Corporate Governance Reforms and Delisting in Emerging Stock Markets: The Case of Egypt

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Abstract

This thesis examines the potential impact of Corporate Governance (CG) reforms on the delisting of companies listed on the Egyptian Stock Exchange (EGX), whether voluntary or involuntary, from August 2002 to December 2021. During this period, the number of listed entities plummeted dramatically by 82%, from 1,147 to 213 companies.

Situating Egypt as a case study in the broader context of Emerging Markets (EMs), this study examines whether the implementation of CG reforms, particularly those embedded in the listing and delisting rules, has contributed to the unprecedented delisting wave, coupled with a low inflow of new listings on the EGX.

The delisting phenomenon has been observed in major stock exchanges in the USA, the UK, Europe, and EMs, with approximately 6,000 delisted companies in 42 countries from 2008 to 2012. Notably, 75% of these delistings occurred in the US, the UK, and Europe. However, the intensity and continuity of delistings on the EGX are unparalleled. Unlike delistings in other markets, which were largely compensated by new listings, the EGX experienced minimal new entrants, and, thus, a gap grew. This disparity, for example, was evident in 2003, when the number of delisted companies reached 310, accompanied by only 29 new listings.

This study is motivated by the coincidence between the implementation of the CG reforms and the onset of the decline in the number of listed companies. It employs a sequential mixed-methods approach, integrating descriptive quantitative analysis of a novel longitudinal dataset comprising 1,353 EGX-listed companies from 1970 to 2021, with qualitative insights derived from 34 semi-structured interviews with regulators, company executives, and market advisors.

The findings reveal a robust temporal correlation between the implementation of CG reforms, particularly the 2002 Rules and 2014 Rules, and the delisting wave observed on the EGX, but primarily among family-owned companies and SMEs. Although these reforms aimed to improve transparency, investor protection, and market integrity by aligning local codes with international benchmarks, including the OECD Principles and the UK CG Code, they may have imposed substantial compliance costs, resulting in unintended consequences.

Approximately 60% of the delistings were involuntary and resulted from non-compliance with the CG regulations. On the other hand, voluntary delistings, amounting to 40% of the delistings, were driven by an adjustment in the cost-benefit calculus of being listed, in terms of the burdens

of compliance, their limited liquidity, and a desire for a more flexible or private ownership structure.

The study contributes to the emerging literature on delistings in the context of EMs, providing a comprehensive understanding of this phenomenon and its likely linkage with the CG reforms in Egypt. It underscores the importance of designing a regulatory framework that is adaptable to the local context. It further advocates for a more tiered and flexible regulatory model that strikes a balance between market integrity and accessibility for a broad range of companies in light of the dominant contracted ownership structures in Egypt. Both the regulatory dualism approach and a conditioned Dual-Class Share Structure (DCSS), coupled with other incentives, may render the EGX more appealing.

In conclusion, this study supports the development of more adaptive regulatory frameworks and provides actionable lessons for regulators, policymakers, and investors seeking to make capital markets more inclusive and sustainable in Egypt and beyond.

Dedication

First and foremost, I thank the Almighty for granting me the strength, patience, and perseverance to complete this journey.

To the memory of my beloved parents, who gave me life, and whose early absence taught me resilience and shaped the course of it. Although you are no longer here to share this moment, your presence has been with me every step of the way. I hope you are proud of me.

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Abbreviations

Abbreviation	Full Title
AMEX	American Stock Exchange
BM&Fbovespa	Brazilian Securities, Commodities, and Futures Exchange
BOSOs	Buy-Out Squeeze-Outs
Cadbury Report	Report of the Committee on the Financial Aspects of Corporate Governance (UK, 1992)
CASE	Cairo and Alexandria Stock Exchange
CEOs	Chief Executive Officers
CFOs	Chief Financial Officers
CG	Corporate Governance
CMA	Capital Market Authority
CML	Capital Market Law No. 95 of 1992
DCSS	Dual-Class Share Structure
EFSA	Egyptian Financial Supervisory Authority
EGX	Egyptian Stock Exchange
Egypt	Arab Republic of Egypt
EIoD	Egyptian Institute of Directors
EMs	Emerging Markets
ERSAP	Economic Reform and Structural Adjustment Program
ESG	Environmental, Social, and Governance
FRA	The Financial Regulatory Authority
GDP	Gross Domestic Product
HHSE	Hong Kong Stock Exchange
IAS	International Accounting Standards
IFC	International Financial Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPOs	Initial Public Offerings
LBO	Leveraged Buyout
LLSV	La Porta, Lopez-de-Silanes, Shleifer, and Vishny
LSE	London Stock Exchange
M&As	Mergers and Acquisitions

MENA	Middle East and North Africa
NASDAQ	National Association of Securities Dealers Automated Quotations
NILEX	Nile Stock Exchange
NYSE	New York Stock Exchange
OECD	Organization for Economic Co-operation and Development
OSOV	One Share, One Vote
ROSC	Report on the Observance of Standards and Codes
SEBI	Securities and Exchange Board of India
SMEs	Small and Medium-sized Enterprises
SOEs	State-Owned Enterprises
SOX	Sarbanes-Oxley Act (US, 2002)
SPSE	Stock Price Sensitive Events
The 2001 ROSC	The Report on the Observance of Standards and Codes (2001)
The 2002 Rules	The Listing, Continuing Listing, and Delisting Rules (2002)
The 2004 ROSC	The Report on the Observance of Standards and Codes (2004)
The 2005 ECCG	The Egyptian Code of Corporate Governance (2005)
The 2011 ECCG	The Egyptian Code of Corporate Governance (2011)
The 2014 Rules	The Listing, Continuing Listing, and Delisting Rules (2014)
The 2016 ECCG	The Egyptian Code of Corporate Governance (2016)
UK	United Kingdom
UNSSEI	United Nations Sustainable Stock Exchanges Initiative -
US	United States of America
USAID	United States Agency for International Development

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Chapter 1: Introduction

1.1 Overview

Until 2002, the Egyptian Stock Exchange (EGX) was a vibrant stock exchange where companies were increasingly listing, with 1,147 companies listed on its trading platform. At the end of 2021, that number had shrunk to just 213, representing an 82% decline.[1] This dramatic decline is a result of an unprecedented wave of delisting,[2] coupled with a persistently low rate of new listings. The disparity between exiting and entering the EGX was particularly apparent in 2003, when 310 companies were delisted compared to only 29 new listings.[3] The frequent delisting and the low rate of newly listed companies continue to be a pressing challenge for the EGX. In a recent press interview, Dr Mohamed Farid, then-chairman of the EGX and now head of the FRA, highlighted this issue, stating: "[*T]he number of companies listed in EGX is not comparable with what already exists in the business world, so the Bourse [EGX] is working to provide institutional incentives to increase the number of listed companies*."[4]

The decline in listed companies is not a unique feature of Egypt's capital market. This phenomenon has also been observed in other major stock exchanges.[5] Between 2008 and 2012, nearly 6,000 companies were delisted across 42 countries.[6] Interestingly, almost 75% of these delistings took place in the United States of America (US), the United Kingdom (UK), and Europe.[7]

What really sets Egypt apart, however, is the degree and severity of that decline. Many exchanges have experienced a decline that was largely offset by new listings; however, the EGX has received relatively few new entrants to replace those that have been delisted. This asymmetry in numbers between listings and delistings makes Egypt an interesting case for an

[1] *See* the relevant data about the intersection between listing and delisting trends in the EGX are presented and analysed in Chapter 6. The EGX Dataset is also available in Appendix (D).
[2] For the purpose of this study, and as will be explained in Chapter 2, delisting refers to the exit of listed companies from an official stock exchange whereby their respective shares become no longer publicly traded.
[3] *See* Chapter 6; the EGX Dataset in Appendix (D).
[4] Hanan Mohamed, '5 companies to be listed on EGX by end of 2018' (Egypt Today, 5 September 2018) <https://www.egypttoday.com/Article/3/57141/5-companies-to-be-listed-on-EGX-by-end-of> accessed 13 January 2025
[5] This shift has promoted many studies to explore the myriad factors driving delistings on major stock exchanges, *see* Chapter 2.
[6] E.g., Isabelle Martinez and Stephanie Serve, 'Reasons for Delisting and Consequences a Literature Review and Research Agenda' (2017) 31(3) Journal of Economic Surveys 733, 733
[7] Ibid.

investigation into the potential causes that may have contributed to this striking trend. These delistings started in late 2002 and have continued to this day.

The early 2000s were marked by several global corporate scandals, including the Enron and WorldCom cases, which sparked an international discourse on the need for stricter corporate governance (CG) regulations. These failures thus exposed critical weaknesses in investor protection, accountability, and transparency, prompting regulators worldwide to implement rigorous CG reforms. For example, in 2002, the USA promulgated the Sarbanes-Oxley Act (SOX) to mitigate similar corporate failures in the future.

Egypt, like many other countries, has followed the same trend. Its regulatory framework was revisited to align with international best practices, aiming to bolster market confidence and attract foreign investment. A central component of Egypt's reforms was the revision of the listing and delisting rules for securities on the EGX, formalised through the issuance of the 2002 Rules in August 2002. These rules introduced, *amongst other provisions*, stricter eligibility criteria for listing, heightened disclosure obligations, and improved financial reporting standards.[8]

In the following years, additional regulatory measures and requirements were introduced, including the adoption of the 2014 Rules,[9] which entirely replaced the 2002 Rules. Notably, the delisting trend continued, albeit at a reduced scale.

Given that these regulatory reforms have coincided closely with the emergence of delisting incidents on the EGX, this thesis posits that CG reforms may have likely contributed to the delisting of listed companies on the EGX. Additionally, these increased regulatory requirements may have discouraged some private companies from listing on the EGX. These two consequences have potentially led to a notable shrinkage in companies listed on the EGX.

While other possible considerations, including economic conditions, political instability (e.g., the 2011 and 2013 revolutions), and global market trends, might have also played a role, this thesis claims that these regulatory overhauls appear to have equally contributed to the evolution of EGX's dynamics, i.e., whether positive or negative, over the last two decades.

[8] *See* an explanation of the primary obligations imposed on listed companies under the 2002 Rules is made in Chapter 6, and a more detailed explanation of these rules is provided in Appendix (B).
[9] *See* an explanation of the primary obligations imposed on listed companies under the 2014 Rules is made in Chapter 6, and a more detailed explanation of these rules is provided in Appendix (B).

By exploring this plausible linkage, the study aims to understand the role that CG reforms have played in shaping the attractiveness of the EGX as a listing venue, as reflected in trends concerning the number of listed companies on its trading platform.

The motivation for this study is the lack of sufficient knowledge regarding the potential interaction between a country's adoption of globally accepted CG regulations and the declining number of listed companies in that country, specifically in terms of a high rate of delisting and/or a low number of new listings. It has been widely argued that CG reforms would contribute to the growth of financial markets,[10] which would lead to an enhanced market appeal.

While the existing body of knowledge, albeit still scant, has endeavoured to study the determinants of what has been referred to as the "*Listing Gap*" in developed countries, including the possible relation between CG rules and the attractiveness of the stock markets,[11] there is a scarcity of research exploring how CG reforms may contribute to the companies' decisions to list or delist their securities in emerging stock markets, particularly in Egypt. This thesis thus seeks to contribute to the present literature gap by investigating the likely linkage between CG reforms in Egypt, as an emerging country, and the delistings from the EGX. This is explored in the context of the decreasing number of companies listed on the EGX between 2002 and 2021, while also acknowledging the possible influence of other contributing factors, such as the growing demand for alternative financing options in recent years, as well as the economic and political considerations.

This Chapter, therefore, sets the foundation for this study by articulating its contextual background (**Section 1.2**), presenting global trends on delistings (**Section 1.3**), and outlining the research problem (**Section 1.4**), its objectives (**Section 1.5**), and its underlying questions (**Section 1.6**). It also briefly explains the adopted methodology (**Section 1.7**), features the study's significance and contributions (**Section 1.8**), justifies the selection of Egypt as a case study (**Section 1.9**), and concludes with an overall outline of this thesis (**Section 1.10**).

[10] Paul A Gompers, Joy L Ishii, and Andrew Metrick, 'Corporate Governance and Equity Prices' (2003) 118(1) Quarterly Journal of Economics 107; Lucian A Bebchuk, Alma Cohen, and Allen Ferrell, 'What Matters in Corporate Governance?' (2009) 22(2) Review of Financial Studies 783

[11] *See*, e.g., Craig Doidge, Andrew Karolyi, and René M Stulz, 'The U.S. Listing Gap' (2015) ECGI Finance Working Paper No 451/2015, 1 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2605873> accessed 16 January 2025

1.2 Thesis Background and Context

Sir Adrian Cadbury defines CG as "*the system by which companies are directed and controlled*".[12] A sound CG structure *"should promote transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement*."[13]

Following high-profile global financial scandals and corporate failures, CG reforms have become at the forefront of a thorough discourse among regulators, international institutions, policymakers, investors, and academic scholars worldwide, aiming to introduce more stringent regulations to deter future misconduct and restore investors' confidence in capital markets.

This resulted in a global focus on this issue and a wave of comprehensive CG reforms aimed at enhancing transparency and improving corporate disclosures. Among many landmark developments was the issuing of the 1992 Cadbury Report in the UK,[14] which influenced CG regulations across the globe. This report, *among other things*, included key recommendations concerning the board's structure, the audit and remuneration committees, and disclosures to provide shareholders with robust data and information about the company's performance and operations. Its "Code of Best Practice" was a pioneering model for various CG codes developed worldwide.[15]

Similarly, in the US, the 2002 SOX marked a considerable step forward in CG regulations. It imposed strict liability rules for CEOs and CFOs regarding the accuracy and truthfulness of financial data, required additional reporting and disclosure statements, mandated the existence of an independent audit committee, and imposed criminal sanctions for fraud and abuse. Like the 1992 Cadbury Report, SOX reflected a significant shift in CG practices.

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[12] Cadbury's Committee on the Financial Aspects of Corporate Governance, *Report of the Committee on Financial Aspects of Corporate Governance* (1992) <https://media.frc.org.uk/documents/Cadbury_Code_-_The_Financial_Aspects_of_Corporate_Governance.pdf> accessed 12 January 2025. CG was also defined by the OECD as "Corporate governance guides how a company is directed and its relationships with its shareholders and stakeholders. With the right structure and systems in place, good corporate governance enables companies to create an environment of trust, transparency and accountability, which promotes long-term patient capital and supports economic growth and financial stability." OECD, Corporate Governance, <https://www.oecd.org/en/topics/policy-issues/corporate-governance.html> accessed 17 January 2025

[13] OECD, *G20/OECD Principles of Corporate Governance 2023* (OECD Publishing 2023) 9 <https://doi.org/10.1787/ed750b30-en> accessed 14 January 2025

[14] Cadbury's Committee on the Financial Aspects of Corporate Governance, *Report of the Committee on Financial Aspects of Corporate Governance* (1992) <https://media.frc.org.uk/documents/Cadbury_Code_-_The_Financial_Aspects_of_Corporate_Governance.pdf> accessed 12 January 2025.

[15] Financial Reporting Council, 'Corporate Governance (overview)' 4 October 2023 <https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/corporate-governance-overview/?utm_source=chatgpt.com > accessed 17 January 2025

Other countries then followed suit, revisiting their CG rules and disclosure requirements to signal their adherence to best practices, thereby attracting investment and promoting integrity and transparency in their capital markets. For example, China and Germany introduced their first CG Codes in 2001 and 2002, respectively.[16] In Egypt, the first CG was issued in 2005.[17]

Furthermore, international institutions, including the World Bank, the IFC, and the OECD, developed CG codes of best practices and sponsored projects aimed at facilitating the global adoption of CG reforms.[18] These institutions, in turn, encouraged countries to incorporate CG regulations into their respective laws and, in many cases, linked financial assistance to the acceptance of such reforms.[19] In this way, CG reforms began to emerge across jurisdictions in a very short period.

