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# CORPORATE GOVERNANCE TRAINING COURSE OUTLINE

JORDAN SECURITIES COMMISSION

July 16, 2008

This publication was produced for review by the United States Agency for International Development. It was prepared by Dr. Demir Yener, Consultant BearingPoint, Inc.

# **CORPORATE GOVERNANCE TRAINING COURSE OUTLINE**

JORDAN SECURITIES COMMISSION

USAID JORDAN ECONOMIC DEVELOPMENT PROGRAM

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DELIVERABLE NO. 1.4.1.9.1.4 ASSIST JSC IN IMPLEMENTING  
THE CODE OF CORPORATE GOVERNANCE-CORPORATE  
GOVERNANCE COURSE DEVELOPMENT

## **DISCLAIMER:**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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## Executive Summary

The Jordan Securities Commission (JSC) has recently developed a Guide for Corporate Governance Rules for Shareholding Companies Listed in Amman Stock Exchange (CG Rules). The document is in draft form, and currently under review.

The draft CG Rules is expected to be adopted by the end of the summer, and be implemented. The document includes a combination of binding and non-binding clauses. The JSC will take a *"comply or explain"* approach towards the full implementation.

SABEQ will prepare a workshop to disseminate the best practice knowledge on good corporate governance based on the JSC CG Rules and the OECD Principles of Corporate Governance.

The main purpose of the workshop is to help the participant: (1) Gain a good understanding of the corporate governance concept within the business and its financial environment; (2) Become familiar with the ongoing global best practices in corporate governance concepts; and, (3) Gain a new perspective of the impact of good corporate governance practices on ensuring the efficient management of a firm.

The workshop will be conducted in three primary ways: Brief presentations followed by problems and a case discussion. Either a well known international case or a local case will be discussed in each module

The OECD Principles have gained acceptance throughout much of the world. They can be used as a framework for analyzing the corporate governance environment in different countries, and for improving the governance of individual companies within those countries.

Modern business and financial practices ought to be built on the four pillars of governance: (1) responsibility; (2) accountability; (3) transparency; and, (4) fairness. These four pillars are essential to the successful implementation of the OECD Principles of CG.

These four pillars provide the values that are crucial in enhancing the efficiency of the directors in performing their duties in the Board of Directors. The board of directors of a company is the line of first defense against risks faced by a firm or a bank. By formulating and implementing proper strategies and policies, the Board of Directors can ensure an acceptable rate of return for shareholders. The members of the boards of directors will require this capacity to be effective directors in the governance of the company on behalf of the shareholders they represent.

The course is designed as a flexible program that may be used as a certification and training course covering all of the ten modules, or each module could be expanded to be stand-alone workshops that may cater to the needs to the directors.

Lastly, Jordanian private firms are mostly family owned or dominated, but the trend is now for the institutionalization of many of these family dominated firms so that professional managers are installed to responsible positions.

The course will pay attention to the needs of the existing structure of Jordanian businesses, which are mostly family owned and could be considered small to medium sized enterprises relative to the global environment. The family ownership structure has a unique way to deal with corporate governance.

Initially, the course targets academics and trainers in a Train-the-Trainers course. Additionally, the course will include a number of select professionals and JSC regulators to take the course. The other targeted audience are the “Corporate Governance Compliance Officers” who will be certified as in house professionals hired by the listed companies.

As the representatives of the shareholders on the Board, Directors are responsible for setting the strategies, oversee the implementation of strategy, and the right to retain or dismiss the corporate executive on behalf of the shareholders.

The appropriate topics in corporate governance training programs for directors and regulators may include the following:

- The Jordanian legal and regulatory environment for securities markets and investors.
- The role and the responsibilities of the governing board of directors.
- Understanding how board of directors in a modern corporate entity ought to act to prevent malfeasance.
- The role and responsibilities of the audit committee.
- An understanding of internal controls, the roles and responsibilities of management, and critical monitoring activities such as internal auditing.
- Elements of an effective code of conduct.
- The comparative advantages and disadvantages between US, Anglo-Saxon common law and European continental legal traditions.
- Understanding of the local and international legal and regulatory frameworks, including the CG Rules, the US Federal Sentencing Guidelines, and Sarbanes-Oxley Act, the UK Cadbury Code of Corporate Governance, EU regulations, the South African King Report, and similar regulations and recommendations for other parts of the world.
- Components of an effective compliance program.
- The roles and responsibilities of independent public accountants, counsel and regulatory bodies in Jordan and elsewhere: Disclosure and transparency.

These topics are actually embedded in the OECD Principles of Corporate Governance, and thus the workshop program will emphasize the global best practice knowledge to learning corporate governance.

The program strives to make the business case for the practice of good corporate governance at the level of the board of directors. It is considered that corporate governance matters in all emerging market firms.

The course will be delivered in a round table workshop format to all audiences in order to increase interaction among participants and enhance critical thinking. Participants will be grouped into 5 or 6 individuals per table. The ten modules will be delivered over a period of 5 days. Each session will last about two and a half hours (including a coffee break), separated by a lunch. Accordingly, with one session for each module, the 10 modules should easily fit into a week of training.

Participants will be required to actively participate in class discussions during the delivery process. Participating in class discussions is an important part of the learning process as each professional will be bringing in their own experiences on a given subject.

Participants will be tested at the end of each session. In addition, participants will take a final proctored test. Upon the successful completion of the program and passing the necessary tests, participants will be issued a certificate of attainment signed by the Chairman of the JSC.

# **CORPORATE GOVERNANCE TRAINING COURSE**

## **DRAFT OUTLINE**

### **I. Purpose of the Workshop**

The Jordan Securities Commission (JSC) has recently developed a Guide for Corporate Governance Rules for Shareholding Companies Listed in Amman Stock Exchange (CG Rules). The document is in draft form, and currently under review.

