belgium has already introduced a code for unlisted sector in 2005.
3. There are going to be two very difference views on the need for this initiative in Pakistan:
 - a. There is a "business case" for good governance. Public interest is also an important reason for promoting good governance practices in the non-listed companies. Other reasons include protection of stakeholders even within a family business. Venture capitalists also look for good governance as part of their investment criteria.
 - b. The smaller the size of business, the greater may be the cost and hassle of compliance with a code. Thus it might be unproductive to control and regulate.
4. Corporate Governance initiative for non-listed companies is going to be long term and NOT short term in nature.
5. Raising corporate governance standards in non-listed sector is going to be more challenging than what has been the case with the listed sector. For non-listed sector benefits need to be emphasized for it is about winning hearts and minds. A strong business case for adopting good governance practices has to be made.
6. Experience with the Code of Corporate Governance for listed companies should guide us in expanding good governance practices for non-listed companies.
7. A mandatory approach for non-listed companies is unlikely to work. Even in some listed companies, where compliance with Code of Corporate Governance is mandatory, compliance with the code is more in form rather than spirit.
8. There is need for a gradual and measured approach because rushing to get things done could be counterproductive. To start with, a set of guidelines or bench mark standards of good governance for non-listed sector, being recommendatory in nature (with certain benefits and incentives), encouraging the non-listed sector to adopt such standards and make disclosures thereof, could be a good approach.
9. To begin with, defining a specific target segment within the non-listed sector is critical because non-listed sector can be quite heterogeneous in nature.
10. The initiative would necessarily require extensive consultative process and customization for different types of non-listed entities. At the roundtable, the participants unanimously resolved to move forward to make a relatively large umbrella working group (with necessary sub-groups) with representation from the four institutions (PICG, CIPE, and ICAP) that have contributed to today's round table. They will ask FPCCI for dissemination of information to unlisted sector through its member. The initial target segments may be State Owned Enterprises and trade bodies and Associations not for Profits.