In emerging economies, CG reforms have taken place.[20] Such reforms were not only perceived as instruments for mitigating agency conflicts[21] and protecting minority shareholders, but also as mechanisms necessary to improve investors' confidence and attract foreign investments.[22]

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[16] Code of Corporate Governance for Listed Companies in China (China Securities Regulatory Commission and State Economic and Trade Commission, 7 January 2001) <https://iigl.nl/wp-content/uploads/2014/06/China-CG-Code.pdf> accessed 14 January 2025; German Corporate Governance Code (The German Corporate Government Commission, 26 February 2002 <https://www.dcgk.de/en/code/archive.html> accessed 14 January 2025

[17] Code of Corporate Governance for Egyptian Companies (2005) <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://iefpedia.com/arab/wp-content/uploads/2011/07/Aug-05_Egypt_Code_of_CG_a.pdf> accessed 18 January 2025

[18] Alessio M Pacces, 'How Does Corporate Law Matter? "Law and Finance" and Beyond' [2013] SSRN Electronic Journal 1, 8-14 < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2260340> accessed 20 January 2025

[19] Ibid

[20] For more details about CG challenges and reforms in EMs, see, e.g., Mariana Pargendler, 'Corporate governance in emerging markets' (30 March 2014) in Jeffrey N Gordon & Wolf-Georg Ringe (eds), *Oxford Handbook of Corporate Law and Governance* (2014)

[21] Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure' (1976) 3(4) Journal of Financial Economics 305, 306-313

[22] Andrei Shleifer and Robert W Vishny, 'A Survey of Corporate Governance' (1997) LII(2) Journal of Finance 737, 737-740; Stijn Claessens and Burcin Yurtoglu, 'Corporate Governance in emerging markets: A survey' (2013) 15 EMsReview 1, 18

Emerging markets[23] have continuously become key drivers in the worldwide economy, accounting for 50.1% of the global GDP in 2023.[24] They are considered primary investment hubs for investors due to their potential to yield high investment returns. However, they also encounter intrinsic problems, including market volatility, political instability, a weak regulatory landscape, and limited investor protection.[25] CG reforms were thus regarded as an essential instrument for developing the attractiveness of their capital markets and increasing the volume of foreign investors.[26]

Egypt, as an emerging market, contributed 1.4% to the global GDP in 2023[27] and was one of the first countries in the MENA region to recognise, at a very early stage, the importance of adopting sound CG regulations. Its CG reforms were part of a broader economic liberalisation strategy initiated in collaboration with the World Bank and the International Monetary Fund (IMF) during the late 20th century. Key milestones included the promulgation of the Capital Market Law (CML) in 1992, which laid a legal foundation for the development of Egypt's capital market, followed by the 2002 Rules that incorporated requirements on CG to enhance financial disclosure and protect minority shareholders. The 2005 CG Code, along with the establishment of regulatory bodies, such as the Egyptian Financial Supervisory Authority

[23] For more background information about the "Emerging Markets" term and its rationale, please see Chapter 2. In brief, the expression "emerging markets" was first fashioned and introduced in the 1980s by Antoine van Agtmael, a former economist at the International Finance Corporation (IFC). The term has then been used, instead of "Third World Countries", to emphasize the potential for investment opportunities in these countries. *See* IFC, 'IFC The First Six Decades Leading The Way In Private Sector Development: A History' (2016) <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.ifc.org/content/dam/ifc/doc/2010/ifc-history-book-second-edition.pdf> accessed 19 January 2025

[24] *See* data retrieved from World Economics, 'Emerging Markets' <https://www.worldeconomics.com/Regions/Emerging-Markets/#:~:text=World%20Economics%20has%20combined%2024,years%20(2013%2D2023)> accessed 12 January 2025; Melsa Ararat and George Dallas, 'Corporate Governance in Emerging Markets: Why It Matters to Investors—and What They Can Do About It' (Private Sector Opinion No 22, World Bank 2011) 2, 2-24 <http://hdl.handle.net/10986/11071> accessed 13 January 2025

[25] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer,and Robert W Vishny, 'Investor Protection and Corporate Governance' (2000) 58 Journal of Financial Economics 3, 3-9; Mariana Pargendler, 'Corporate governance in emerging markets' (30 March 2014) in Jeffrey N Gordon & Wolf-Georg Ringe (eds), *Oxford Handbook of Corporate Law and Governance* (2014)

[26] See, e.g., Stijn Claessens and Burcin Yurtoglu, 'Corporate Governance in emerging markets: A survey' (2013) 15 Ems Review 1; Andrei Shleifer and Robert W Vishny, 'A Survey of Corporate Governance' (1997) 52(2) Journal of Finance 737; Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W Vishny, 'Investor Protection and Corporate Governance' (2000) 58 Journal of Financial Economics 3; Bernard Black, 'The Core Institutions That Support Strong Securities Markets' (2000) 55 Business Lawyer 1565; Sin Yu Ho and Bernard Njindan Iyke, 'Determinants of Stock Market Development: A Review of the Literature' (2017) 34 Studies in Economics and Finance 143

[27] World Economics, 'Emerging Markets' <https://www.worldeconomics.com/Regions/Emerging-Markets/#:~:text=World%20Economics%20has%20combined%2024,years%20(2013%2D2023)> accessed 12 January 2025

(EFSA), contributed to efforts to promote transparency, accountability, and investor protection in securities trading on the EGX.[28]

However, despite all these efforts, the EGX has experienced a paradoxical trend: a large percentage of listed companies have been voluntarily or involuntarily delisted since the CG reforms were introduced in the 2002 Rules, which has been compounded by a decline in new listings.

This phenomenon causes critical questions about its drivers and the compatibility of CG reforms with the realities of the Egyptian market. For example, do stronger CG practices, therefore, increase the costs of compliance sufficiently for listed companies to consider taking themselves private? Are there more significant structural and market-specific explanatory factors at play, such as liquidity constraints, ownership concentration, or issues related to regulatory enforcement? Understanding the potential effects of these reforms is crucial to any assessment of their effectiveness and possible unintended consequences.

Delisting is a complex phenomenon.[29] Many cases of voluntary delisting occur when companies perceive that the associated costs of being listed, including compliance costs for disclosure obligations and regulatory burdens, outweigh the benefits, such as access to capital and other sought-after advantages. Involuntary delistings, however, are typically driven by the stock exchange regulators against those companies that fail to meet ongoing listing requirements. Both types of delistings cause significant impacts on market dynamics, undermining investor confidence, and limiting growth and investment opportunities.[30]

This trend is not peculiar to Egypt. Similar trends of delisting were observed in other stock markets, including the US, UK, Germany, India, and Brazil, although not at the same pace as in the EGX. In some cases, the reforms in CG have also been viewed as putting enormous compliance burdens on companies, notably SMEs and family-owned companies, leading to voluntary delistings.[31]

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[28] For more details on the development of CG rules in the EGX, *see* Chapter 4.

[29] For more details about the meaning of delisting, its forms, determinants, and consequences, *see* Chapter 2.

[30] Sreedhar T Bharath and Amy K Dittmar, 'Why Do Firms Use Private Equity to Opt Out of Public Markets?' (2010) 23(5) The Review of Financial Studies 1771, 1792

[31] Igor Filatotchev and Chizu Nakajima, 'Corporate Governance, Responsible Managerial Behavior, and Corporate Social Responsibility: Organizational Efficiency Versus Organizational Legitimacy?' (2014) 28(3) Academy of Management Prespectives 289, 295; Bernard S Black, Inessa Love, and Andrei Rachinsky, 'Corporate Governance Indices and Firms' Market Values: Time Series Evidence from Russia' (2006) 7 Ems Review 1, 1-22

These reforms were also introduced based on some influential theories that stress the importance of legal institutions for economic growth and the development of the stock markets.[32] For instance, the law and development theory asserts that strong legal systems, which enforce contracts and protect property rights, promote economic growth by providing predictability, stability, and security for investors.[33] In addition, the law and finance theory identifies the role of robust institutions in shareholder protection and the reduction of transaction costs as conducive to financial market development.[34] Moreover, it claims that countries' legal origins matter, whereby common law countries with robust investor protections exhibit more advanced financial markets than their civil law counterparts. In weak legal environments, issues of corporate fraud and a lack of accountability can deter investment.[35]

Although Egypt is a civil law jurisdiction, the amendments to its CG regulations were aimed at aligning its rules with best practices worldwide. However, the rise in the number of delistings and decline in new listings may suggest that such regulations might inadvertently contribute to unpredictable or unintended results. A possible reason could be that companies found this compliance too distressing and thus warranted delisting.

Another potential explanation for the decline of listed companies can be found in Prof. Michael Jensen's 1989 seminal paper, "*The Eclipse of the Public Corporation*".[36] Prof. Jensen predicted

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[32] Thorsten Beck and Ross Levine, 'Legal Institutions and Financial Development' (2004) National Bureau of Economic Research Working Paper 10417 2, 2-5

[33] See, e.g., Stijn Ciaessens, Daniela Klingebiel and Sergio L Schmukler, 'The Future of Stock Exchanges: Determinants and Prospects' (2002) 3 European Business Organization Law Review 403; David M Trubek, Diogo R Coutinho and Mario G Schapiro, 'Toward a New Law and Development: New State Activism in Brazil and the Challenge for Legal Institutions' [2012] The World Bank Legal Review 281; Ada Ordor and Faizel Ismail, 'Mapping Law and Development from African Perspectives: An Overview' (2018) 11 Law and Development Review 251; Yong-Shik Lee, 'General Theory of Law and Development' (2017) 50(3) Cornell International Law Journal 416, 416-427

[34] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W Vishny, 'Law and Finance' (1998) 106(6) Journal of Political Economy 1113, 1113-1117; also see, e.g., Katharina Pistor and Chenggang Xu, 'Governing Stock Markets in Transition Economies: Lessons from China' (2005) 7 American Review of Law and Economics 184; Katharina Pistor, Martin Raiser and Stanislaw Gelfer, 'Law and Finance in Transition Economies' (2000) 8 Economics of Transition 325, pp; Katharina Pistor, 'A Legal Theory of Finance' (2013) 41 Journal of Comparative Economics 315; Tom Ginsburg 'Does Law Matter for Economic Development? Evidence From East Asia' (2000) 34 Law & Society Review 829

[35] Geraldine Szott Moohr, 'On the Prospects of Deterring Corporate Crime' (2007) 2(1) Journal of Business & Technology Law 25, 25-41; [35] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W Vishny, 'Law and Finance' (1998) 106(6) Journal of Political Economy 1113, 1113-1117

[36] Michael C Jensen, 'Eclipse of the Public Corporation' Harvard Business Review (September-October 1989), revised 1997 <https://ssrn.com/abstract=146149> accessed 20 January 2025; also, see, e.g. Brian R Cheffins, 'Rumours of the Death of the American Public Company are Greatly Exaggerated' (3 August 2018) ECGI Law Working Paper No 444/2019 <https://ssrn.com/abstract=3225889> accessed 20 January 2025; Kathleen M Kahle, and Rene M Stulz, 'Is the U.S. Public Corporation in Trouble?' (1 May 2017) ECGI Finance Working Paper No 495/2017 <https://ssrn.com/abstract=2869301> accessed 20 January 2025

that the inherent conflict of interest between shareholders and managers would lead to a decline in the viability of public companies, with businesses opting for private equity and alternative forms of financing instead. This shift may help explain why companies have delisted from the EGX or chosen not to go public, particularly within an environment of heightened CG regulations. While investigating the flourishing of alternative financing structures and their potential linkages to delistings and/or the decline of new listings in EMs, particularly in Egypt, is an important matter, it falls outside the scope of the present study and thus warrants separate future studies. It is also worth noting that since the delisting phenomenon observed in Egypt began as early as 2002, which precedes the relatively recent global trend toward alternative financing, the current study's focus on exploring the likely contribution of CG reforms to this delisting trend is justified.

1.3 Global Delisting Trends

Delisting has been occurring in both developed and emerging markets, although with varying drivers and intensity.[37] A global decline in listed companies, primarily due to waves of delistings, has prompted an increasing volume of research into the reasons behind this trend. This section gives an overview of delisting trends observed across major stock exchanges, revealing jurisdictional differences and international patterns.

The US provides a prominent example of delisting trends in developed markets. A significant number of listed companies have exited major US stock exchanges, including the NASDAQ, AMEX, and NYSE. For instance, between 1995 and 2005, 6,257 companies were delisted from NASDAQ alone, with a peak in 1999 when 873 companies exited the exchange. Figure (1) below illustrates the year-by-year trajectory of delistings on NASDAQ during this period:[38]

[37] *See* Chapter 2.
[38] These data were obtained from Jonathan Macey, Maureen O' Hara and David Pompilio, 'Down and out in the Stock Market: The Law and Economics of the Delisting Process' (2008) 51 J LAW ECON 683, 690

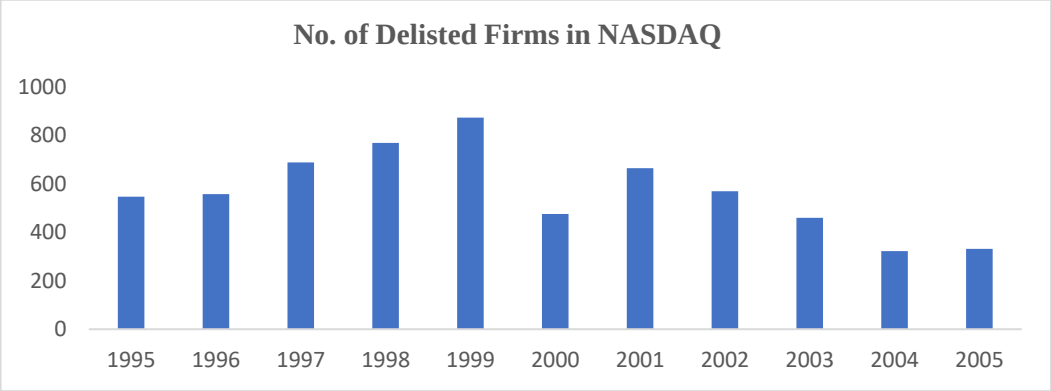

Figure 1: A Year-by-Year Trajectory of Delistings on NASDAQ from 1995 to 2005

Furthermore, between 1997 and 2021, 8,327 companies were delisted across the three major US stock exchanges,[39] while only 4,535 new listings occurred.[40] This shows that the rate of delistings was nearly double that of new entrants, signalling a notable shift in the dynamics of the US stock markets, where companies increasingly opted to exit stock exchanges rather than join them.

In the UK, the LSE has also experienced a wave of delistings, with 4,929 companies delisted between 1996 and 2010.[41] However, the London Stock Exchange (LSE) exhibited a more balanced activity, with 4,589 new listings occurring over these years, resulting in the exit of only 340 companies.[42] This relative balance contrasts sharply with the notable decline observed in the US, which highlights the importance of studying jurisdictions individually within their underlying regulatory and market environments.

Across the OECD countries, a similar trend of delistings has been observed. For example, between 2000 and 2017, 12,610 companies were delisted, while 8,818 new listings occurred,[43] resulting in a net loss of 3,800 companies. However, a significant portion of these delistings occurred in the US, highlighting its considerable impact on this global trend.

[39] Craig Doidge, Andrew Karolyi, and René M Stulz, 'The U.S. Listing Gap' (2015) ECGI Finance Working Paper No 451/2015 1, 5
[40] Ibid
[41] These numbers are calculated from Ottorino Morresi, 'Facts, Figures and Theory' in Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018), 1-4
[42] Ibid
[43] OECD, 'Understanding Delistings from the Portuguese Stock Market' (OECD Capital Market Series, 2020) 18 <https://www.lexpoint.pt/Fileget.aspx?FileId=36194> accessed 14 January 2025

European stock markets, such as Germany and France, have also experienced a delisting trend, with Germany losing around 40% and France losing approximately 60% of their listed companies over the period from 2001 to 2017.[44] Similarly, the Netherlands and Portugal witnessed reductions of around 75% and 61%, respectively.[45] These variations underscore the varying severity of delisting trends across markets, with some countries, such as the UK, demonstrating more stability than others.

On the other hand, data and studies on delisting trends in EMs are relatively scarce; however, insights can be drawn from some studies examining delisting trends in developed countries and global analyses. For example, the SPSE in Brazil experienced delisting incidents from 1996 to 2010. During this period, approximately 478 companies were delisted, while 384 new companies entered the market,[46] resulting in a net loss of 94 listed companies. Although this decline is less severe than the trends observed in developed countries, it reflects the broader global phenomenon of delisting.

In Egypt, the delisting trend has been particularly pronounced. Unlike many other stock markets that have managed to balance delistings with new listings, the EGX has struggled to attract new listings. Between 2002 and 2021, 1,140 companies were delisted, while only 255 new companies entered the market, creating a significant downward trajectory. This stark imbalance underscores the need to investigate the potential drivers of delistings in Egypt as an emerging market.

This global overview of delisting waves highlights the pervasive nature of the trend while revealing significant international differences in its intensity. Developed markets have primarily managed to offset delistings with new listings, though the balance is gradually shifting. In contrast, markets like Egypt have experienced more severe delisting trends with limited new market entrants.

These observations reaffirm the importance of country-specific studies in examining the potential contextual drivers of delisting, particularly its likely linkage to CG reforms, and in developing policy recommendations to address the challenges that may have influenced companies to delist or be subject to involuntary delisting.