The draft CG Rules is expected to be adopted by the end of the summer, and be implemented. The document includes a combination of binding and non-binding clauses. The JSC will take a *"comply or explain"* approach towards the full implementation.

SABEQ will prepare a workshop to disseminate the best practice knowledge on good corporate governance based on the JSC CG Rules and the OECD Principles of Corporate Governance.

The main purpose of the workshop is to help the participant: (1) Gain a good understanding of the corporate governance concept within the business and its financial environment; (2) Become familiar with the ongoing global best practices in corporate governance concepts; and, (3) Gain a new perspective of the impact of good corporate governance practices on ensuring the efficient management of a firm.

The workshop will be conducted in three primary ways: Brief presentations followed by problems and a case discussion. Either a well known international case or a local case will be discussed in each module.

### **II. Course Design**

Corporate governance refers to the structures and processes for the direction and control of companies. Good corporate governance practices are concerned with issues of the ownership, control and accountability of companies. It raises some of the key issues and dilemmas of our time.

In the context of a particular corporation, corporate governance seeks to determine the weight that should be given to the interests of directors, shareholders, employees and other stakeholders, and how precisely can these interests be expressed, aligned and reconciled.

The CG Rules are based principally on the existing Jordanian legislation. The document mainly references the provisions of the Jordan Securities Law, the Companies Law and its regulations, and the Instructions on Issuing Companies Disclosure, Accounting and Auditing Standards.

The OECD Principles of Corporate Governance of 2004 provides the foundation for the framework of the CG Rules.

The OECD Principles provide an international best practice framework, identifying its key practical aspects:

- The rights and equitable treatment of shareholders,
- The role of stakeholders,
- Disclosure and transparency, and
- The responsibilities of the Board of Directors.

The OECD Principles have gained acceptance throughout much of the world. They can be used as a framework for analyzing the corporate governance environment in different countries, and for improving the governance of individual companies within those countries.

Modern business and financial practices ought to be built on the four pillars of governance: (1) responsibility; (2) accountability; (3) transparency; and, (4) fairness. These four pillars are essential to the successful implementation of the OECD Principles of CG.

These four pillars provide the values that are crucial in enhancing the efficiency of the directors in performing their duties in the Board of Directors. The four values form the pillars of corporate governance topics that will be discussed in the training program.

Weak governance is the core cause of business failure. Business management must thus be integrated with the better understanding of the four values of corporate governance. Implementing good corporate governance will reduce the implications of potential consequences of global or local failures in corporate governance upon the Jordanian companies.

The board of directors of a company is the line of first defense against risks faced by a firm or a bank. By formulating and implementing proper strategies and policies, the Board of Directors can ensure an acceptable rate of return for shareholders.

In formulating strategy on behalf of shareholder interests, the board needs to be organized in certain ways so that strategies and policies are actionable and achievable. The members of the boards of directors will require this capacity to be effective directors in the governance of the company on behalf of the shareholders they represent.

The course is designed as a flexible program that may be used as a certification and training course covering all of the ten modules, or each module could be expanded to be stand-alone workshops that may cater to the needs to the directors.

Lastly, Jordanian private firms are mostly family owned or dominated, but the trend is now for the institutionalization of many of these family dominated firms so that professional managers are installed to responsible positions.



The course will pay a great deal of attention to the needs of the existing structure of Jordanian businesses, which are mostly family owned and could be considered small to medium sized enterprises relative to the global environment. The family ownership structure has a unique way to deal with corporate governance.

Throughout the course, the family orientation and its future ramifications on the growth of Jordanian firms will be emphasized. Most Amman Stock Exchange listed firms are family owned. However, their level of market float is shallow. Public ownership of market traded family owned firms offer good opportunities for return on investment for investors.

Many of the leading Jordanian family owned firms have reached a juncture in their life cycle that will require a new approach in their governance in order to support their continued growth, and access new sources of finance, attract domestic and international investments and capital.

International evidence suggests that family owned firms are, on average, larger, more valuable by market capitalization and market multiples, more profitable, with higher dividend payouts, more solvent, and more finance leveraged than others in the market. These results have been shown to be positively correlated with good corporate governance practices.

The proposed course will attempt to emphasize that the adoption of good corporate governance practices in Jordan is a fundamental step towards sustainable success of Jordanian businesses.

Thus, the teaching approach will promote the case for business in order to ensure voluntary improvements in the corporate governance practices in Jordanian firms.

### **III. Targeted Audience:**

Initially, the course is planned to be launched as a Train-the-Trainers course for JSC trainers and certain academics who will take part in it. Additionally, the JSC plans to include a number of select professionals and JSC regulators to take the course.

The next delivery of the training course is intended to target “Corporate Governance Compliance Officers” who will be certified as in house professionals hired by the listed companies.

As the representatives of the shareholders on the Board, Directors are responsible for setting the strategies, oversee the implementation of strategy, and the right to retain or dismiss the corporate executive on behalf of the shareholders.

For the foregoing reasons, we propose that this program can be delivered to Jordanian corporate directors who wish to upgrade their capacities to their peers elsewhere in the world by participating in the global best practices in corporate governance.

Given their close interest on the issue, the other targeted audiences should include corporate CEOs, high level officials and regulators, compliance officers from the four market supervisory agencies including the Jordanian Securities Commission, Central Bank of Jordan, Insurance Regulatory Commission and the Companies Control Department of the Ministry of Industry and Trade.

For the purpose of establishing long-term sustainability, a train-the-trainers component of this program may be developed that targets academics. At the conclusion of the training project, the program could thus successfully be transferred to the Jordanian academics who are associated with the JSC training institute.