[44] Ibid, 17. In Germany, the number of listed numbers declined from 744 to 450, and in France, from 1185 to 465.
[45] Ibid. The rates are determined after setting off the number of new listings against the number of delistings.
[46] These numbers are calculated from Ottorino Morresi, 'Facts, Figures and Theory' in Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) 2-4

1.4 Problem Statement

The phenomenon of delistings on the EGX presents a critical paradox in the context of CG reforms. Delistings can be voluntarily initiated by companies seeking to reduce compliance costs, avoid regulatory scrutiny, or pursue strategic corporate decisions. Alternatively, delistings can be involuntary, resulting from regulatory enforcement against companies that fail to meet the ongoing listing regulations. Therefore, understanding the potential factors that may have contributed to delistings is crucial for evaluating the effectiveness of CG reforms in boosting the growth of stock markets. For example, are these reforms imposing undue burdens on companies alike? Are there structural market deficiencies, such as limited liquidity, excessive regulatory burden, or stringent enforcement mechanisms, that exacerbate the problem? These questions are particularly relevant in EMs, where the interplay between formal regulatory frameworks and informal institutional practices shapes market outcomes.[47]

This research aims to contribute to this gap by exploring the potential linkage between CG reforms and delisting trends on the EGX. Egypt's stock market, established in 1883 during British colonisation, is one of the oldest stock markets globally and the first one in the MENA region. The EGX has historically served as a platform for public companies to raise capital: in 2002, 1,147 companies were listed. Over the years, the EGX has undergone significant transformations, adapting to shifts in local political and economic conditions, as well as global regulatory frameworks. Recent trends, however, reveal challenges within the EGX. The rate of delistings has risen steadily, while the number of new listings has stagnated.

While numerous factors might have influenced the delisting trend, this thesis focuses on the likely contribution of CG reforms to the rise of this pattern in the EGX. Over the past two decades, Egypt has implemented extensive CG reforms aimed at bolstering the investment environment and enhancing the stock market's attractiveness.[48] Despite these efforts, a considerable number of listed companies have left the EGX, raising concerns about the potential factors that may have triggered such decisions. Given the temporal overlap between

[47] Vladislava Ryanota, Alexey Volynets, Axel Kravatzky, Helen Carrington, 'Governance for SME Sustainability and Growth' (2019) IFC Corporate Knowledge Publication 1, 1-11; Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer,and Robert W Vishny, 'Law and Finance' (1998) 106(6) Journal of Political Economy 1113, 1113-1155; Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 'The law and economics of self-dealing' (2008) 88 Journal of Financial Economics 430, 430-465

[48] Ibrahim El-Sayed Ebaid, 'Corporate Governance and Investors' Perceptions of Earnings Quality: Egyptian Perspective' (2013) 13 Corporate Governance: The International Journal of Business in Society 261, 261-265

the implementation of CG reforms and the delisting trend, it is plausible that these reforms could have led to unintended consequences, such as pressuring companies to exit the market.[49]

Studies suggest that while CG reforms are designed to improve transparency, enhance market stability, protect investors, and increase accountability, they can also impose compliance burdens.[50] These burdens disproportionately affect SMEs and family-owned companies, potentially incentivising them to delist.[51]

The global trend of declining numbers of listed companies, driven by waves of delistings and a low number of new listings, has been observed across stock exchanges globally. However, the extent of this trend varies significantly across jurisdictions. While some stock exchanges have managed to balance delistings with a steady influx of new listings, the EGX has not demonstrated such resilience. The magnitude of delistings on the EGX, coupled with the context in which they have occurred, is particularly striking and raises a critical question: Have CG reforms unintentionally motivated listed companies to delist from the EGX? This study aims to address this question by exploring the potential role of CG reforms in delisting decisions, with a particular focus on Egypt.

In fact, the EGX has acknowledged this problem itself. In a 2018 interview, Dr Mohamed Farid, then-chairman of the EGX and now head of the FRA, stated: "*The number of companies listed in EGX is not comparable with what already exists in the business world, so the Bourse is working to provide institutional incentives to increase the number of listed companies*."[52]

1.5 Thesis Objectives

The central objective of this thesis is to explore the potential contribution of the CG reforms at the country level to the high percentage of delistings observed on the EGX. Specifically, this thesis aims to:

1. Identify the key CG reforms implemented in Egypt over the past two decades.

[49] Mark Isaksson, Serdar Celik, 'Who Cares? Corporate Governance in Today's Equity Markets' (2013) OECD Corporate Governance Working Papers No 8 2, 2-10

[50] I Martinez and S Serve, 'Reasons for Delisting and Consequences a Literature Review and Research Agenda' (2017) 31(3) Journal of Economic Surveys 733, 743

[51] Mark Isaksson, Serdar Celik, 'Who Cares? Corporate Governance in Today's Equity Markets' (2013) OECD Corporate Governance Working Papers No 8 2, 2-10; Ruth V Aguilera, William Q Judge, and Siri A Terjesen, 'Corporate Governance Deviance' (2018) 43(1) Academy of Management Review 1, 1-5

[52] Hanan Mohamed, '5 companies to be listed on EGX by end of 2018' (Egypt Today, 5 September 2018) <https://www.egypttoday.com/Article/3/57141/5-companies-to-be-listed-on-EGX-by-end-of> accessed 13 January 2025

2. Analyse historical trends and patterns in listing and delisting activity on the EGX, using a comprehensive dataset compiled for the first time by the researcher, to provide an in-depth understanding and overview of market dynamics.
3. Compile qualitative insights from semi-structured interviews with EGX's stakeholders, including regulators, market advisors, and corporate executives, to explore the actual triggers for delistings and the possible linkage between these decisions and CG reforms.
4. Explore the most significant CG rules that could have influenced the companies to delist or be delisted from the EGX.
5. Identify any potential unintended consequences of CG reforms and design policy recommendations that balance the benefits of CG improvements with the need to sustain a vibrant and inclusive capital market.

1.6 Thesis Questions

In light of the above discussion, this thesis is guided by a central research question: To what extent have CG reforms contributed to the delisting trend observed in the EGX? In addressing this, this study will reflect on the following sub-questions:

1. How have CG reforms evolved in the Egyptian stock market?
2. What are the listing and delisting trends in the EGX?
3. Is there any linkage between CG reforms and the decision to delist in the Egyptian context?
4. What motivations do companies cite for delisting?
5. What policies can ensure transparency and inclusion?

Through these questions, this thesis aims to explore the potential link between CG reforms and the observed delisting trend on the EGX, by analysing historical listing and delisting patterns in light of regulatory changes. By addressing this, the study aims to provide a comprehensive understanding of how CG reforms may have influenced companies' listing and delisting decisions, as well as market dynamics.

1.7 Research Methodology[53]

Research in the social sciences involves a methodical investigation into a particular subject or problem, aiming to provide understanding and explanation that enhance the credibility and applicability of the findings.[54] In this context, two primary methodologies are frequently employed: quantitative and qualitative.[55]

This study adopts a sequential explanatory mixed-methods approach, employing both descriptive quantitative and qualitative research methods to comprehensively understand and explore the potential linkage between CG reforms and delisting trends on the EGX.

As will be explained in Chapter 5, the study begins with the analysis of novel numerical data compiled by the researcher for the first time to identify historical patterns and trends in listing and delisting activity on the EGX. This is followed by a qualitative phase that integrates the perspectives of EGX's stakeholders, offering context and depth to the initial findings. By combining descriptive quantitative evidence with stakeholder insights, the study aims to provide a comprehensive analysis of the underlying dynamics that may have influenced delisting decisions within the context of CG reform.

In addition to the mixed-methods approach, this study incorporates both positive and normative analytical frameworks rooted in the economic analysis of law.[56] The positive analysis focuses on identifying and analysing the key CG reforms applied to listed companies between 2002 and 2021. It examines the implementation of these reforms and their potential correlation with the observed trend of declining listings on the EGX. Conversely, the normative analysis evaluates the effectiveness and desirability of the reforms. It explores potential unintended consequences, identifies shortcomings in reform implementation, and suggests some legal mechanisms and policy recommendations to address these issues, considering the intrinsic characteristics of Egypt's context in future reforms.[57]

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[53] A detailed explanation of the research methodology is provided in Chapter 5.

[54] Tim May and Malcolm Williams, *An Introduction to the Philosophy of Social Research* (1st edn, Routledge 2002) 7

[55] Matt Henn, Mark Weinstein and Nick Foard, *A Short Introduction to Social Research* (SAGE Publications 2006) 116

[56] Franceso Parisi, 'Positive, Normative and Functional Schools in Law and Economics' (2004) 18(3) European Journal of Law and Economics 259, 259-272

[57] Jan M Smits, 'Law and Interdisciplinarity: On the Inevitable Normativity of Legal Studies' (2014) 1 Critical Analysis of Law 75 2, 2-15; Uskali Maki, *The Methodology of Positive Economics: Reflections on the Milton Friedman Legacy* (Cambridge University Press 2009) 4

This study also adopts a case study approach, focusing specifically on CG reforms in Egypt, as an emerging market and their impact on the EGX. This approach enables a thorough examination of the unique circumstances surrounding the Egyptian market, providing a contextualised understanding of listing and delisting dynamics.

Additionally, some lessons and CG strategies adopted by other EMs, such as Brazil, may be relied upon as part of the normative analysis, particularly when proposing policy recommendations.

Finally, the study also incorporates methodological individualism by examining the potential impact of CG reforms on specific economic sectors represented by companies listed on the EGX. This approach highlights how reforms could affect different market players and sectors in terms of listing and delisting decisions.

1.8 Thesis Significance and Contribution

This thesis contributes to the fields of CG and stock market development, with a particular focus on EMs, such as Egypt. It offers novel insights and enhances the global understanding of the possible negative linkage between CG reforms and stock market dynamics for the following reasons:

First, it explores the possible unintended consequences of CG reforms. CG regulations are widely recognised as crucial for the development and attractiveness of capital markets globally. To strengthen their markets and appeal to foreign investors, numerous countries have implemented extensive reforms. However, the unintended consequences of these reforms, particularly their potential contribution to a decline in the number of listed companies in EMs, remain underexplored. This gap is thus addressed by exploring how CG reforms may have influenced the trends of delisting in Egypt, as an emerging market.

Second, it focuses on the delisting phenomenon in EMs. The global phenomenon of declining numbers of listed companies has received increasing attention; however, the majority of academic studies, albeit still limited, focus on developed markets, primarily the USA, the UK, and Europe. Studies on EMs remain limited and do not sufficiently explain delisting trends in association with CG reforms at a country level. This study fills that gap by examining Egypt as a case study and exploring the probable role of CG reforms in shaping delisting trends. The findings would thus broaden the academic discourse on stock market behaviours in emerging

economies, provide a fresh perspective on how CG reforms function in an emerging market context, and offer lessons adaptable to other developing countries.

Third, it makes a significant methodological contribution by creating, for the first time, a novel dataset that tracks listing and delisting activities on the EGX over a two-decade period. This temporal dataset provides a comprehensive understanding of market dynamics over time. Additionally, the study adopts a mixed-methods approach, combining a descriptive quantitative approach with qualitative perceptions from semi-structured interviews with key stakeholders. This methodology is rare in studies of EMs and would provide an advanced analysis of the potential factors that may have contributed to the listing and delisting trends.

Fourth, Egypt's role as a leading economy in the MENA region enhances the broader relevance of this thesis. This is because the findings of this study can serve as reference points for other countries in the region and similar EMs globally.

Fifth, by exploring delisting trends in Egypt, this thesis lays the groundwork for future studies that aim to conduct a comparative analysis with other jurisdictions. It contributes to scholarly discourse across multiple domains, including law and development, law and finance, CG, and economic policy, while also encouraging future theoretical and empirical studies in this field.

Sixth, the outcome of this study will have substantial implications for policymakers and regulators in EMs. They are expected to guide the design and implementation of future CG reforms, striking a balance between enhancing transparency and avoiding adverse outcomes, such as discouraging public listings.[58]

Seventh, this study provides insights for investors willing to invest in EMs by exploring the potential interplay between CG reforms, market regulation, and stock market behaviour. The findings will likely equip investors with more information about the complexities of EMs, including an understanding of the risks and opportunities associated with regulatory changes and probable delisting trends.

In brief, this thesis makes substantial contributions to both theoretical discourse and practice. It contributes to the growing literature on CG in EMs by addressing a relatively underexplored issue: the potential influence of CG reforms on delisting decisions. While many existing studies

[58] Oliver E Williamson, 'The New Institutional Economics: Taking Stock, Looking Ahead' (2000) 38 Journal of Economic Literature 595, 595-513; Ruth V Aguilera, William Q Judge, and Siri A Terjesen, 'Corporate Governance Deviance' (2018) 43(1) Academy of Management Review 1, 1-8

focus on the benefits of CG reforms, this study aims to highlight their possible unintended consequences.

1.9 Egypt As A Case Study

The global decline in the total number of listed companies on major stock exchanges has prompted widespread scholarly attention.[59] However, studies aimed at exploring this phenomenon in EMs are still limited. While country-specific studies justify the selection of Egypt as a case study, Egypt has unique characteristics and challenges that make it a compelling case for independent analysis, as outlined below:

First, Egypt's diversified economy, encompassing agriculture, tourism, manufacturing, and services, positions it as one of the most developed and diversified economies in the MENA region, ranking third after the Kingdom of Saudi Arabia and the United Arab Emirates.[60] As a regional leader, Egypt's economic performance and stock market trends have far-reaching implications for the broader MENA region.

Second, as an emerging market, Egypt faces typical challenges, including concentrated corporate ownership, the dominance of SOEs, weak enforcement mechanisms, a lack of transparency, and economic uncertainty.[61] These factors, which may influence listing and delisting decisions, make Egypt an ideal setting for studying the effects of regulatory changes on stock markets in emerging and developing markets.

Third, the historical significance of the EGX adds to Egypt's relevance as a unique case study. Established in 1883, the EGX is one of the oldest stock exchanges globally and was once ranked as the fifth-largest stock exchange worldwide in terms of transaction value.[62] However,

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[59] See, recent studies. e.g. Martin Gelter and Steven Thel, 'Delisting in the United States' (1 October 2024) ECGI Law Working Paper No 806/2024, 3 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4973561> accessed 17 January 2025; Alperen A Gözlügöl, Julian Greth, and Tobias H Tröger, 'The Regulatory Consequences of the Oscillating Domains of Public and Private Markets' (February 2023) ECGI Law Working Paper No 689/2023, 1 <https://ssrn.com/abstract=4372011> accessed 17 January 2025; Craig Doidge, Kathleen M Kahle, George Andrew Karolyi, and Rene M Stulz, 'Eclipse of the Public Corporation or Eclipse of the Public Markets?' (1 January 2018) ECGI Finance Working Paper No 547/2018, 1 <https://ssrn.com/abstract=3100255> accessed 17 January 2025

[60] Doaa A Moneim, 'Egypt places 3rd in Forbes's List for Largeest Economies in Arab World' (ahram online, 25 July 2021) <https://english.ahram.org.eg/NewsContent/3/12/417676/Business/Economy/Egypt-places-rd-in-Forbes%E2%80%99s-list-for-largest-econo.aspx> accessed 19 January 2025

[61] Stijn Claessens and Burcin Yurtoglu, 'Corporate Governance in emerging markets: A survey' (2013) 15 Emerging Markets Review 1, 1-10

[62] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081; Shahira Abdel Shahid, 'Corporate Governance is a Global Pursuit: What Could Be Done in Egypt?' (September 2001) Cairo & Alexandria Stock Exchanges Working Paper No 1, 42 <https://ssrn.com/abstract=286875> accessed 13 January 2025

in recent years, the number of listed companies has sharply dropped, i.e., from 1,147 in 2002 to around 213 in 2021. It is thus necessary to investigate the possible factors contributing to this notable shift.

Fourth, Egypt is the first Arab country in the MENA region to implement comprehensive CG reforms, setting a model for other countries. These reforms, developed in collaboration with international institutions, including the World Bank, the IMF and the OECD, aimed to enhance transparency, accountability, and investor confidence. The findings of this study will likely provide valuable lessons for other countries considering similar regulatory reforms or observing delisting trends.

Fifth, Egypt's pressing need for foreign investment underscores the importance of this study. Although significant efforts have been made to improve Egypt's capital market, it has not yet fully achieved its intended objectives. This study may provide policymakers with valuable insights that can help make the EGX more attractive and bolster Egypt's economic growth.

Sixth, the diversity of the EXG's listed sectors, including finance, real estate, telecommunications, and manufacturing, enhances the relevance of this study and reveals sector-specific patterns that will be helpful for future studies on other EMs.

Seventh, the massive delisting rates on the EGX set it apart from global trends. Figure (2) below shows the trajectory of the listing trend on the EGX from 1970 until 2021.

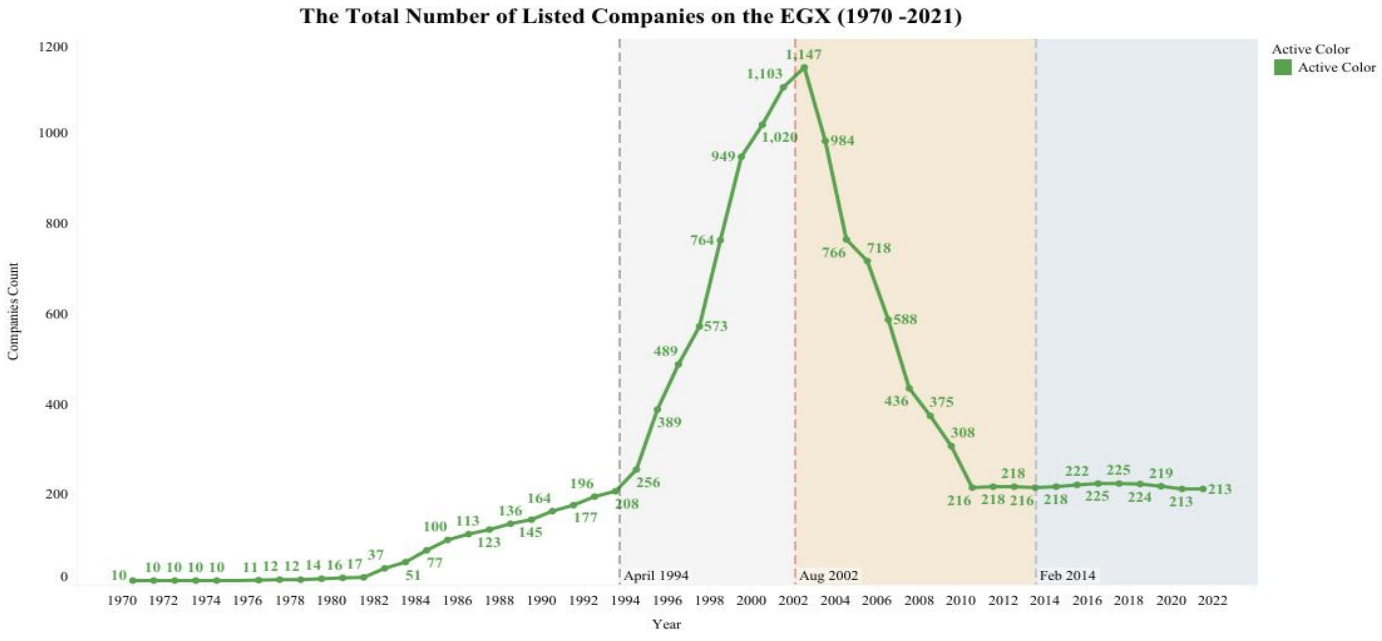

Figure 2: The Total Number of Listed Companies on the EGX from 1970 to 2021

This figure indicates that Egypt has experienced a notable reduction in listed companies after August 2002 without a comparable influx of entrants, in contrast to other stock exchanges that have managed to balance delistings with new listings, as explained in Section 1.3 above. This imbalance highlights the need for the present study, which aims to explore the potential factors contributing to this trend.

Finally, Egypt's inclusion in seminal academic research on law and finance underscores its significance.[63] These studies emphasise the role of legal and regulatory structures in shaping financial markets, making Egypt a vital case for examining the intersection of CG, legal regimes, and stock market behaviour.

In conclusion, Egypt's distinctive economic, regulatory, and historical context makes it an essential case study with far-reaching implications.

1.10 Thesis Structure

The thesis is comprised of 8 chapters and is structured as follows:

Chapter One (Introduction): It has provided an overview of the thesis, including its background, research problem, and objectives. It also presented delisting trends across various jurisdictions, highlighting the significance of the problem. Afterwards, it articulated the research questions, explained the methodology, and highlighted the importance and contributions of the study. Furthermore, it described the rationale for selecting Egypt as a case study, concluding with the thesis structure, thereby setting the stage for the detailed analysis that follows.

Chapter Two: This chapter is divided into two main sections. Section one addresses the definition and various approaches to CG, as well as the evolution of its regulations. It also highlights the importance and development of CG regulations in EMs. Section two explains the phenomenon of delisting, its determinants, causes, and consequences, concluding with an overview of specific studies that address CG reforms and delisting trends, both globally and within EMs.

[63] See, e.g., Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Economic Consequences of Legal Origins' (2008) 46 J ECON LIT 285, 285; Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 'The law and economics of self-dealing' (2008) 88 Journal of Financial Economics 430, 430; Raghuram G Rajan and Luigi Zingales, 'The Great Reversals: The Politics of Financial Development in the Twentieth Century' (2003) 69 J FINANC ECON 5, 5

Chapter Three: This chapter outlines the key theoretical frameworks adopted in this thesis to explore the potential effect of CG reforms on delistings in the EGX. It draws on agency economics of regulation, agency theory, public choice theory, and institutional theory to provide a robust conceptual framework for this thesis. Based on these theories and their related concepts, this chapter will formulate the thesis's primary hypothesis regarding the likely impact of CG reforms on delisting trends on the EGX.

Chapter Four: This chapter examines the evolutionary path of Egypt's stock market and the CG regulations, specifying key reforms implemented over the years. It further highlights some studies addressing the influence of CG regulation on the performance of listed companies on the EGX.

Chapter Five: This chapter outlines the methodological approach adopted by the researcher, detailing the data collection process and sample selection for both the descriptive quantitative analysis of the EGX Dataset and the thematic analysis of data received from stakeholders during the semi-structured interviews. It also provides a clear explanation of the methodological steps undertaken to ensure the study's reliability and validity, as well as the ethical considerations.

Chapter Six: This chapter analyses the EGX Dataset through descriptive quantitative analysis to identify listing and delisting patterns and any potential correlations between CG reforms and delisting events. Additionally, to better understand the severity of the delisting trend observed in the EGX, an analysis of the listing patterns on the EGX from 1970 is also included. The numbers, prevailing forms, and determinants of delistings across delisted companies from the EGX are also explored. This chapter lastly concludes with an explanation of the delisting patterns across 18 sectors.

Chapter Seven: This chapter complements the analysis of the EGX Dataset in Chapter 6. It analyses the data obtained through interviews with policymakers, market participants, corporate executives, and industry experts. The analysis addresses three primary themes: the design and implementation of CG regulations on the EGX, the possible determinants of delisting trends on the EGX, and concludes with some questions aimed at setting the stage for some policy recommendations.

Chapter Eight: This chapter concludes the thesis by first summarising the key findings of the study, interpreting them in the context of the research questions, with a primary focus on the specific characteristics of the delisting phenomenon in the EGX. It also features two

recommended proposals for regulatory reforms that may strengthen EGX's activity by encouraging companies to list on its trading platform. The thesis contribution, scope, and limitations are also addressed. The chapter also outlines avenues for future research, emphasising the need for continued exploration of CG reforms and their consequences for market dynamics, and then concludes.

Chapter 2: CG and the Delisting Phenomenon

2.1 Introduction

As this thesis explores the possible correlation between CG reforms and the surge in delistings observed in the EGX, this chapter discusses the primary elements concerning (i) the definition, varying approaches, and the emergence and evolution of CG regulations, with a focus on EMs, and (ii) the delisting phenomenon in terms of its definition, forms, determinants, including studies sought to explore the possible influence of CG on delisting decisions in some jurisdictions, and its consequences.

For the sake of clarification, and given the extensive studies on CG, this chapter solely focuses on studies most relevant to the thesis's objectives, primarily helping in investigating the probable connection between CG reforms and the increase in delisting incidents on the EGX.

Therefore, this chapter is organised as follows. The first section focuses on CG (**Section 2.2**), while the second section presents the delisting phenomenon (**Section 2.3**). A conclusion and explanation of the prevailing literature gaps in studies concerning the delisting phenomenon are made afterwards **(Section 2.4)**.

2.2 Section One: CG

Global corporate failures, such as those involving WorldCom and Enron, have heightened the significance of CG regulations for companies.[64] Consequently, CG reforms aiming at strengthening effective CG regulations have become a top priority for regulators, policymakers, and scholars worldwide.[65]

In this section, the definition, approaches, and evolution of CG will be addressed. The critical importance of CG in EMs is subsequently highlighted.

[64] Shirley Daniel, Joshua K Cieslewicz, and Hamid Pourjalali, 'The Impact of National Economic Culture and Country-Level Institutional Environment on Corporate Governance Practices' (2012) 52(3) Management International Review 1, 2-3

[65] Carla CJM Millar, Tarek I Eldomiaty, Chong Ju Choi, and Brian Hilton, 'Corporate Governance and Institutional Transparency in Emerging Markets' (2005) 59 Journal of Business Ethics 163, 163

2.2.1 CG Definition and Varying Approaches

There is no universally adopted definition for CG.[66] Instead, CG has various interpretations across contexts and perspectives.[67] Generally, CG can be understood through two primary lenses: narrow and broad interpretations.[68]

The narrow view of CG is closely connected to the agency theory.[69] It focuses on the policies and mechanisms designed to safeguard shareholders' interests, aiming to address the conflict of interest that typically exists between managers and shareholders. It further highlights the necessity of management accountability to shareholders, as its primary role is to maximise the shareholders' wealth.[70]

In their analysis of corporate structure during the late 19th and early 20th centuries, Berle and Means highlighted a growing trend toward dispersed ownership, which led to a separation between ownership and control.[71] In many US companies, management had significant power, while ownership became fragmented among minority shareholders who had minimal influence. This shift resulted in conflicts of interest between shareholders and managers, as shareholders sought profit maximisation, while managers pursued personal goals or self-interest. Consequently, the agency problem arose.

As a result, significant attention has been devoted to developing mechanisms that ensure companies operate in alignment with shareholder interests.[72] To mitigate these conflicts, CG regulations have been widely regarded as a framework designed to ensure that managers' actions and decisions aim to realise the optimal interests of shareholders, who are the owners of the companies.[73]

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[66] Salem Amara, 'An Overview of Corporate Governance Practice in Companies Listed on the Libyan Stock Market' (2021) 7(3) Athens Journal of Business & Economics 287, 287

[67] Garzón Castrillón and Manuel Alfonso, 'The Concept of Corporate Governance' (2021) 25(2) Revista Científica "Visión de Futuro" 178, 180-181

[68] Jill Solomon, *Corporate Governance and Accountability* (5th edn, John Wiley & Sons 2020) 5

[69] Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure' (1976) 3 Journal of Financial Economics 305, 308-310

[70] Jill Solomon, *Corporate Governance and Accountability* (5th edn, John Wiley & Sons 2020) 16

[71] G Means, *The Modern Corporation and Private Property* (2nd edn, Routledge 2017) xlii; Charles C Okeahalam and Oludele A Akinboade, 'A Review of Corporate Governance in Africa: Literature, Issues and Challenges' (15 June 2003) Paper prepared for the Global Corporate Governance Forum, 2

[72] Niamh M Brennan and Jill Solomon, 'Corporate Governance, Accountability and Mechanisms of Accountability: An Overview' (2008) 21(7) Accounting, Auditing and Accountability Journal 1, 3

[73] GJ Rossouw, A van der Watt, and DP Mala, 'Corporate Governance in South Africa' (2002) 37 Journal of Business Ethics 289, 289; Niamh M Brennan and Jill Solomon, 'Corporate Governance, Accountability and Mechanisms of Accountability: An Overview' (2008) 21(7) Accounting, Auditing and Accountability Journal 1, 3

In this regard, in his ground-breaking 1992 report, Sir Adrian Cadbury supported this perspective when explaining CG, stating: *"CG is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place."*[74]

Similarly, other renowned scholars considered CG as "*the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment*."[75]

Thus, the shareholder-oriented model views CG as a framework to mitigate agency problems, considering that shareholders, as residual claimants, bear the risks and rewards of corporate performance; therefore, thereby managers should always act in their interest.[76]

This perspective was further supported by the influential work of Jensen and Meckling, who highlighted the potential conflicts of interest that arise from the separation of ownership and control.[77] They, accordingly, emphasised the importance of having policies and mechanisms to make sure that managerial actions align with shareholders' interests. Without offering these mechanisms, shareholders would be at the mercy of the management, as asymmetric information makes it challenging and costly for shareholders to observe and evaluate the performance and achievements of managers.[78]

Nevertheless, this perspective was criticised for its limited focus, which prioritises shareholder wealth over the other stakeholders.[79] Opponents emphasise that companies should not be viewed as the property of the shareholders but instead as common property for all respective stakeholders.[80] This perspective holds management accountable to a broader array of stakeholders, which encompasses suppliers, employees, customers, governments, and society

[74] Cadbury's Committee on the Financial Aspects of Corporate Governance, *Report of the Committee on Financial Aspects of Corporate Governance* (1992) para 2.5 <https://media.frc.org.uk/documents/Cadbury_Code_-_The_Financial_Aspects_of_Corporate_Governance.pdf> accessed 12 January 2025
[75] Andrei Shleifer and Robert W Vishny, 'A Survey of Corporate Governance' (1997) LII(2) Journal of Finance 737, 737
[76] Thomas Clarke, *International Corporate Governance* (3rd edn, Routledge 2023). 45; Andrei Shleifer and Robert W Vishny, 'A Survey of Corporate Governance' (1997) LII(2) Journal of Finance 737, 773-774
[77] Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure' (1976) 3(4) Journal of Financial Economics 305, 313
[78] Eugene E Fama and Michael C Jensen, 'Separation of Ownership and Control' (1983) XXVI Journal of Law and Economics 1, 9
[79] Margaret M Blair and Lynn A Stout, 'A Team Production Theory of Corporate Law' (1999) 85(2) Virginia Law Review 247, 253
[80] Ibid

as a whole.[81] In his revised definition of CG, Sir Adrian Cadbury adopted this broad approach: *"CG is concerned with holding the balance between economic and social goals and between individual and communal goals. The CG framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations, and society."*[82]

This stakeholder-centric model thus emphasises balancing competing interests to achieve sustainable and ethical corporate practices. The OECD has reflected this approach, stating: "*CG involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. CG also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined*."[83]

Therefore, according to this view, CG: "*refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission. CG implies that companies not only maximise shareholders wealth, but balance the interests of shareholders with those of other stakeholders, employees, customers, suppliers, and investors so as to achieve long-term sustainable value*."[84]

Despite the varying perspectives, explanations of CG generally share a common theme: accountability.[85] Under the narrow approach, accountability is primarily directed toward shareholders, focusing on mechanisms that ensure managerial decisions are intended to maximise shareholders' interests and wealth. In contrast, the broader approach expands the scope of accountability to involve a wide range of other stakeholders. This broader view recognises that companies have responsibilities that extend beyond financial performance, emphasising their role in fostering sustainable and ethical practices that benefit all stakeholders.