#### **IV. Scope of the Course**

The appropriate topics in corporate governance training programs for directors and regulators may include the following:

- The Jordanian legal and regulatory environment for securities markets and investors.
- The role and the responsibilities of the governing board of directors.
- Understanding how board of directors in a modern corporate entity ought to act to prevent malfeasance.
- The role and responsibilities of the audit committee.
- An understanding of internal controls, the roles and responsibilities of management, and critical monitoring activities such as internal auditing.
- Elements of an effective code of conduct.
- The comparative advantages and disadvantages between US, Anglo-Saxon common law and European continental legal traditions.
- Understanding of the local and international legal and regulatory frameworks, including the CG Rules, the US Federal Sentencing Guidelines, and Sarbanes-Oxley Act, the UK Cadbury Code of Corporate Governance, EU regulations, the South African King Report, and similar regulations and recommendations for other parts of the world.
- Components of an effective compliance program.
- The roles and responsibilities of independent public accountants, counsel and regulatory bodies in Jordan and elsewhere: Disclosure and transparency.

These topics are actually embedded in the OECD Principles of Corporate Governance, and thus the workshop program will emphasize the global best practice knowledge to learning corporate governance.

## V. Why Corporate Governance Matters

The program strives to make the business case for the practice of good corporate governance at the level of the board of directors. It is considered that corporate governance matters in all emerging market firms.

After all, improving corporate governance means better access to the sources of finance and investment. If the listed companies in Jordan could improve their corporate governance practices, then most of the country will benefit from the resolution of risk thus improving the chances of accessing finance with easier and better terms.

The course will emphasize the point that corporate governance matters to all emerging or developed market companies in the same way. Good corporate governance practices lead to:

- Improved corporate performance;
- Better access to long term investment capital;
- Increased opportunities to finance the firm;
- Improved stakeholder relations;
- Developing breadth and depth of the capital markets;
- Reduced investment risk and added value to a firm;
- Avoidance of reputational risk for financial institutions.

Understanding the interaction among the above factors will provide a solid foundation for the business case on corporate governance.

This course emphasizes the business case for all Jordanian firms so as to convince them to **voluntarily adopt good corporate governance practices.**

## VI. Method of Delivery

The course will be delivered in a round table workshop format to all audiences in order to increase interaction among participants and enhance critical thinking.

Participants will be grouped into 5 or 6 individuals per table. The ten modules will be delivered over a period of 5 days. Each session will last about two and a half hours (including a coffee break), separated by a lunch. Accordingly, with one session for each module, the 10 modules should easily fit into a week of training.

Participants will be required to take an active part during the delivery process by vocally discussing the topics, participating in the cases and breakout sessions. Participating in class discussions is an important part of the learning process as each professional will be bringing in their own experiences on a given subject.

There will be tests at the end of each session, as well as an overall test that will provide a scoring of the performance of each participant in the course. Upon the successful completion of the program and passing the necessary tests, participants will be issued a certificate of attainment signed by the Chairman of the JSC. .

Upon building the institutional and professional capacity of the JSC's contemplated Capital Markets Institute, the program can be delivered in collaboration with strategic partners, such as the UAE-based Hawkamah Institute for Corporate Governance, CIPE (Center for International Private Enterprise, Washington) or the International Finance Corporation (IFC), to certify the Jordanian directors.

We feel that Certified Independent Directors will be important for the future health of the corporate environment in Jordan and the region.

## **VII. Reference Readings**

Participants will be provided a suitable text book, and a set of slides with teaching notes. In addition, for each module, there will be a number of supplemental readings in the form of academic or professional articles. These readings will be provided as we develop each module and training materials.

These will form the basis of the reading materials.

### **Text Book (recommended):**

Kenneth A Kim and John R. Nofsinger [Corporate Governance \(2nd Edition\)](#). Prentice-Hall (2006)

### **Supplemental Readings:**

Will be provided at the end of course slides for each module.

### **Supplemental Readings accessible on the web:**

### **International References:**

**1- Website:** <http://www.oecd.org/dataoecd/20/60/40823806.pdf>

**Title:** A Board Room Perspective in the Application of OECD CG Principles (2008)

**Description:** The attached report published in May 2008 is the most recent publication on the subject of the Board responsibility in implementing the OECD Principles of Corporate Governance (2004)

**2- Web Site:**

[http://www.oecd.org/document/32/0,3343,en\\_2649\\_34813\\_39671008\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/32/0,3343,en_2649_34813_39671008_1_1_1_1,00.html)

**Title:** The issue of proportionality and corporate governance (2007)

**Description:** As its meeting on 14 November 2007, the Steering Group on Corporate Governance agreed on a common position based on the OECD Principles of Corporate Governance about the issue of whether there should be proportionality between ownership and control (also known as one-share-one-vote) in listed companies. This marks the second report in a series of studies investigating the application of the OECD Principles of Corporate Governance to prominent issues in contemporary public debate.

**3- Web Site:** <http://www.oecd.org/dataoecd/32/18/31557724.pdf>

**Title:** OECD Principles of Corporate Governance (2004)

**Description:** The original principles, one of the 12 key standards for international financial stability of the Financial Stability Forum (FSF), were released in May 1999 in response to the growing awareness of the importance of good corporate governance for investor confidence and national economic performance. They also form the basis for the corporate governance component of the Report on the Observance of Standards and Codes conducted by the World Bank Group. In 2002, OECD Ministers called for an assessment of the OECD Principles of Corporate Governance by 2004. After more than a year of extensive and open consultations, including an opportunity for public comment via the website, the new Principles were released

**4- Web Site:** <http://www.oecd.org/dataoecd/48/11/37190767.pdf>

**Title:** Corporate Governance in Non-Listed Companies in Emerging markets (2005)

**Description:** While the corporate governance debate has mostly focused on listed companies in countries with developed capital markets and companies with dispersed shareholdings, the challenges of corporate governance in non-listed companies deserve special attention, especially in countries where equity markets are less developed. Relatively little attention and research has been devoted to this subject, but recent experience in implementing the OECD Principles of Corporate Governance contains important lessons for improving the business environment for non-listed companies.