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[81] Jill Solomon, *Corporate Governance and Accountability* (5th edn, John Wiley & Sons 2020) 13; Jyoti Devi Mahadeo and Teerooven Soobaroyen, 'A Longitudinal Study of the Implementation of the Corporate Governance Code in a Developing Country: The Case of Mauritius' (2013) 55(5) Business and Society 738, 739

[82] Cadbury's Committee on the Financial Aspects of Corporate Governance, *Report of the Committee on Financial Aspects of Corporate Governance* (1992) 2 <https://media.frc.org.uk/documents/Cadbury_Code_-_The_Financial_Aspects_of_Corporate_Governance.pdf> accessed 12 January 2025

[83] OECD, *OECD Principles of Corporate Governance* (2004), OECD Legal Instruments, OECD/LEGAL/0327, 11

[84] Charles C Okeahalam and Oludele A Akinboade, 'A Review of Corporate Governance in Africa: Literature, Issues and Challenges' (15 June 2003) Paper prepared for the Global Corporate Governance Forum, 3

[85] Jill Solomon, *Corporate Governance and Accountability* (5th edn, John Wiley & Sons 2020) 6

In any event, irrespective of the underlying perspective of CG, these approaches are instrumental in shaping how countries develop their CG regulations, i.e., adopting either a shareholder-centric or stakeholder-centric model. These varying approaches thus influence the design and implementation of CG frameworks worldwide. It is evident, however, that the adoption of any of these models is heavily influenced by the country's legal, cultural, and institutional contexts.[86]

The shareholder model, for example, is predominantly associated with Anglo-American countries, such as the US and the UK, where its primary focus is on maximising shareholder wealth.[87] On the other hand, the stakeholder model is more prevalent in European and Asian nations, such as Germany and Japan, where the interests of broader stakeholders are integrated into CG frameworks.[88] In Germany, for instance, employees can be represented on a company's supervisory board.[89]

It follows that these variations reflect the evolving understanding of CG in response to diverse economic, social, and cultural contexts. Accordingly, CG has numerous definitions and two primary perspectives: shareholder versus stakeholder-oriented model. These models were utilised as benchmarks to evaluate the effectiveness and suitability of CG regulations within specific contexts.[90]

2.2.2 Evolution of CG Regulations

The evolution of CG regulations dates back to the emergence of limited liability companies,[91] following the enactment of the 1855 and 1862 Companies Acts in the UK.[92] Early concerns

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[86] OECD, OECD Principles of Corporate Governance (2004), OECD Legal Instruments, OECD/LEGAL/0327, 6

[87] Miko Kamal, 'Corporate Governance and State-owned Enterprises: A Study of Indonesia's Code of Corporate Governance' (2010) 5(4) Journal of International Commercial Law and Technology 206, 209

[88] Ruth V Aguilera, 'Corporate Governance and Director Accountability: An Institutional Comparative Perspective' (2005) 16 British Journal of Management S39, S41; Miko Kamal, 'Corporate Governance and State-owned Enterprises: A Study of Indonesia's Code of Corporate Governance' (2010) 5(4) Journal of International Commercial Law and Technology 206, 206–207; Stephen Letza, James Kirkbride, Xiuping Sun and Clive Smallman, 'Corporate Governance Theorising: Limits, Critics and Alternatives' (2008) 50(1) International Journal of Law and Management 17, 22

[89] Irene Lynch Fannon, 'The European Social Model of Corporate Governance: Prospects for Success in an Enlarged Europe' in *International Corporate Governance after Sarbanes-Oxley* (2006) 423, 425

[90] David L Deephouse and Pursey P M A R Heugens, 'Linking Social Issues to Organizational Impact: The Role of Infomediaries and the Infomediary Process' (2009) 86 Journal of Business Ethics 541, 541-542

[91] Bob Tricker, 'Editorial: Corporate Governance – the subject whose time has come' (2000) 8(4) Corporate Governance: An International Review 289, 289-290

[92] Bob Tricker, 'Editorial: Corporate Governance – the subject whose time has come' (2000) 8(4) Corporate Governance: An International Review 289, 289-290; Gerald Vinten, 'Corporate Governance: An International State of the Art' (1998) 13(7) Managerial Auditing Journal 419, 427

about the potential conflict between managers and shareholders were raised by Adam Smith, who highlighted in his influential work, the Wealth of Nations, the risks posed by managerial self-interest.[93]

Subsequent studies by Berle and Means[94] and Jensen and Meckling[95] have evolved into investigating the separation of ownership and control in companies, examining its implications for the relationship between shareholders and managers. Their work emphasised how dispersed ownership structures can lead to conflicts of interest, as managers might seek to entrench their interests over those of shareholders. These findings have laid the foundation for CG reforms, aiming to ensure that managerial interests are aligned with those of shareholders.

Initially, CG discussions focused on US and UK companies. However, global corporate scandals in the 1990s highlighted the need for effective CG frameworks worldwide.[96] In the UK, this resulted in the issuance of the Cadbury Report in 1992, which outlined key CG principles, including board independence, corporate disclosures, and the establishment of audit committees.[97]

Similarly, in the US, the SOX was enacted in 2002, adopting stricter financial disclosure requirements, imposing penalties for misconduct, and enhancing the role of external audits.[98] These reforms became global benchmarks, influencing CG policies worldwide.

Additionally, the influential work of the LLSV played a crucial role in the widespread implementation of CG reforms.[99] Their law and finance framework demonstrated how legal

[93] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) (Electronic Classics Series 2005) Book V, 741
[94] G Means, *The Modern Corporation and Private Property* (2nd edn, Routledge 2017) 112
[95] Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure' (1976) 3(4) Journal of Financial Economics 305, 305-306
[9696] Bob Tricker, 'Editorial: Corporate Governance – the subject whose time has come' (2000) 8(4) Corporate Governance: An International Review 289, 292-294; Diane K Denis and John J McConnell, 'International Corporate Governance' (2003) 38(1) The Journal of Financial and Quantitative Analysis 1, 20-24
[97] C Mallin, *Corporate Governance* (4th edn, Oxford University Press 2013) 29
[98] For example, see Ellen Engel, Rachel M Hayes and Xue Wang, 'The Sarbanes-Oxley Act and Firms' Going-Private Decisions' (2007) 44 Journal of Accounting and Economics 116; Sarbanes-Oxley Act of 2002, Pub L No 107-204, 116 Stat 745, Approved 30 July 2002, as amended by Pub L No 117-328, Enacted 29 December 2022 <https://www.govinfo.gov/content/pkg/COMPS-1883/pdf/COMPS-1883.pdf> accessed 12 January 2025
[99] Gordon Walker and Mark Alexander Fox, 'Corporate Governance Reform in East Asia' (2002) 2(1) Corporate Governance 4, 4

origins, specifically common law or civil law, shape CG structures and impact investor protections.[100]

According to their findings, common law jurisdictions, such as the US and the UK, offer stronger protections for minority shareholders through their robust regulatory frameworks and judicial enforcement.[101] This is in contrast to civil law jurisdictions, such as Germany and France, which tend to have rigid frameworks and weaker investor protections, characterised by concentrated ownership structures and both family- and state-controlled companies.[102] These findings thus provided an analysis of the divergence between developed and developing nations in terms of CG structures and practices.[103]

Building on LLSV's insights,[104] international institutions, such as the World Bank and the OECD, have advocated for CG reforms aimed at standardising investor protections worldwide. A major milestone was achieved in 1999 when the OECD introduced its Principles of CG, which emphasised transparency, board accountability, and shareholder rights.[105]

While these frameworks have influenced CG reforms globally, scholars argue that many developing economies faced structural and institutional challenges in adopting Western CG models.[106] Reliance on civil law traditions and insider-oriented systems limited the

[100] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W Vishny, 'Legal Determinants of External Finance' (1997) 52(3) Journal of Finance 1131, 1131-1150; Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W Vishny, 'Investor Protection and Corporate Governance' (2000) 58 Journal of Financial Economics 3, 3–27

[101] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer,and Robert W Vishny, 'Legal Determinants of External Finance' (1997) 52(3) Journal of Finance 1131, 1131–1150; Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W Vishny, ' Law and Finance' (1998) 106(6) Journal of Political Economy 1113, 1130-1134; Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Rovert W Vishny, 'Investor Protection and Corporate Governance' (2000) 58 Journal of Financial Economics 3, 10-11

[102] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W Vishny, 'Legal Determinants of External Finance' (1997) 52(3) Journal of Finance 1131, 1131–1150; Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W Vishny, 'Law and Finance' (1998) 106(6) Journal of Political Economy 1113, 1130-1134; Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W Vishny, 'Investor Protection and Corporate Governance' (2000) 58 Journal of Financial Economics 3, 10-12

[103] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert W Vishny, 'The Quality of Government' (1999) 15(1) Journal of Law 222, 222-279

[104] Gordon Walker and Mark Alexander Fox, 'Corporate Governance Reform in East Asia' (2002) 2(1) Corporate Governance 4, 4

[105] OECD, *Principles of Corporate Governance* (Meeting of the OECD Council at Ministerial Level 1999) <https://one.oecd.org/document/C/MIN(99)6/en/pdf> accessed 12 January 2025

[106] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W Vishny, 'Investor Protection and Corporate Governance' (2000) 58 Journal of Financial Economics 3, 20–24

enforcement capacity, resulting in superficial compliance rather than substantive compliance.[107]

The globalisation of CG has led to a trend of convergence toward the Anglo-American model,[108] which prioritises shareholder protection, market-based discipline, and dispersed ownership structures.[109] Countries, such as Russia,[110] India,[111] Bangladesh,[112] South Africa,[113] and Japan,[114] have adopted this model. However, opponents argue that imposing external CG frameworks without considering local institutional contexts would lead to ineffective implementation.[115] Otherwise, the reforms would achieve unintended consequences.[116] For example, many reforms in EMs were tied to financial aid programs from these institutions, which pressured countries to adopt Western standards rapidly without addressing underlying institutional voids.[117]

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[107] Shahzad Uddin and Jamal A Choudhury, 'Rationality, Traditionalism and the State of Corporate Governance Mechanisms: Illustrations from a Less Developed Country' (2008) Essex School of Accounting, Finance and Management Working Paper No 08/08, 33; Javed Siddiqui, 'Development of Corporate Governance Regulations: The Case of an Emerging Economy' (2010) 91 Journal of Business Ethics 253, 256

[108] Ruth V Aguilera and Gregory Jackson, 'The Cross-National Diversity of Corporate Governance: Dimensions and Determinants' (2003) 28(3) The Academy of Management Review 447, 461; Paul Collier and Mahbub Zaman, 'Convergence in European Corporate Governance: the audit committee concept' (2005) 13(6) Corporate Governance 753, 753; Javed Siddiqui, 'Development of Corporate Governance Regulations: The Case of an Emerging Economy' (2010) 91 Journal of Business Ethics 253, 256; Ruth V Aguilera and Alvaro Cuervo-Cazurra, 'Codes of Good Governance Worldwide: What is the Trigger?' (2004) 25(3) Organization Studies 417, 438

[109] Ruth V Aguilera and Alvaro Cuervo-Cazurra, 'Codes of Good Governance Worldwide: What is the Trigger?' (2004) 25(3) Organization Studies 417, 436; Alessandro Zattoni and Francesca Cuomo, 'Why Adopt Codes of Good Governance? A Comparison of Institutional and Efficiency Perspectives' (2008) 16(1) Corporate Governance 1, 1

[110] Graham H Roberts, 'Convergent capitalisms? The internationalisation of financial markets and the 2002 Russian Corporate Governance code' (2004) 56(8) Europe-Asia Studies 1235, 1235-1248

[111] Darryl Reed, 'Corporate Governance Reforms in Developing Countries' (2002) 37 Journal of Business Ethics 1, 14-17

[112] Javed Siddiqui, 'Development of Corporate Governance Regulations: The Case of an Emerging Economy' (2010) 91 Journal of Business Ethics 253, 253

[113] Andrew West, 'Theorising South Africa' s Corporate Governance' (2006) 68 Journal of Business Ethics 433, 435

[114] Asli Colpan, Toru Yoshikawa, Takashi Hikino and Hiroaki Miyoshi, 'Japanese Corporate Governance: Structural Change and Financial Performance' (2007) 6 Asian Business & Management 1, 2

[115] *See*, e.g., Bernard S Black, Antonio Gledson de Carvalho and Érica Gorga, 'What Matters and for Which Firms for Corporate Governance in Emerging Markets? Evidence from Brazil (and Other BRIK Countries)' (2012) 18 Journal of Corporate Finance 934; Mariana Pargendler, 'The Rise of International Corporate Law' [2020] SSRN Electronic Journal 1 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3728650> accessed 20 January 2025; Mariana Mota Prado, Diogo R Coutinho and Mario G Schapiro, 'Law and Development: An Evolving Research Agenda' (2016) 9 Law and Development Review 223; Mariana Pargendler, 'Politics in the Origins: The Making of Corporate Law in Nineteenth-Century Brazil' (2011) 60 American Journal of Comparative Law 805

[116] Ibid

[117] Darryl Reed, 'Corporate Governance Reforms in Developing Countries' (2002) 37 Journal of Business Ethics 1, 12; Mathew Tsamenyi and Shahzad Nasir Uddin, 'Introduction to corporate governance in less developed and emerging economies' in *Corporate Governance in Less Developed and Emerging Economies* (Emerald Publishing 2009) 9

Moreover, the 1992 Cadbury Report marked a turning point, accelerating global reforms and influencing the development of CG frameworks.[118] This led to the introduction of CG codes, which have played a key role in addressing CG challenges worldwide.[119] By 2008, 64 countries had introduced 196 CG codes, reflecting the growing recognition of CG as a central pillar of economic policy.[120] Notably, South Africa became the first developing nation to implement CG codes in 1994, while Sweden was the first civil law country to advance such reforms.[121] Egypt also implemented its first code in 2005, revising it in 2011 and 2016 to address evolving challenges, as will be explained in Chapter (4).

The global spread of CG regulations highlights the complexities of categorising these frameworks due to differences in legal, economic, and cultural contexts.[122] CG systems are classified into two broad models based on ownership structures: the insider-dominated system and the outsider-dominated system. In the outsider-dominated system, common in Anglo-American economies, ownership is dispersed among external shareholders, while management controls the company.[123] This structure creates a separation between ownership and control, necessitating CG mechanisms to mitigate agency problems. In contrast, the insider-dominated system, prevalent in countries, such as Japan and Germany, features concentrated ownership by a few major shareholders.[124] This relationship-based approach prioritises long-term stability and focuses on resolving conflicts between majority and minority shareholders.[125]

It is also worth noting that studies on CG mechanisms have produced mixed results regarding their impact on company performance. Some studies report positive relationships, showing that

[118] Ruth V Aguilera and Alvaro Cuervo-Cazurra, 'Codes of Good Governance Worldwide: What is the Trigger?' (2004) 25(3) Organization Studies 417, 421; Alfredo Enrione, Carmelo Mazza, and Fernando Zerboni, 'Institutionalizing Codes of Governance' (2006) 49(7) American Behavioral Scientist 961, 967

[119] Alfredo Enrione, Carmelo Mazza, and Fernando Zerboni, 'Institutionalizing Codes of Governance' (2006) 49(7) American Behavioral Scientist 961, 967; Ruth V Aguilera and Alvaro Cuervo-Cazurra, 'Codes of Good Governance Worldwide: What is the Trigger?' (2004) 25(3) Organization Studies 417, 421

[120] Ruth V Aguilera and Alvaro Cuervo-Cazurra, 'Codes of Governance' (2009) 17(3) Corporate Governance: An International Review 376, 376

[121] Ruth V Aguilera and Alvaro Cuervo-Cazurra, 'Codes of Governance' (2009) 17(3) Corporate Governance: An International Review 376, 379

[122] Jill Solomon, *Corporate Governance and Accountability* (5th edn, John Wiley & Sons 2020)

[123] Ibid

[124] Carla CJM Millar, Tarek I Eldomiaty, Chong Ju Choi, and Brian Hilton, 'Corporate Governance and Institutional Transparency in Emerging Markets' (2005) 59 Journal of Business Ethics 163, 169-170

[125] Michael N Young, Mike W Peng, David Ahlstrom, Garry D Bruton and Yi Jiang, 'Corporate Governance in Emerging Economies: A Review of the Principal–Principal Perspective' (2008) 45 Journal of Management Studies 196, 200

improved CG enhances accountability and profitability.[126] Others highlight adverse outcomes, suggesting that rigid CG structures may discourage risk-taking.[127] A third group of studies presents inconclusive findings, indicating that performance outcomes depend on specific ownership structures, board characteristics, and institutional contexts.[128] Nevertheless, evidence suggests that new controlling shareholders can improve performance by replacing underperforming executives.[129]

The board of directors were also viewed as contributing to monitoring senior managers, replacing underperforming executives, and determining the compensation levels of executives.[130] However, empirical evidence has not established a definitive link between board composition and company performance.[131] Instead, studies highlight interdependencies among CG mechanisms, emphasising that relying solely on board independence may not guarantee improved outcomes.[132]

In recent years, CG frameworks have evolved to incorporate broader considerations, including stakeholder engagement, ESG factors, and sustainability.[133] This shift reflects a growing emphasis on ethical responsibility and long-term results rather than short-term shareholder returns.[134] Technological innovations, such as blockchain and AI-driven compliance systems,

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[126] Antony, Nurni Arrina Lestari, Muhammad Khairul Amal, Muh Abdul Aziz, Leonita Siwiyanti, Alhidayatullah, and Ade Sudarma, 'The Effect of Good Corporate Governance on Profitability and Its Implications on Company Value' (2022) Proceedings of the 3rd International Conference of Business, Accounting, and Economics, ICBAE 2022, 3,7

[127] Erik Lehmann and Jürgen Weigand, 'Does the Governed Corporation Perform Better? Governance Structures and Corporate Performance in Germany' (2000) 4 European Finance Review 157, 174

[128] Harold Demsetz and Kenneth Lehn, 'The Structure of Corporate Ownership: Causes and Consequences' (1985) 93(6) Journal of Political Economy 1155, 1155; Patrick Bolton and Ernst-Ludwig von Thadden, 'Liquidity and Control: A Dynamic Theory of Corporate Ownership Structure' (1998) 154 JITE 177, 177

[129] Jennifer E Bethel, Julia Porter Liebeskind, and Tim Opler, 'Block Share Purchases and Corporate Performance' (1998) LIII(2) The Journal of Finance 605, 607

[130] Marie-Estelle Rey, 'The Role of Board-Level Committees in Corporate Governance' (2022) OECD Corporate Governance Working Papers No 24, 6-8 <https://www.oecd.org/en/publications/the-role-of-board-level-committees-in-corporate-governance_8a97a3f6-en.html> accessed 15 January 2025