What are the corporate governance characteristics of non-listed companies? What are the driving forces for improving corporate governance practices in non-listed companies? What is the role of a public policy framework in supporting good corporate governance of non-listed companies? These are some of the questions addressed in this publication which provides policy-makers, board members, managers, equity providers, creditors and other stakeholders with an overview of the policy issues that arise in the debate on corporate governance of non-listed companies.

**5- Web site:** <http://www.oecd.org/dataoecd/58/12/37776417.pdf>

**Title:** Methodology for Implementing the OECD Principles of CG (2006)

**Description:** Following the revision of the OECD Principles in 2004, the OECD Steering Group on Corporate Governance decided to establish an ongoing dialogue to support their implementation. This dialogue would be both country-specific and thematic. For this purpose, the development of a coherent analytical framework was considered necessary.

The OECD Principles (Principles) are one of the Twelve Key Standards for Sound Financial Systems adopted by the Financial Stability Forum (FSF). Most standard setters have developed an associated methodology that, together with the standards, forms the basis for the voluntary assessments undertaken by the IMF/World Bank either in the form of a Review of Observance of Standards and Codes (ROSC) or as part of the Financial Sector Assessment Programme (FSAP). One exception to this development has been the OECD Steering Group on Corporate Governance, which never developed an assessment methodology for the Principles, with the World Bank developing its own procedures for assessment purposes. At its October 2004 meeting, the Steering Group decided that the analytical framework, which would underpin its dialogue on implementation of the Principles (henceforth termed Methodology), should be developed so that it could also serve as the methodology for the ROSCs that use the Principles as the reference standard.

**Other Readings:**

**International and Jordanian Research and Practitioner Papers**

To be provided at the end of each course module.

**Cases**

International and Jordanian cases will be developed.

# **Corporate Governance Training Course**

## **Module 1: Introduction: Corporations and Corporate Governance**

**Purpose:** The purpose of Module I is to explain business forms and the concept of corporate governance, and how good corporate governance practices improve the chances for firms to gain better access to finance.

**Outline:**

- I. Forms of Business Ownership**
- II. Separation of Ownership and Control**
- III. Break-out Session 1**
- IV. History, Definition and Principles of Corporate Governance**
- V. Benefits of Good CG**
- VI. Break-Out Session 2**
- VII. Systems of CG**
- VIII. Corporate Governance Issues at Family Owned Firms**

**Takeaways:**

Increase awareness of the implications of corporate governance on the roles of shareholders, stakeholders and theoretical concepts introduced.

- I. Forms of Business Ownership**
  - 1- Comparison of Three Basic Forms of Business Ownership
- II. Separation of Ownership and Control:**
  - 1- The Principal-Agent Dilemma
  - 2- Typical Agency Costs
  - 3- The (Controversial) Role of Stakeholders
  - 4- Who Are the Main Stakeholders of the Firm, and in Which Order Shall They Be Served?
  - 5- Priorities / Values of Stakeholders – Conflicts and Consensus

**III. Break-Out Session 1:** Discussion: “Goals of a corporation.”

**IV. History, Definition, Concept, and Principles of CG**

- 1- A Brief History of Corporate Governance
- 2- Definitions of Corporate Governance
- 3- The Internal vs. the External Perspective
- 4- An Intricately Linked Web of Distinct Fields
- 5- What Corporate Governance Is NOT
- 6- The Foundations of Corporate Governance
- 7- The Four Pillars of Corporate Governance
- 8- Interaction Between the Main Governing Bodies
- 9- The Four Basic Parameters of CG

**V. Benefits of Good CG**

- 1- The Benefits of Corporate Governance – Overview
- 2- Stimulates Performance and Improves Operational Efficiency
- 3- Provides Access to Outside Capital
- 4- Lowering the Cost of Capital and Raising the Value of the Firm
- 5- The Economic Rationale for Corporate Governance

**VI. Break-Out Session 2**

Two groups discuss benefits of good corporate governance at the micro and macro levels.

**VII. Systems of CG**

- 1- Outsider vs. Insider System (Definitions, descriptions and legal framework)
- 2- Outsider vs. Insider System: Bank vs Capital Markets Focus
- 3- Outsider vs. Insider System; The Important Elements
- 4- Shareholders vs. Stakeholders View

**VIII. Corporate Governance Issues at Family Owned Firms**



## **Module 2: The Jordanian and International Environment for Corporate Governance**

**Purpose:** To Discuss the legal and regulatory frameworks for corporate governance and their relevance in Jordan

### **Outline:**

- I. The Theoretical Framework and Worldwide Developments**
- II. The International Corporate Governance Framework**
- III. Break-Out Session 1:**
- IV. The Jordanian Corporate Governance Framework**
- V. Break-Out Session 2:**
- VI. Summary and Conclusions**

**Takeaways:** Understanding the emerging frameworks for corporate governance in Jordan and the existing ones in the rest of the World; Determining their importance for business and the economy and Recognizing national and international challenges a company may be facing

### **I. The Theoretical Framework and Worldwide Developments**

- 1- International Players Involved in CG
- 2- Legal Structure Matters- The Two Basic Models of Corporate Governance
- 3- The Environment for CG: The External Framework – Codes and Best Practices
- 4- The Environment for CG: The Internal Framework at Firm Level
- 5- Why so much attention on CG?
- 6- International Organizations Take Leadership In Promoting Corporate Governance
- 7- Increasing Numbers of Countries Adopt Corporate Governance Codes
- 8- Increased Focus on Improving Corporate Governance
- 10- International Initiatives Have Been Launched
- 11- The Degree of Convergence with Corporate Governance Frameworks
- 12- Example for US Regulation: Sarbanes-Oxley

### **II. The International Corporate Governance Framework**

- 1- The OECD Principles of Corporate Governance (Rev. 2004)
- 3- International Corporate Governance Network Statement on Global Corporate Governance Principles
- 4- Basel Committee on Banking Supervision 2006 Guidance on Enhancing Corporate Governance for Banking Organizations
- 5- Cooperation between Regulators
- 6- Islamic Financial Services Board

## 7- Overview: The 12 Key Global Standards for Sound Financial Systems

**III. Break-Out Session 1:** The purpose of this session is for the participants to discuss the critical issue that is faced by the Jordanian listed and/or non-listed companies in attracting new domestic and foreign capital. Another aspect is to review the main issues related to corporate governance for family owned and small enterprises in Jordan.

## **IV. The Jordanian Corporate Governance Framework**

- 1- Leading Jordanian Institutions on Corporate Governance
- 2- The Environment for CG: The External Legal and Regulatory Framework
- 3- Applicable Laws and Regulations on Corporate Governance in Jordan
- 4- Jordan Securities Commission: Guidance on Corporate Governance Rules for Listed Shareholding Firms – Draft (2008)

**V. Break-Out Session 2:** The purpose of the session is for the participants to compare and contrast the Jordanian Guidance on CG Rules with a select country's code of CG.

## **VI. Summary and Conclusions**

### **Module 3: The Board of Directors**

#### **Purpose:**

To provide an overview of the board's purpose, role and authority in corporate governance.

#### **Outline:**

- I. When to Create a Board;**
- II. Break Out Session 1;**
- III. Why Boards Are So Important;**
- IV. Understanding the Difference Between the Board and Management;**
- V. Board Size, Composition, and Evaluation;**
- VI. The Role and Authority of the Board.**

**Takeaways:** Understand that a company will face severe risks if the board:

Does not exist, It is not distinct from management, and does not have a clear understanding of its purpose, role, and authority.

#### **I. When to Create a Board**

- 1. The Board - at the Heart of the Corporation and Corporate Governance
- 2. When Is a Board Mandatory in Jordan?
- 3. The New CG Rules on Number of Directors and Number of Board Directorships
- 4. The Law on the Books vs. the Law in Reality
- 5. Different Board Types: The Good, Bad, and the Ugly
- 6. How Involved Is the Board?
- 7. Reasons for Underestimating the Board
- 8. The Impediments to Board's Effectiveness
- 9. Different Board Types in Terms of Structure: One Tier vs. Two Tier
- 10. One-Tier (Unitary) Board Model
- 11. Two-Tier Board Model
- 12. Different Board Types in Terms of Function

#### **Break-Out Session 1:**

Participants discuss why (or why not) boards play a role in Jordan.

#### **II. Why Boards Are So Important**

- 1. The Story of a Corporate Failure: The Role of the Board
- 2. U.S. Senate Conclusions on the Role of Enron's Board
- 3. Just How Important is a Vigilant Board?

- a. Related Party Transactions
  - b. Succession Planning
- 4. The Added Importance of a Vigilant Board in an Emerging Country as Jordan

### **III. Understanding the Difference Between the Board and Management**

- 1. Draw a Clear Line Between Board and Management Duties
- 2. The Chairman Runs the Board and The CEO Runs the Company
- 3. Fostering Complementariness and Cooperation

### **IV. Board Size, Composition, and Evaluation**

- 1. A Comparison Across Europe on Size
- 2. Example of a Board's Composition
- 3. Selection Committee: Nomination of Directors, Duties, Conflicts of interest.
- 4. Executive, Non-Executive & Independent Directors: Definition & Role
- 5. Average European Board Size and Independence by Company Size and Industry

**Break-Out Session 2** Participants will discuss the extent of the role of executive and independent directors on Jordanian companies, and the criteria for independence to be applied in Jordan.

- 6. Board Committees
  - a. Compensation
  - b. Selection and Nomination
  - c. Audit
- 7. More Important Qualification Requirements
- 8. Importance of Board and CEO Performance Evaluation
- 9. Evaluation of the Board: Process
- 10. The Process of Evaluating the Performance of Boards

### **V. The Role and Authority of the Board**

- 1. OECD CG Principles: Duties of the Board
- 2. The Duties of the Board
  - a. General Shareholders Meeting
    - i. Administrative issues
    - ii. Timely Communications with the shareholders
    - iii. Locations
  - b. Minority shareholder protection
- 3. An Overview of the Board's Authority
- 4. The Board Approves Strategy and Monitors Performance
- 5. The Board Discloses Information in a Transparent, Material, and Timely Manner

## 6. The Board Protects Shareholder Rights

### **Non-Executive, Independent Directors**

1. As a Reminder: Executive, Non-Executive, and Independent Directors
2. The Role of the Non-Executive, Independent Director
3. The Rise of the Non-Executive, Independent Director
4. The differences between CEO and Chairman

**Break-Out Session 3:** This session involves the discussion of the duties of the board, and elaborating on the responsibilities of the board and discussing the important processes the board must apply towards the achievement of its responsibilities.