[131] David J Denis and Diane K Denis, 'Performance Changes Following Top Management Dismissals' (1995) 50(4) The Journal of Finance 1029, 1029; A Agrawaland C R Knoeber, 'Firm Performance and Mechanisms to Control Agency Problems between Managers and Shareholders' (1996) 31 The Journal of Financial and Quantitative Analysis 377, 378

[132] A Agrawal and C R Knoeber 'Firm Performance and Mechanisms to Control Agency Problems between Managers and Shareholders' (1996) 31 The Journal of Financial and Quantitative Analysis, 377, 394; Wolf-Georg Ringe, 'Independent Directors: After the Crisis' (2013) 14(3) European Business Organization Law Review 401, 401-402

[133] Robert G Eccles, Ioannis Ioannou and George Serafeim, 'The Impact of Corporate Sustainability on Organizational Processes and Performance' (2014) 60(11) Management Science 2835, 2835-2836

[134] R Edward Freeman, Jeffrey S Harrison, and Andrew C Wicks, *Managing for Stakeholders: Survival, Reputation, and Success* (Yale University Press 2007) 160; R Edward Freeman, Gregory B Fairchild, S Venkataraman, Jenny Mead and Ming-Jer Chen, 'What is Strategic Management?' (2010) Darden Case No UVA-S-0166, 1-2

have further transformed CG practices by enhancing transparency and reducing the risk of fraud.[135]

Despite these observations, the importance of strong legal frameworks and investor protections remained the cornerstone of effective CG.[136] Countries with robust enforcement systems consistently outperform those with weaker CG structures, particularly in EMs where institutional weaknesses remain prevalent. However, legal rules alone are insufficient for the development of financial markets. While these rules must be flexible and adaptable in any given market,[137] they must also be complemented with effective legal institutions to foster the intended growth.[138] Thus, transplanting legal frameworks without ensuring their adaptability and effective enforcement is inadequate for developing functional legal and market institutions.[139]

However, despite its prevalence, the "Legal Origin Hypothesis" advanced by LLSV was challenged and criticised for its shortsighted analysis and conclusions.[140] This is because legal systems evolve in light of the prevailing economic, social, and political considerations in a given country, irrespective of its legal origin, which should not be considered the sole determinant of the development of financial markets across jurisdictions.[141] Contrary to LLSV's hypothesis, studies have found that legal reforms lag behind the development of

[135] Don Tapscott and Alex Tapscott, *Blockchain Revolution: How the Technology Behind Bitcoin is Changing Money, Business, and the World* (Portfolio 2016), 65-68

[136] R La Porta, F Lopez-de-Silanes, A Shleifer,and R W Vishny, 'Legal Determinants of External Finance' (1997) 52(3) Journal of Finance 1131, 1131-1150; R La Porta, F Lopez-de-Silanes, A Shleifer,and R W Vishny, 'Investor Protection and Corporate Governance' (2000) 58 Journal of Financial Economics 3, 3–27

[137] Katharina Pistor, 'A Legal Theory of Finance' (2013) 41 Journal of Comparative Economics 315

[138] Tom Ginsburg 'Does Law Matter for Economic Development? Evidence From East Asia' (2000) 34 Law & Society Review 829

[139] ; Katharina Pistor, Martin Raiser and Stanislaw Gelfer, 'Law and Finance in Transition Economies' (2000) 8 Economics of Transition 325

[140] See, e.g., Gilles Chemla, Adrian Pop and Diana Pop, 'Privatization and Governance Regulation in Frontier Emerging Markets: The Case of Romania' in R R Bliss and G G Kaufman (eds), Financial Institutions and Markets (Palgrave Macmillan 2010); Mariana Pargendler, 'The Rise and Decline of Legal Families' (2012) 60 American Journal of Comparative Law 1043; Mark J Roe, 'Legal Origins And Modern Stock Markets' (2006) 120 Harvard Law Review 460; Nuno Garoupa and Mariana Pargendler, 'A Law and Economics Perspective on Legal Families' forthcoming at Thomas Ulen (ed), *The Methodologies of Law and Economics* (Edward Elgar 2013) < https://law.stanford.edu/wp-content/uploads/sites/default/files/publication/701374/doc/slspublic/Garoupa%20and%20Pargendler%20A%20Law%20and%20Economics%20Perspective%20on%20Legal%20Families.pdf> accessed 20 January 2025;
Mark J Roe, 'Legal Origins And Modern Stock Markets' (2006) 120 Harvard Law Review 460; Mark J Roe and Roy Shapira, 'The Power of the Narrative in Corporate Lawmaking' [2020] SSRN Electronic Journal <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3703882> accessed 20 January 2025, highlighting that legal origins hypothesis oversimplifies the complexities of CG and financial development, and concluding that political and institutional factors must be integrated into analyses of financial market outcomes.

[141] See, e.g., John Armour, Simon Deakin, Priya Lele, and Mathias Siems 'How Do Legal Rules Evolve? Evidence from a Crosscountry Comparison of Shareholder, Creditor, and Worker Protection' (2009) 57 American Journal of Comparative Law 579

financial markets, concluding that it is the evolution of financial markets that drives legal reforms, rather than the other way around.[142] Further, shareholder protection laws are not the sole determinant of stock market development. Instead, other institutional factors, such as political stability, economic growth, and enforcement mechanisms, play a contributing role.[143]

To conclude, CG reforms must strike a balance between global standards and local contexts to ensure meaningful improvements and sustainable economic growth.[144] Additionally, flexible CG frameworks that balance short-term financial objectives with long-term sustainability purposes and that are regularly revisited are preferable.[145] Nevertheless, in designing this framework, other broader regulatory and institutional mechanisms should also be considered.[146]

2.2.3 CG in EMs

As this thesis explores the potential correlation between CG reforms and delisting incidents in Egypt, an emerging market, it is essential to have a brief discussion about EMs in terms of their common characteristics, the significance of CG in these markets, the challenges, and their GC reforms.

2.2.3.1 Synopsis of EMs

EMs have become vital drivers of the global economy, contributing approximately 50.1% of worldwide GDP in 2023 and accounting for 66.7% of worldwide GDP between 2013 and

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[142] John Armour, Simon Deakin, Viviana Mollica, and Mathias Siems 'Law and Financial Development: What We Are Learning from Time-Series Evidence' [2009] Brigham Young University Law Review 1435

[143] *See*, e.g., John Armour, John Armour, Simon Deakin, Prabirjit Sarkar, Mathias Siems, and Ajit Singh, 'Shareholder Protection and Stock Market Development: An Empirical Test of the Legal Origins Hypothesis' (2009) 6 Journal of Empirical Legal Studies 343; John Armour and Priya Lele, 'Law, Finance, and Politics: The Case of India' (2009) 43 Law and Society Review 491

[144] *See*, e.g., Bernard S Black, Antonio Gledson de Carvalho and Érica Gorga, 'What Matters and for Which Firms for Corporate Governance in Emerging Markets? Evidence from Brazil (and Other BRIK Countries)' (2012) 18 Journal of Corporate Finance 934; Mariana Pargendler, 'The Rise of International Corporate Law' [2020] SSRN Electronic Journal 1 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3728650> accessed 20 January 2025; Mariana Mota Prado, Diogo R Coutinho and Mario G Schapiro, 'Law and Development: An Evolving Research Agenda' (2016) 9 Law and Development Review 223; Mariana Pargendler, 'Politics in the Origins: The Making of Corporate Law in Nineteenth-Century Brazil' (2011) 60 American Journal of Comparative Law 805; John Armour, 'Who Should Make Corporate Law? EC Legislation versus Regulatory Competition' (2005) 58 Current Legal Problems 369; Mark J Roe, 'Capital Markets and Financial Politics: Preferences and Institutions' (2012) 7(1) Capitalism and Society Article 3

[145] lessio Maria Pacces, 'Sustainable Corporate Governance: The Role of the Law' [2020] SSRN Electronic Journal 1 < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3697962> accessed 20 January 2025; Jens Frankenreiter, Cathy Hwang, Yaron Nili, and Eric L Talley, 'Cleaning Corporate Governance' (11 February 2021) ECGI Finance Working Paper No 738/2021 <https://ssrn.com/abstract=3796628> accessed 20 January 2025

[146] Mariana Pargendler, 'The Corporate Governance Obsession' [2018] SSRN Electronic Journal <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2491088> accessed 20 January 2025

2023.[147] While these markets are appealing investment hubs, they pose heightened risks due to market volatility, institutional inefficiencies, and underdeveloped financial systems.[148] As part of this cluster, Egypt contributed 1.4% to global GDP in 2023,[149] presenting significant investment opportunities alongside notable challenges.

The term "EMs" was first coined in the 1980s by Antoine van Agtmael, an economist at the IFC,[150] as an alternative to the outdated "Third World Countries" classification. This rebranding highlighted the economic potential of EMs, which have been transitioning toward developed economies.[151]

Over time, additional classifications emerged, including BRIC (Brazil, Russia, India, and China)[152] and BRICS, which included South Africa. Other groupings, such as the Next Eleven (N-11)[153] and MIST[154], identified countries with high growth potential, while the CIVETS classification focused on Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa.[155]

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[147] *See* data retrieved from World Economics, 'Emerging Markets' <https://www.worldeconomics.com/Regions/Emerging-Markets/#:~:text=World%20Economics%20has%20combined%2024,years%20(2013%2D2023)> accessed 12 January 2025

[148] Task Force of the Financial Stability Board and Staff of the International Monetary Fund and the World Bank, *Financial Stability Issues in Emerging Market and Developing Economies*, (November 2011) 9 < https://www.imf.org/external/np/g20/pdf/110211.pdf > accessed 12 January 2025

[149] *See* data retrieved from World Economics, 'Emerging Markets' <https://www.worldeconomics.com/Regions/Emerging-Markets/#:~:text=World%20Economics%20has%20combined%2024,years%20(2013%2D2023)> accessed 12 January 2025

[150] IFC, *IFC The First Six Decades Leading The Way In Private Sector Development: A History* (2016) <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.ifc.org/content/dam/ifc/doc/2010/ifc-history-book-second-edition.pdf> accessed 19 January 2025

[151] However, the term is not without controversy, and some critics argue that it reinforces a binary view of the world that dichotomises developed and developing countries, and may perpetuate stereotypes about the economic and social characteristics of these countries.

[152] The term "BRIC" was introduced in 2001 by Jim O' Neill, an economist at Goldman Sachs, to describe four emerging economies—Brazil, Russia, India, and China—which he predicted would become increasingly influential in the global economy. Since its introduction, the BRIC countries' growth rates have outpaced those of many developed nations. Furthermore, while grouped together, the BRIC countries differ significantly in their political systems, economic structures, and developmental priorities. These differences have sometimes resulted in strained economic and political relationships among them.

[153] This term was coined by Goldman Sachs. the Next Eleven (N-11), including a group of 11 countries with high growth potential (i.e., Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea, and Vietnam)

[154] This term was coined by Fidelity Investments.

[155] CIVETS is an acronym used to refer to a group of emerging market economies identified as promising growth markets. The term was introduced by Robert Ward, a global forecasting director at the Economist Intelligence Unit, in 2009. The CIVETS countries include Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa. These nations share several common characteristics, such as large and expanding populations, growing middle classes, and increasingly open economies. They are also perceived as relatively stable compared to other emerging markets, with ongoing improvements in governance, regulatory frameworks, and infrastructure.

These terms reflect the dynamic and heterogeneous nature of EMs, which are characterised by rapid growth, regulatory evolution, and increasing integration into the global economy.[156]

2.2.3.2 Corporate Governance: Significance and Dynamics

CG has gained significant prominence in EMs due to economic expansion, foreign investment inflows, and growing participation in global capital markets.[157] Effective CG frameworks have been increasingly recognised as mechanisms to address institutional weaknesses, such as inefficient enforcement, exploitation of minority shareholders, and corruption.[158] CG regulations are thus viewed as essential tools to reduce risks and instil investor confidence, particularly in markets with underdeveloped institutions.[159]

2.2.3.2.1 Challenges in EMs

Despite their potential, EMs face substantial challenges.[160] These include illiquid stock markets, weak property rights, ineffective judicial enforcement mechanisms, economic instability, and policy inconsistencies. Investor protection remains inadequate, and corporate practices, such as those involving self-dealing and related-party transactions, are prevalent.[161] Additionally, ownership structures in EMs differ from those in developed economies, as the majority of companies are family-controlled or state-owned,[162] leading to conflicts of interest between controlling shareholders and minority shareholders, not between managers and dispersed shareholders.[163]

Tarun Khanna and Krishna G Palepu, *Winning in Emerging Markets: A Road Map for Strategy and Execution* (Harvard Business Press 2010) 3-6

[157] Melsa Ararat, Stijn Claessens, and B Burcin Yurtoglu, 'Corporate Governance in Emerging Markets: A Selective Review and an Agenda for Future Research' [2020] SSRN Electronic Journal 1-21

[158] Ruth V Aguilera and Ilir Haxhi, 'Comparative Corporate Governance in Emerging Markets' (2018) in R Grosse and K Meyer (eds), *Oxford Handbook on Management in EMs* (Oxford University Press 2019) (forthcoming) 4; Katharina Pistor and Chenggang Xu, 'Governing Stock Markets in Transition Economies: Lessons from China' (2005) 7 American Review of Law and Economics 184

[159] Andrei Shleifer and Robert W Vishny, 'A Survey of Corporate Governance' (1997) LII(2) Journal of Finance 737, 737-739

[160] *See*, e.g., Mariana Pargendler, 'Corporate governance in emerging markets' (30 March 2014) in Jeffrey N Gordon & Wolf-Georg Ringe (eds) , *Oxford Handbook of Corporate Law and Governance* (2014)

[161] Stijn Claessens, Simeon Djankov, and Larry H P Lang, 'The Separation of Ownership and Control in East Asian Corporations' (1999) 58 Journal of Financial Economics 81, 81-112; Darryl Reed, 'Corporate Governance Reforms in Developing Countries' (2002) 37 Journal of Business Ethics 1, 14; Tarun Khanna and Krishna G Palepu, 'Winning in Emerging Markets: A Road Map for Strategy and Execution' (2010) 3(3) NHRD Network Journal 75, 75

[162] Ibid

[163] Stijn Claessens, Simeon Djankov, and Larry H P Lang, 'The Separation of Ownership and Control in East Asian Corporations' (1999) 58 Journal of Financial Economics 81, 82

For example, South Korea's chaebols, e.g., Hyundai and Samsung, have faced criticism for their pyramidal ownership structures, which have facilitated wealth tunnelling and limited accountability.[164] Similarly, India's Tata Group, a family-run conglomerate, has encountered scrutiny over related-party transactions and insider control.[165] In Russia, post-privatisation reforms during the 1990s led to oligarch takeovers, resulting in CG abuses and minority shareholder expropriation.[166] Even countries like Brazil, despite establishing stricter standards through its 2002 Novo Mercado, continue to face challenges related to political corruption and the dominance of SOEs.[167]

EMs also struggle with institutional voids due to gaps in legal and regulatory frameworks, which render enforcement inconsistent.[168] Weak judicial independence and corruption exacerbate compliance challenges, leaving investors vulnerable to corporate failures and financial losses. As a result, investors in these markets adopt self-protective strategies,[169] such as conducting rigorous due diligence, negotiating share price discounts, and demanding stricter CG standards to mitigate risks.[170]

Ownership concentration remains another significant challenge in EMs.[171] As highlighted by LLSV, weak legal systems in these markets facilitate ownership concentration and practices, such as tunnelling,[172] where controlling shareholders transfer wealth at the cost of minority shareholders. Addressing these concerns requires robust CG regulations that strengthen legal accountability, enhance transparency, and improve investor confidence.[173]

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[164] E Han Kim and Woochan Kim, 'Corporate Governance in Korea: A Decade After the Financial Crisis' (December 2007) Texas School of Law, Law and Economics Research Paper No 123, 7-8, 29

[165] Jayati Sarkar and Subrata Sarkar, 'Large Shareholder Activism in Corporate Governance in Developing Countries: Evidence from India' (2000) 1(3) 161, 161-194

[166] Bernard S Black, 'The Corporate Governance Behavior and Market Value of Russian Firms' (2001) 2 EMs Review 89, 89-108

[167] Bernard S Black, Antonio Gledson De Carvalho, and Erica Gorga, 'Corporate Governance in Brazil' (2009) 12 Emerging Markets Review 1, 1-22

[168] Tarun Khanna and Krishna G Palepu, 'Winning in Emerging Markets: A Road Map for Strategy and Execution' (2010) 3(3) NHRD Network Journal 75, 75

[169] Charles C Okeahalam and Oludele A Akinboade, 'A Review of Corporate Governance in Africa: Literature, Issues and Challenges' (15 June 2003) Paper prepared for the Global Corporate Governance Forum, 11-13

[170] Bernard S Black, Hasung Jang and Woochan Kim, 'Does Corporate Governance Predict Firms' Market Values? Evidence from Korea' (June 2005) ECGI Working Paper Series in Finance, Working Paper No 86/2005

[171] Ronald J Gilson, 'Controlling Shareholders and Corporate Governance: Complicating the Comparative Taxonomy' (2006) 119 Harvard Law Review (2006) 1641

[172] Vladimir Atanasov, Bernard S Black, Conrad S Ciccotello, and Stanley B Gyoshev, 'How Does Law Affect Finance? An Examination of Equity Tunneling in Bulgaria' (2010) 96 Journal of Financial Economics 155

[173] Anna Grosman, Ruth V Aguilera, and Mike Wright, 'Lost in Translation? Corporate Governance, Independent Boards and Blockholder Appropriation' (2018) 54(4) Journal of World Business 1, 38

CG regulations are thus critical in EMs, ensuring companies safeguard assets, maximise shareholder value, and maintain financial discipline. Studies indicate that companies with transparent disclosures achieve higher valuations.[174] By fostering investor trust, CG frameworks enable companies to access global capital markets, retain investors, and sustain growth.[175] Notably, institutional investors offer a premium for shares in companies with strong CG rules,[176] which emphasises the significance of robust CG practices to investors.

2.2.3.2.2 CG Reforms in EMs

In light of these challenges and opportunities posed by EMs, many countries have implemented CG reforms to attract foreign investment and strengthen capital markets.[177] The 1997 Asian financial crisis led to CG reforms in EMs. For example, South Korea enacted reforms targeting chaebols, requiring external directors and independent audit committees to enhance accountability.[178] China, too, initiated CG reforms focused on SOEs, aiming at promoting market discipline and transparency.[179]

Stock exchanges have also played an integral role in enforcing CG reforms by establishing stricter listing standards. For instance, Brazil's Novo Mercado introduced CG rules requiring one-share-one-vote systems and enhanced disclosure practices.[180] Likewise, India's SEBI

[174] Christine A Botosan, 'Disclosure level and the cost of equity capital' (1997) 72 The Accounting Review323, 323-349; Bernard S Black, Hasung Jang and Woochan Kim, 'Does Corporate Governance Predict Firms' Market Values? Evidence from Korea' (2006) 22(2) JLEO 366, 366-411

[175] Melvin D Ayogu, 'Corporate Governance in Africa: The Record and Policies for Good Corporate Governance' (2001) 13(2) African Development Review 308, 325-328

[176] Melvin D Ayogu, 'Corporate Governance in Africa: The Record and Policies for Good Corporate Governance' (2001) 13(2) African Development Review 308, 316

[177] *See, e.g.,* studies on Brazil (Flávio M Rabelo and Flávio C Vasconcelos, 'Corporate Governance in Brazil' (2002) 37(2) Journal of Business Ethics 321), Greece (Lena Tsipouri and Manolis Xanthakis, 'Can Corporate Governance Be Rated? Ideas Based on the Greek Experience' (2004) SEIN Corporate Governance & Accountability eJournal <https://doi.org/10.1111/J.1467-8683.2004.00340.X> accessed 12 January 2025), Nigeria (T Ademola Oyejide and Adedoyin Soyibo, 'Corporate Governance in Nigeria' (2001) Paper Presented at the Conference on Corporate Governance, Accra, Ghana, 29-30 January 2001), South Africa (Graham Barr, Jos Gerson and Brian Kantor, 'Shareholders As Agents And Principals: The Case For South Africa's Corporate Governance System' (1995) 8(1) Journal of Applied Corporate Finance, Morgan Stanley 1), Tunisia (Imen Khanchel El Mehdi, 'Empirical Evidence on Corporate Governance and Corporate Performance in Tunisia' (2007) 15(6) Corporate Governance 1429).

[178] E Han Kim and Woochan Kim, 'Corporate Governance in Korea: A Decade After The Financial Crisis' (December 2007) Texas School of Law, Law and Economics Research Paper No 123, 18

[179] M H Chiang, and J H Lin, 'The relationship between Corporate Governance and firm productivity: Evidence from Taiwan's manufacturing firms' (2007) 15(5) Corporate Governance: An International Review 768, 768-779

[180] Ricardo Pereira Câmara Leal, André L Carvalhal and Ana Paula Iervolino, 'One Decade of Evolution of Corporate Governance Practices in Brazil' (2015) 13 Revista Brasileira de Finanças 134, 138-143; Bernard S Black, Antonio Gledson de Carvalho and Érica Gorga, 'Corporate Governance in Brazil' (2009) 12 EMs Review (forthcoming 2010) 2-21; Bernard S Black, Antonio Gledson de Carvalho, and Érica Gorga, 'The Corporate Governance of Privately Controlled Brazilian Firms' (2009) 7 Revista Brasileira de Finanças 385, 385-424

implemented Clause 49, mandating improvements in board independence, audit practices, and risk management systems.[181]

These reforms have been supported by international institutions, including the World Bank and the IMF, which promoted CG frameworks as prerequisites for financial assistance.[182] However, opponents argue that many of these reforms were rooted in Anglo-American practices, which might not align with the socio-economic contexts of EMs.[183]

Nevertheless, without accounting for the country's political and institutional contexts, CG reforms or analysis would not be meaningful. In other words, CG frameworks cannot be fully effective without considering the political and institutional frameworks that shape economic systems.[184] It is thus the path dependence that explains why CG systems evolve differently across nations, even when converging towards similar objectives, such as strengthening shareholder protections.[185] The path dependence theory thus highlights the need to navigate the embedded structures and complementarities to enact meaningful regulatory change.[186]

In summary, EMs represent dynamic investment opportunities driven by economic growth and global integration, yet they face structural weaknesses that pose CG challenges. Effective CG frameworks can serve as substitutes for institutional gaps, promoting transparency, accountability, and investor protection. While CG reforms have enhanced CG practices in many markets, issues like ownership concentration, corruption, and weak enforcement mechanisms persist, requiring context-specific approaches rather than one-size-fits-all solutions.

2.2.4 Concluding Remarks

CG embodies a complex and evolving framework of definitions, models, and practices that reflect the multifaceted nature of modern companies. The shareholder-oriented model, rooted

[181] J Sarkar, 'Board Independence & Corporate Governance in India: Recent Trends & Challenges Ahead' (2009) 44(4) Indian Journal of Industrial Relations 576, 576–592
[182] Darryl Reed, 'Corporate Governance Reforms in Developing Countries' (2002) 37 Journal of Business Ethics 1, 12
[183] Shahzad Uddin and Jamal A Choudhury, 'Rationality, Traditionalism and the State of Corporate Governance Mechanisms: Illustrations from a Less Developed Country' (2008) Essex School of Accounting, Finance and Management Working Paper No 08/08, 33
[184] Mark J Roe and Massimiliano Vatiero, 'Corporate governance and its political economy' *in* Jeffrey N Gordon and Wolf-Georg Ringe (eds), *Oxford Handbook of Corporate Law and Governance (*Oxford University Press 2017)
[185] Lucian Arye Bebchuk and Mark J Roe, 'A theory of path dependence in corporate ownership and governance' in Jeffrey N Gordon and Mark J Roe (eds), *Convergence and Persistence in Corporate Governance* (Cambridge University Press 2004) 69-113
[186] Ibid

in maximising shareholder value, contrasts with the stakeholder-oriented approach, which advocates for balancing diverse interests to achieve long-term sustainable returns for stakeholders. These paradigms have shaped CG regulations worldwide, with Anglo-American economies favouring shareholder primacy and European and Asian countries emphasising more inclusive, stakeholder-focused frameworks.

The Anglo-American model, characterised by dispersed ownership structures and robust shareholder protections, has had a profound influence on global reforms. However, its applicability in EMs, where institutional and cultural contexts differ, necessitates a tailored approach. By bridging institutional gaps and integrating transparency and accountability into their prevailing local contexts, EMs can leverage CG practices to solidify their appeal as critical players in the global economy.

2.3 Section Two: The Delisting Phenomenon

This section examines the phenomenon of delisting, exploring its definitions, forms, determinants, and consequences. The analysis of primary studies investigating delisting in other jurisdictions, albeit still limited, unveils the particularities and causes of the delisting trend observed across major stock exchanges. This understanding will be instrumental in identifying the possible factors that may have influenced companies to leave the EGX. It will thus help identify whether Egypt shares similar patterns and causes as the other jurisdictions or if other determinants are more specific to the EGX.

Given the focus of this thesis on the potential influence of CG reforms on delisting trends, this section also reviews relevant studies on CG regulations and delisting in developed and EMs. The analysis aims to contextualise Egypt's experience within the broader global discourse on CG and delisting.

This section is thus structured as follows: **Section (2.3.1)** defines delisting. **Section (2.3.2)** reviews different forms of delisting and their characteristics. **Section (2.3.3)** presents the determinants of delisting and the factors driving delisting decisions across jurisdictions.

2.3.1 The Definition of Delisting

Delisting refers to the elimination of a company's shares from public trading on a stock exchange, rendering them no longer available for official public trading.[187] It is essentially the reverse of being listed on a stock exchange. Companies may undergo delisting for various reasons, and the process can be categorised into two primary forms: voluntary and involuntary, as outlined below.

2.3.2 The Forms of Delisting

The classification of delisting is based on the initiator of the process: either the company itself or the stock exchange regulator.[188] Accordingly, delisting can be categorised into voluntary and involuntary forms. Additionally, some interrelated corporate actions may have similar effects, such as transferring shares to less regulated markets or transitioning to a different stock exchange.

2.3.2.1 Voluntary Delisting

Voluntary delisting occurs when a company chooses to remove its shares from a stock exchange at its own discretion.[189] This process, known as a "Going Private Transaction" or a "Public to Private Transaction", involves the company transitioning from public to private ownership after completing delisting procedures.[190]

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[187] L Benny and Y Hutagaol, 'Empirical Investigation of Determinant Factors of Company Delisting: Evidence From Indonesia' (2013) 6 J APPL FINANC ACCOUNT 25, 26; Min-yu Stella Liao, 'Corporate Governance and Delisting: Evidence from Emerging Markets' (2020) 20 J ACCOUNT FINANC 178, 178; Isabelle Martinez and Stéphanie Serve, 'The Delisting Decision: The Case of Buyout Offer with Squeeze-out (BOSO)' (2011) 31 International Review of Law and Economics 228, 228-236; Gary C Sanger and James D Peterson, 'An Empirical Analysis of Common Stock Delistings' (1990) 25 The Journal of Financial and Quantitative Analysis 261; PR Chandy, Salil K Sarkar and Niranjan Tripathy, 'Empirical Evidence on The Effects Of Delisting Signaling and Liquidity Effects of Listing and Delisting' (2004) 28 Journal of Economics and Finance 46; Jonathan Macey, Maureen O'Hara and David Pompilio, 'Down and out in the Stock Market: The Law and Economics of the Delisting Process' (2008) 51 Journal of Law and Economics 683

[188] Jonathan Macey, Maureen O'Hara and David Pompilio, 'Down and out in the Stock Market: The Law and Economics of the Delisting Process' (2008) 51 Journal of Law and Economics 683, 683-686

[189] L Benny & Y Hutagaol, 'Empirical Investigation of Determinant Factors of Company Delisting: Evidence From Indonesia' (2013) 6 J APPL FINANC ACCOUNT 25, 26

[190] Wi Saeng Kim and Esmeralda O Lyn, 'Going Private: Corporate Restructuring Under Information Asymmetry and Agency Problems' (1991) 18 JOURNAL OF BUSINESS FINANCE & ACCOUNTING 637, 637–648; L Benny & Y Hutagaol, 'Empirical Investigation of Determinant Factors of Company Delisting: Evidence From Indonesia' (2013) 6 J APPL FINANC ACCOUNT 25, 26-27; Charlie Weir, Mike Wright and Louise Scholes, 'Public-to-Private Buy-Outs, Distress Costs and Private Equity' (2008) 18 APPL FINANC ECON 801, 801; Ann Kristin Achleitner, Eva Lutz, Kerry Herman and Josh Lerner, 'New Look: Going Private with Private Equity Support' (2010) 31 J BUS STRATEGY 38, 42

The underlying causes for voluntary delisting are numerous.[191] The shareholders and/or managers of a listed company may pursue a voluntary delisting for various reasons, such as for M&A purposes, liquidation, or when the costs of being listed outweigh the benefits sought from remaining listed on a stock exchange.[192] These various motives are explained in Section (2.3.3.1) below.

2.3.2.2 Involuntary Delisting

Involuntary delisting is imposed by a stock exchange or regulator as a sanction against a listed company.[193] Unlike voluntary delisting, the company does not choose to delist its shares; instead, the decision is enforced by regulatory authorities.

Generally, stock exchange regulators decide to pursue this sanction primarily when a listed company fails to adhere to the listing requirements, such as failing to meet minimum thresholds, including the number of shareholders, free float ratios, or financial performance benchmarks. Alternatively, this action may be pursued if the company goes bankrupt or is liquidated. Companies that intentionally or inadvertently violate listing rules, such as failing to disclose required information, may be subject to delisting. Additionally, in some instances, companies may intentionally fail to comply with listing requirements to provoke their involuntary delisting as a strategic manoeuvre.[194] The causes of involuntary delisting across different jurisdictions are addressed in Section (2.3.3.2) below.

2.3.2.3 Other Interrelated Concepts

In addition to voluntary and involuntary delisting, certain corporate transactions or strategic decisions may also result in similar outcomes. Companies might choose to "Go Dark". In such cases, companies opt to de-register their shares or reduce public reporting requirements by transitioning to less-regulated markets, such as the Over-the-Counter market and the Pink

[191] Jonathan Macey, Maureen O' Hara and David Pompilio 'Down and out in the Stock Market: The Law and Economics of the Delisting Process' (2008) 51 J LAW ECON 683, 689-691

[192] Constant Djama, Stéphanie Serve, and Isabelle Martinez, 'What Do We Know about Delistings ? A Survey of the Literature' (2011) 1, 3-9 < https://hal.science/file/index/docid/937899/filename/521_Djama_Martinez_Serve.pdf > accessed 12 January 2025; Jonathan Macey, Maureen O' Hara and David Pompilio, 'Down and out in the Stock Market: The Law and Economics of the Delisting Process' (2008) 51 J LAW ECON 683, 689

[193] L Benny and Y Hutagaol, 'Empirical Investigation of Determinant Factors of Company Delisting: Evidence From Indonesia' (2013) 6 J APPL FINANC ACCOUNT 25, 28-29

[194] Barbara Fidanza, Ottorino Morresi, and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) 126-143

Sheets in the US.[195] This allows companies to avoid the stringent requirements of major exchanges while retaining some level of public trading.

Furthermore, companies may delist their shares from one stock exchange and thereafter list them on another, either within the same country or in a different jurisdiction. As a result, the company's shares remain publicly traded, albeit on an alternative stock exchange. This choice can be motivated by several considerations, including more favourable listing requirements, lower listing fees in the alternative market, or evasion of stringent disclosure obligations in the original exchange.[196]

Delisting may also occur indirectly because of mergers, acquisitions, or other corporate strategies, even if delisting itself is not the primary objective.

While the mechanisms and consequences of these processes may differ, their underlying motivations might overlap. For example, the desire to reduce regulatory burdens, save costs, or pursue operational flexibility may drive both delisting and "going dark" decisions.

Nevertheless, while acknowledging the convergence in some aspects and consequences between delisting and other concepts,[197] this study focuses specifically on the phenomenon of delisting, rather than examining related processes, such as "going dark" or relisting on alternative exchanges.