## **Module 4: Shareholders and Shareholder Activism**

**Purpose:** The purpose of this lecture is to explain the concept of shareholder activism and its effects on CG

### **Outline:**

- I. The International Perspective;**
- II. The Role of Non-Executive, Independent Directors on the Board as Activists**
- III. What Is Shareholder Activism?**
- IV. Activism by Individual, Large, and Institutional Shareholders;**
- V. Potential Roadblocks to Effective Shareholder Activism**
- VI. Summary**

**Takeaways:** Appreciate the role of the non-executive, independent director; Compare and contrast the ability of different types of investors to engage in shareholder activism; Understand what individual and institutional investors can do to monitor and influence a company's management; Be able to describe the roadblocks to effective shareholder activism; Finally judge how successful investor activism can be.

### **I. International Perspective**

### **II. The Role of Non-Executive, Independent Directors on the Board as Activists**

### **III. What Is Shareholder Activism?**

1. What Is Shareholder Activism?
2. Types of Activist Shareholders
3. Example of Hedge Fund Activism: Third Point LLC
4. Example of Existing Shareholder's Activism: Barclay's Bank in the UK
5. What Keeps Shareholders From Becoming "Active": The Free Rider Problem

### **IV. Activism by Individual, Large, and Institutional Shareholders**

1. Activism by Individual Shareholders in Theory and Practice
2. Activism by Large Shareholders in Theory and Practice
3. Institutional Shareholders
4. Shareholders of US Stocks by Investor Type

**Break-Out Session 1 :** The purpose of this session is to discuss the role of large shareholders for more effective corporate governance.

5. Does Institutional Shareholder Activism Work?
6. The Impact of Shareholder Activism On Improving CG
7. The Role of the State and the Challenge of 'Effective' Regulation

**Break-Out Session 2:** The purpose of this session is to discuss the implications of shareholders activism in the context of Jordan, the impact of large shareholders in Jordan and whether or not small investors in minority shareholders status have any chance in sharing power of share ownership with the large ones.

## **V. Potential Roadblocks to Effective Shareholder Activism**

1. Potential Roadblocks to Effective Shareholder Activism

**Break-Out Session 3:** To discuss the role of pension and mutual funds in being active shareholders in Jordan and implications on corporate governance.

## **VI. Summary**

## **Module 5: Executive and Non-Executive Compensation and Incentives**

**Purpose:** To provide an overview of international best practices relative to board member remuneration

### **Outline:**

- I. Introduction: Key Principles**
- II. Non-Executive Remuneration**
- III. Executive Remuneration and Incentive Structure**
  - **Remuneration Strategy**
  - **Remuneration Level**
  - **Remuneration Structure**
  - **Types of Compensation**
- IV. Crime and Punishment**
- V. Summary and Conclusion**

**Takeaways:** (a) Differentiate between executive and non-executive remuneration; (b) Understand how to develop board remuneration policies for different types of companies in the most effective way; (c) Understand the various remuneration types and models; (d)

Explore the pros and cons of the various remuneration types.

### **I. Introduction: Key Principles**

- 1. Key Principles with Respect to Director Remuneration: The four pillars of CG

### **II. Non-Executive Remuneration**

- 1. Good Corporate Governance Practices
- 2. Non-Executive Remuneration Structures
- 3. Average Compensation of Non-Executive Directors in the EU

**Break-Out Session 1 :** The purpose is to compare and contrast board remuneration policies for different types of companies.

### **III. Executive Remuneration and Incentive Structure**

#### **A. Remuneration Strategy**

- 1. Examples of Self-serving Managerial Actions
- 2. Executive Compensation Strategy in Different Phases of the Company Cycle



3. Executive Compensation Strategy: Exit Strategy
4. Executive Compensation Strategy: Pay Strategy

## **B. Remuneration Level**

5. Internal Factors Affecting the Level of Executive Compensation

## **C. Remuneration Structure**

6. Executive Compensation: Structure
7. Executive Compensation Program Elements
8. Long-term Incentives Are Designed to Satisfy Many Complex and Often Competing Objectives
9. Long-term Plans

**Break-Out Session 2:** The purpose is to discuss the primary ways in which the Jordanian companies remunerate executives.

## **D. Types of Compensation: A Special Focus on Stock Options**

10. Types of Executive Compensation
11. A Special Focus on Stock Options
12. Legal Regulation of Options in Jordan
13. Questions for Developing Option Plans
14. Growth in the Use of Options in the US
15. The Controversy Over US CEO Salaries
16. Does Incentive-based Compensation Work in General?

**Break-Out Session 3:** The purpose is to discuss the pros and cons for incentive based compensation.

17. Problems with Stock Option Incentives
18. Real-World Examples
19. Example: Xerox Corporation
20. Expensing Executive Options: An Easy Solution?

## **IV. Crime and Punishment**

1. Crime and Punishment
2. International Perspective-CEO Compensation Around the World

## **V. Summary and Conclusion**

## **Module 6: Financial Controls, Auditing & Disclosure**

### **Purpose:**

The purpose of this lecture is to explain the role of accounting and auditing as well as the issue of disclosure to ensure the transparency of companies.

**Outline:** The lecture consists of four segments:

- I. Accounting and Financial Accounting**
- II. Evaluating Corporate Performance**
- III. Auditing**
- IV. Disclosure**
- V. Summary**

**Takeaways:** Read and understand the financial statements of a company; Analyze the financial position of a company; Understand the significance of accounting and auditing for governance; Appreciate timely and accurate disclosure.

### **Financial Terms to be Familiar with**

#### **I. Accounting and Financial Accounting**

- 1. Accounting
- 2. Accounting Functions
- 3. Accountants' Tools
- 4. Financial Accounting

#### **Financial Accounting Principles**

- 5. Basic Principles of Financial Accounting

**Break-Out Session 1 :** The purpose is to discuss the financial information items that are necessary to analyze financial performance of a company.

#### **Financial Accounting Documents**

- 6. Major Financial Statements and Their Uses
- 7. Main Components of The Balance Sheet
- 8. Balance Sheet (Accounting) Equation
- 9. Recognition of Assets
- 10. Equity

11. Profit and Loss (Income) Statement
12. Profit and Loss Statement: Distribution
13. Profit and Loss (Income) Statement
14. Cash Flow Statement Structure
15. Basic Methods of Reporting Cash Flow (CF)
16. Direct vs. Indirect
17. Sample Cash Flow Statement (Indirect method)

## **II. Evaluating Corporate Performance**

1. Types of Financial Statement Analysis
2. Example of Financial Statement Analysis I
3. Financial Ratios
4. Are Financial Ratios Reliable?
5. Efficiency Measures: Balance Sheet and P&L Statement Relations
6. Management Effectiveness Figures (Profitability Ratios)
7. Return on Total Assets and Its Components (The DuPont Equation)
8. Operating Profit Management Model

**Break-Out Session 2 :** The purpose of this exercise is to allow the participants to have a hands-on experience with Excel spread sheet analysis in calculating and interpreting the financial ratios of an Amman Stock Exchange 30 company.

## **III. Auditing**

1. Internal Auditors
2. External Auditors:
  - a. Qualifications of External auditors
  - b. Responsibilities of external auditors
3. Auditors as Consultants
4. New Reporting Standards Develop
5. From Manipulation to Fraud
6. Typical Ways of Financial Accounts' Manipulation "Creative Accounting": The Seven Shenanigans

## **IV. Disclosure**

1. What Is Disclosure?
2. Advantages for the Market
3. Advantages for the Company
4. What Should Be Disclosed?
5. Financial Reporting Overview

## **V. Summary**

## **Module 7: Corporate Takeovers: Mergers & Acquisitions**

### **Purpose:**

The purpose of the lecture is to help participants understand the concept of and the applications of mergers and acquisitions as a corporate governance tool.

### **Outline:**

- I. Mergers & Acquisitions Overview**
- II. Mergers & Synergy**
- III. Acquisitions**
- IV. Takeover Defenses**
- V. International Perspectives and Summary**
- VI. Summary**

### **Takeaways:**

At the end of the lecture, the participant will: (1) Gain a fairly good understanding of corporate takeovers and corporate governance implications; (2) Understand what aspects you should look out for and challenge; (3) Understand why due diligence is so important; Get a feel for the notions of “synergy,” “hostile takeovers,” and “takeover defenses” and their relation to corporate governance; and, (4) Understand the dichotomy between corporate governance, regulations against takeovers, and disciplinary takeovers versus anti-trust activities

### **I. Mergers & Acquisitions Overview**

- 1. Why Discuss M&A?
- 2. Brief Overview of M&A
- 3. The Role of The Board in M&A
- 4. Types of Mergers
- 5. U.S. and U.S. Cross-Border M&A Activity Transactions
- 6. International Merger Activities

### **II. Mergers & Synergy**

- 1. Synergistic M&A
- 2. The Notion of Synergy
- 3. The Synergy Effect
- 4. Realizing Synergies/Delivering Value

**Break-Out Session 1:** The purpose of this break-out session is to discuss the rational for takeovers as a corporate governance mechanism and how it may apply in Jordan.

### **III. Acquisitions**

1. The Target Firm
2. Impact of Acquisition on Market Values
3. The Acquirer's Goals
4. To Acquire a Successful Firm or an Unsuccessful Firm?
5. Paying a Significant Premium for Target Firms
6. The Notion of the Disciplinary Takeover
7. What Is Due Diligence?
8. Due Diligence Process
9. Acquisition Bid Process
10. Stakeholders Interaction

**Break-Out Session 2 :** The purpose of this break-out session is to discuss international takeovers and acquisitions as a transaction between equals and to gain market share in a new market, and to review its implications on emerging countries such as Jordan.

### **IV. Takeover Defenses**

1. Legal Background (1): Tag-along Rights
2. Legal Background (2): Drag-along Rights
3. Are Takeovers an Effective Governance Mechanism?
4. Takeover Defenses
5. Firm-level Pre-emptive Takeover Defenses
6. Firm-level Reactionary Takeover Defenses
7. State-level Anti-takeover Laws
8. Assessments of Takeover Defenses

### **V. International Perspectives and Summary**

1. Other International Perspectives

### **VI. Summary**

## **Module 8: Risk Management**

### **Purpose:**

The purpose of this lecture is to demonstrate the role and importance of risk management as an important tool for corporate governance.

### **Outline:**

- I. Risk Management: Overview and Definition**
- II. Risk Management and the Board**
- III. Enterprise-Wide Risk Management (ERM)**
- IV. Comprehensive Risk Reporting**
- V. Summary**

### **Takeaways:**

As a result of attending this lecture, the participant will gain the following: (1) Understand how risk management contributes to corporate governance; (2) Appreciate how every person in the company has a responsibility for managing risk; (3) Recognize the benefits of having a risk aware culture; (4) Understand the principles of risk identification and measurement; (5) Gain a fairly good understanding of ERM (Enterprise Risk Management); (6) Find out about building blocks, challenges, and potential methods for ERM in the World and in Jordan.

### **I. Risk Management: Overview and Definition**

- 1. Enterprise Risk Management Definition
- 2. In this Context, Risk Management ...
- 3. In this Context, Risk Management...
- 4. Risk Management – ‘What Does It Look Like?’
- 5. Evolution of Risk Management
- 6. Why Firms Should Manage Risk
- 7. Failure to Develop Effective Risk Management Strategies Results in: Risk Types

**Break-Out Session 1:** Participants review and discuss definitions, types and the process of risk management, why it matters for CG and implications in Jordan.

### **II. Risk Management and the Board**

- 1. Risk Management – Board Responsibility
- 2. How Risk Aware is Your Board?: Questions Directors Should Ask!
- 3. Board Policy Structure
- 4. Board Defines Its Risk Appetite
- 5. Risk/Reward

6. Proactive Risk Culture
7. Common View of Risks

### **III. Enterprise-Wide Risk Management (ERM)**

1. Objectives of ERM
2. Enterprise Wide Risk Management: A Set of Standards Applied Universally Across the Company
3. The ERM Framework
4. ERM Roles & Responsibilities
5. Internal Auditors
6. Risk Management Process
7. Risk Maturity Model for Enterprise Risk Management

**Break-Out Session 2 :** Participants review the role of the board, the management, and the internal auditors in the ERM process. Review actual cases, and relate it to Jordan.

### **IV. Comprehensive Risk Reporting**

1. Comprehensive Risk Reporting – Form
2. Comprehensive Risk Reporting – Issues

### **V. Summary**

## **Module 9: Role of Financial Institutions in Corporate Governance**

**Purpose:** The purpose of the lecture is to explain the role and influence of financial institutions on corporate governance.

### **Outline:**

- I. The Monitoring Role of Debt**
- II. The Banking Sector and Corporate Governance**
- III. The Investment Banking Activities**
- IV. Securities Analysts**
- V. Credit Rating Agencies**
- VI. Summary**

### **Takeaways:**

(1) Understanding the role of debt as disciplinary mechanism; (2) the role of financial institutions on imposing good CG practices; (3) relationship between securities analysts opinions and CG practices; (4) the role of credit rating agencies on CG practices.

#### **I. The Monitoring Role of Debt**

- 1. The Existence of Corporate Debt Creates Three Important Monitors
- 2. Debt As a Disciplinary Mechanism, Because ...
- 3. Institutional Lenders As Corporate Monitors.

#### **II. The Banking Sector and Corporate Governance**

- 1. Financing Patterns and Corporate Governance
- 2. Role of Banks in Corporate Governance
- 3. Debate on Strong Bank Role in Corporate Governance – In Favor or Against

**Break-Out Session 1:** This session will allow the two groups of participants to discuss how debt could keep management in check and how this applies in Jordanian environment.

#### **III. The Investment Banking Activities**

- 1. Investment Banks...
- 2. The Process of Selling Securities



3. IPOs Issued and Their Average Initial Returns in the US, 1980 – 2005
4. Criticisms of Investment Banks

#### **IV. Securities Analysts**

1. Securities Analysts
2. Analysts' Ability to Recommend Shares: Are analysts good at picking stocks?
3. Potential Conflicts of Interest

#### **V. Credit Rating Agencies**

1. Credit Rating Agencies
2. A Brief Historical Perspective
3. Bond Ratings and Example Bond Yields
4. Rating System
5. Criticism of Rating Agencies
6. Example – WorldCom's Credit Rating
7. Example - Enron's Credit Rating

**Break-Out Session 2:** This session will provide a forum for open discussion for the two groups of participants to review alternative ways an investment bank and analysts would be concerned with, and how it applies in the Jordanian context. In addition, there will be a chance to discuss the significance of credit rating agencies and their role in CG in Jordan.

#### **VI. Summary**

## **Module 10: Corporate Social Responsibility**

**Purpose:** The concept of corporate social responsibility is explained.

### **Outline:**

- I. A Changing World for Companies**
- II. The Stakeholder View of the Firm**
- III. The Concept of Corporate Social Responsibility**
- IV. International Aspects of Corporate Social Responsibility**
- V. The Criticism of Corporate Social Responsibility**
- VI. Summary**

### **Takeaways:**

Participants of this lecture will: (1) Understand the concept of corporate social responsibility; (2) Differentiate it from and identify overlaps with corporate governance; (3) Understand the stakeholder view of the firm and related theories; (4) Become familiar with the Triple Bottom Line Approach, as well as the Four-part Taxonomy; (5) Identify the benefits of CSR and understand its international dimension; (6) A Changing World for Companies

### **I. A Changing World for Companies**

- 1. Sustainability for Business
- 2. A Changing World for Companies
- 3. The World Is Getting Smaller Through Increased Connectivity ...How Local Issues Become Global
- 4. Public Attitudes Drive Changing Rules of the Game for Businesses
- 5. Problems for Companies

### **II. The Stakeholder View of the Firm**

- 1. Stakeholder View of the Firm
- 2. Who Are the Company's Stakeholders
- 3. Stakeholder Theories
- 4. Stakeholder Theories and Practice: "Balanced Score Card"
- 5. Stakeholders Theories and Practice: "Triple Bottom Line"
- 6. Governance and Stakeholder Theory

**Break-Out Session 1:** The purpose of this session is to discuss whether participants think corporations should be socially responsible, how it can be applied in Jordan, and how to measure this.

### **III. The Concept of CSR**

1. Corporate Social Responsibility: Fad or Reality?
2. Corporate Social Responsibility
3. Definition of Corporate Social Responsibility
4. The Scope of Corporate Social Responsibility
5. The Benefits of Corporate Social Responsibility
6. A Four-part Taxonomy of CSR

**Break-Out Session 2:** This session will allow the participants to consider applying measures for corporate social responsibility, and an application (if possible) on an Amman Stock Exchange (ASE) Top 30 firm.

### **IV. International Aspects of CSR**

1. Corporate Citizenship Pyramid: The World Economic Forum
2. World Economic Forum Framework for Corporate Citizenship
3. Other International Dimensions
4. What Role Will Your Company Play in Increasing Good Business and Good Society?
5. Effectiveness of Current Efforts: Citizenship Factors

### **V. The Criticism of CSR**

1. Criticisms against CSR
2. Performance of European firms sustaining CSR Compared

### **VI. Summary**

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