2.3.3 The Determinants of Delisting

Having outlined the concept and types of delisting above, this section explores the primary determinants driving delisting decisions, drawing on theoretical frameworks and empirical studies. Despite its importance, scholarly attention to the delisting phenomenon and its causes

[195] Jonathan Macey, Maureen O' Hara and David Pompilio, 'Down and out in the Stock Market: The Law and Economics of the Delisting Process' (2008) 51 J LAW ECON 683, 689-709

[196] Wolfgang Bessler, Fred R Kaen, Philipp Kurmann, and Jan Zimmermann 'The Listing and Delisting of German Firms on NYSE and NASDAQ: Were There Any Benefits?' [2012] SSRN Electronic Journal 1; Peter Hostak and others, 'An Examination of the Impact of the Sarbanes-Oxley Act on the Attractiveness of US Capital Markets for Foreign Firms' (2013) 18 Review of Accounting Studies 522; Peter Hostak, Thomas Lys, Yong George Yang, and Emre Carr, 'An Examination of the Impact of the Sarbanes-Oxley Act on the Attractiveness of U.S. Capital Markets for Foreign Firms' (2013) 18 REV ACCOUNT STUD 522, 522-523

[197] For more details on the causes and motives for going private of going dark transactions, please see, e.g., András Marosi and Nadia Massoud, 'Why Do Firms Go Dark?' (2007) 42 The Journal of Financial and Quantitative Analysis 421; Christian Leuz, Alexander Triantis and Tracy Yue Wang, 'Why Do Firms Go Dark? Causes and Economic Consequences of Voluntary SEC Deregistrations' (2008) 45 Journal of Accounting and Economics 181.

has only recently begun to emerge.[198] Consequently, the existing literature is relatively limited and predominantly focused on major stock exchanges in the US,[199] UK,[200] and Continental Europe.[201] This is in addition to other studies examining involuntary delisting[202] and the end of secondary listing.[203]

In contrast, studies examining delisting in EMs, including involuntary delisting and the cessation of secondary listings, remain limited. This thesis aims to fill this gap by examining the potential factors contributing to delisting incidents on the EGX, as a case study in an emerging market context. The complexity and heterogeneity of delisting drivers across

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[198] I Martinez and S Serve, 'Reasons for Delisting and Consequences a Literature Review and Research Agenda' (2017) 31(3) Journal of Economic Surveys 733, 735; Alberto Pezzi, 'Voluntary Delisting and Agency Costs: The Case of the London Stock Exchange' in Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market* (Palgrave Macmillan 2018) 157

[199] See, e.g., Harry DeAngelo, Linda DeAngelo and Edward M Rice, 'Going Private: Minority Freezeouts and Stockholder Wealth' (1984) 27 THE JOURNAL OF LAW AND ECONOMICS 367, 367–401; Kenneth Lehn and Annette Poulsen, 'Free Cash Flow and Stockholder Gains in Going Private Transactions' (1989) 44 The Journal of Finance 771., 771-787; Wi Saeng Kim and Esmeralda O Lyn, 'Going Private: Corporate Restructuring Under Information Asymmetry and Agency Problems' (1991) 18 JOURNAL OF BUSINESS FINANCE & ACCOUNTING 637, 637–648; Tim Opler and Sheridan Titman, 'The Determinants of Leveraged Buyout Activity: Free Cash Flow vs Financial Distress Costs' (1993) 48(5) The Journal of Finance 1985, 1985-1999; Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 REVIEW OF FINANCIAL STUDIES 1771, 1771–1818

[200] See, e.g., Charlie Weir, David Laing and Mike Wright, 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control: An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32 Journal of Business Finance and Accounting 909; C Weir, D Laing and M Wright, 'Undervaluation, Private Information, Agency Costs and the Decision to Go Private' (2005) 15 Applied Financial Economics 947; Charlie Weir and Mike Wright, 'Governance and Takeovers: Are Public-to-Private Transactions Different from Traditional Acquisitions of Listed Corporations?' (2006) 36 Accounting and Business Research 289; Charlie Weir, Mike Wright and Louise Scholes, 'Public-to-Private Buy-Outs, Distress Costs and Private Equity' (2008) 18 Applied Financial Economics 801; Ann Kristin Achleitner, Eva Lutz, Kerry Herman, and Josh Lerner, 'New Look: Going Private with Private Equity Support' (2010) 31 Journal of Business Strategy 38; Hadiye Aslan and Praveen Kumar, 'Lemons or Cherries? Growth Opportunities and Market Temptations in Going Public and Private' (2010) 46 Journal of Financial and Quantitative Analysis 489; Eilnaz Kashefi Pour and Meziane Lasfer, 'Why Do Companies Delist Voluntarily from the Stock Market?' (2013) 37 Journal of Banking and Finance 4850, 4850-4860

[201] See, e.g., Marc Michelsen and Christian Klein, 'Quiet please! The public to private decision in Germany' (2011) 5 REVIEW OF MANAGERIAL SCIENCE 49, 49–85; Ettore Croci and Alfonso Del Giudice, 'Delistings, controlling shareholders and firm performance in Europe' (2014) 20 EUROPEAN FINANCIAL MANAGEMENT 374, 374–405; Manuela Geranio and Giovanna Zanotti, 'Equity Markets Do Not Fit All: An Analysis of Public-to-Private Deals in Continental Europe' (2012) 18 EUROPEAN FINANCIAL MANAGEMENT 867, 867–895; Ann-Kristin Achleitner, Andre Betzer, Marc Goergen, Bastian Hinterramskogler, 'Private Equity Acquisitions of Continental European Firms: the Impact of Ownership and Control on the Likelihood of Being Taken Private' (2013) 19 EUROPEAN FINANCIAL MANAGEMENT 72, 72–107; Steen Thomson and Frederik Vinten, 'Delistings and The Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 833

[202] See, e.g., Gary C Sanger and James D Peterson, 'An Empirical Analysis of Common Stock Delistings' (1990) 25 Journal Of Financial And Quantitative Analysis 261; P R Chandy, Salil K Sarkar and Niranjan Tripathy, 'Empirical Evidence On The Effects Of Delisting Signaling and Liquidity Effects of Listing and Delisting' (2004) 28 Journal of Financial Economics 46; Andreas Charitou, Christodoulos Louca and Nikos Vafeas, 'Boards, Ownership Structure, and Involuntary Delisting from the New York Stock Exchange' (2007) 26 Journal of Accounting and Public Policy 249; Jonathan Macey, Maureen O' Hara and David Pompilio, 'Down and out in the Stock Market: The Law and Economics of the Delisting Process' 51 Journal of Law and Economics 683

[203] For more details, see Matthias Pfister and Rico von Wyss, 'Delistings of Secondary Listings: Price and Volume (2010) 24 FINANC MARK PORTF MANAG 395, 395-418

jurisdictions highlight the importance of localised analysis, as these determinants vary significantly due to legal, cultural, and institutional factors.[204]

By examining existing research, this section aims to contextualise Egypt's experience within global trends while identifying unique drivers specific to the EGX. The determinants are classified into voluntary and involuntary causes; however, some of these causes may overlap between the two.

2.3.3.1 Voluntary Delisting

As explained above, voluntary delisting occurs when a company willingly removes its shares from public trading.[205] These decisions are not made lightly; they generally reflect a strategic choice driven by compelling circumstances.

Scholars have sought to understand these motivations through theoretical and empirical analyses, highlighting that voluntary delisting is typically the result of a cost-benefit analysis, intrinsic company characteristics, market conditions, and, occasionally, as a regulatory strategy to address agency conflicts. Below, these determinants are discussed in detail, with insights from studies across major jurisdictions.

2.3.3.1.1 The Cost & Benefits Analysis

In making decisions, a rational person would compare the possible costs and perceived benefits related to the decision to conclude whether to pursue it or not.[206] To this effect, companies typically conduct a cost-benefit analysis to determine whether the benefits of being listed outweigh the associated costs.[207] This reasoning can also help explain voluntary delisting decisions by examining the reverse of the motivations for initial and continued listing.

Companies usually opt to go public and list their shares on a regulated stock exchange when the expected benefits outweigh any associated costs. While the benefits of listing are diverse

[204] Constant Djama, Stéphanie Serve, and Isabelle Martinez, 'What Do We Know about Delistings? A Survey of the Literature' (2012) 2 <https://hal.science/hal-00937899/document> accessed 12 January 2025
[205] Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 795
[206] Cass Sunstein, 'Cognition and cost-benefit analysis' (2000) 29 Journal of Legal Studies 1059, 1077; Tim Stobierski 'How to do a cost-benefit analysis & why it's important' (Harvard Business School Online's Business Insights Blog, 5 September 2019) <https://online.hbs.edu/blog/post/cost-benefit-analysis> accessed 20 January 2025
[207] Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 REVIEW OF FINANCIAL STUDIES 1771, 1773

and largely depend on each company's specific circumstances and objectives, several common reasons usually motivate companies to go public.[208]

Key benefits include access to capital at low cost,[209] enhanced credibility, improved liquidity, and facilitated exit opportunities for founders or shareholders.[210] Listing can also signal reliability and attract investments through increased market visibility.[211]

However, these benefits are not gained without incurring corresponding costs. Listed companies typically bear two forms of costs*:* direct and indirect costs. The direct costs include, among other things, listing fees, trading fees, auditing expenses, and payments to directors.[212] Conversely, indirect costs encompass all charges, time, and resources required to comply with regulatory requirements. For instance, compliance with stringent disclosure obligations may expose sensitive information, which can benefit competitors.[213] Furthermore, agency conflicts and loss of managerial control over operations are additional indirect costs.[214] Thus, in addition to the initial listing costs, listed companies incur ongoing expenses to maintain their listing.

When the costs go above the benefits, companies are more likely to delist.[215] Common reasons include low market liquidity, poor financial performance, minimal investor interest, or when compliance costs become disproportionately burdensome.[216] Therefore, from a theoretical

[208] For more details about the reasons for going public, see Marco Pagano, Fabio Panetta, and Luigi Zingales, 'Why do companies go public? An empirical analysis' (1998) 53 JOURNAL OF FINANCE 27, 27–64; James C Brau and Stanley E Fawcett, 'Initial public offerings: An analysis of theory and practice' (2006) 61 JOURNAL OF FINANCE 399, 399–436; Woojin Kim and Michael S Weisbach, 'Motivations for public equity offers: An international perspective' (2008) 87 JOURNAL OF FINANCIAL ECONOMICS 281, 281–307; Franck Bancel and Usha R Mittoo, 'Why Do European Firms Go Public?' (2009) 15 EUROPEAN FINANCIAL MANAGEMENT 844, 844-884; Thomas J Chemmanur and Paolo Fulghieri, 'A Theory of the Going-Public Decision' (1999) 12(2) The Review of Financial Studies 249, 249–279

[209] Marco Pagano, Fabio Panetta, and Luigi Zingales, 'Why do companies go public? An empirical analysis' (1998) 53 Journal Of Finance 27, 27; Woojin Kim and Michael Weisbach, 'Motivations for public equity offers: An international perspective' (2008) 87 Journal of Financial Economics 281, 281-307

[210] Woojin Kim and Michael Weisbach, 'Motivations for public equity offers: An international perspective' (2008) 87 Journal of Financial Economics 281, 282

[211] Franck Bancel & Usha R Mittoo, 'Why Do European Firms Go Public?' (2009) 15 EUROPEAN FINANCIAL MANAGEMENT 844, 845–846

[212] Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 797

[213] Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 797

[214] Isabelle Martinez, Stephanie Serve, and Constant Djama 'Reasons for Delisting and Consequences a Literature Review and Research Agenda' (2017) 31(3) Journal of Economic Surveys 733, 740

[215] Harry DeAngelo, Linda DeAngelo and Edward M Rice, 'Going Private: Minority Freezeouts and Stockholder Wealth' (1984) 27 The Journal Of Law And Economics 367, 374

[216] For a comprehensive explanation of the studies that empirically explored the motives and causes of the voluntary delisting, please see, e.g., Barbara Fidanza, Ottorino Morresi, and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) 11-31

perspective, the outcome of the cost-benefit analysis for each listed company plays a pivotal role in its decision whether to remain public or pursue delisting.[217]

For example, when investigating the events of voluntary delisting from the US stock exchanges, the implementation of the SOX in the US, with its rigorous compliance requirements, was found to be a significant factor driving small companies to delist due to prohibitive costs.[218] Other causes included the undervaluation of the companies' shares,[219] low stock liquidity,[220] reduced financial visibility,[221] high leverage rates, inadequate analyst coverage,[222] the absence of future growth opportunities,[223] and inadequate attention from investors.[224]

In this regard, one of the significant GC mechanisms is mandatory disclosures.[225] While these disclosures would benefit the market and investor by providing reliable access to information, it should be noted that disclosures are costly and have limitations that, if exceeded, would adversely affect their intended objectives.[226] This thus amplifies that each company may decide to voluntarily delist, depending on the actual reasons for its initial listing on the stock exchange and the associated costs. If a change occurs in this equation, companies will likely consider delisting as an option to minimise the costs.

[217] Ibid
[218] Ibid, 70-75
[219] Ibid
[220] Ibid
[221] Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 REVIEW OF FINANCIAL STUDIES 1771, 1773–1776; Ottorino Morresi, 'Facts, Figures and Theory' in Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) 30
[222] Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 REVIEW OF FINANCIAL STUDIES 1771, 1773
[223] Ibid, 1773–1776; Ottorino Morresi, 'Facts, Figures and Theory' in Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) 4
[224] Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 REVIEW OF FINANCIAL STUDIES 1771, 1778; Ottorino Morresi, 'Facts, Figures and Theory' in Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) 2
[225] Frank H Easterbrook and Daniel R Fischel, 'Mandatory Disclosure and the Protection of Investors' (1984) 70 Virginia Law Review 669
[226] Luca Enriques and Sergio Gilotta, 'Disclosure and Financial Market Regulation' (11 April 2014) ECGI Law Working Paper No 252/2014, 23 <https://ssrn.com/abstract=2423768> accessed 20 January 2025; Christian Leuz and Peter D Wysocki, 'Economic Consequences of Financial Reporting and Disclosure Regulation: A Review and Suggestions for Future Research' (March 2008) SSRN Electronic Journal 1, 6-7 < https://ssrn.com/abstract=1105398> accessed 20 January 2025

2.3.3.1.2 The Intrinsic Characteristics of the Voluntarily Delisted Companies

The costs and benefits of staying public or going private are not similar and do not yield the same outcome for all listed companies. Studies have revealed that both the size and performance of the companies matter when deciding to delist.[227] Unlike large companies, small ones are significantly affected by compliance costs as they lack the resources to meet regulatory requirements.[228]

Some other common characteristics include undervaluation,[229] low growth opportunities,[230] insufficient liquidity,[231] lack of financial visibility,[232] low liquidity,[233]and exhibiting a higher leverage rate than those remaining listed.[234]

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[227] Constant Djama, Stéphanie Serve, and Isabelle Martinez, 'What Do We Know about Delistings? A Survey of the Literature' (2012) 4,6 <https://hal.science/hal-00937899/document> accessed 12 January 2025; Eilnaz Kashefi Pour and Meziane Lasfer, 'Why Do Companies Delist Voluntarily from the Stock Market?' (2013) 37 J BANK FINANC 1, 17,18; Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 802. On the other hand, some other studies did not find any support that the delisted companies had poor accounting performance. See, e.g., Charlie Weir, David Laing, and Mike Wright 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 911

[228] Ellen Engel, Rachel M Hayes, and Xue Wang, 'The Sarbanes–Oxley Act and Firms' Going-Private Decisions' [2004] SSRN Electronic Journal 1, 3 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=546626> accessed 17 January 2025; Christian Leuz, Alexander Triantis and Tracy Yue Wang, 'Why Do Firms Go Dark? Causes and Economic Consequences of Voluntary SEC Deregistrations' (2008) 45 J Account Econ 181, 181; Robert P Bartlett III, 'Going Private but Staying Public: Reexamining the Effect of Sarbanes-Oxley on Firms' Going-Private Decisions' (2009) 76 Univ Chicago Law Rev 7, 9-10; Charlie Weir, Mike Wright and Louise Scholes, 'Public-to-Private Buy-Outs, Distress Costs and Private Equity' (2008) 18 Appl Financ Econ 801, 801

[229] Charlie Weir, David Laing, and Mike Wright 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 916; Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 802; Ettore Croci and Alfonso Del Giudice, 'Delistings, Controlling Shareholders and Firm Performance in Europe' (2014) 20 European Financial Management 374.8

[230] Charlie Weir, David Laing, and Mike Wright 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 801-802; Charlie Weir, Mike Wright and Louise Scholes, 'Public-to-Private Buy-Outs, Distress Costs and Private Equity' (2008) 18 APPL FINANC ECON 801, 804; Christian Leuz, Alexander Triantis and Tracy Yue Wang, 'Why Do Firms Go Dark? Causes and Economic Consequences of Voluntary SEC Deregistrations' (2008) 45 J ACCOUNT ECON 181, 185

[231] Hamid Mehran and Stavros Peristiani, 'Financial Visibility and the Decision to Go Private' [2011] SSRN Electronic Journal 1, 4; Eilnaz Kashefi Pour and Meziane Lasfer, 'Why Do Companies Delist Voluntarily from the Stock Market?' (2013) 37 J BANK FINANC 1, 10

[232] Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 Review of Financial Studies 1771, 1777; Hamid Mehran and Stavros Peristiani, 'Financial Visibility and the Decision to Go Private' [2011] SSRN Electron J 1, 4-5

[233] Constant Djama, Stéphanie Serve, and Isabelle Martinez, 'What Do We Know about Delistings? A Survey of the Literature' (2012) 1, 4 <https://hal.science/hal-00937899/document> accessed 12 January 2025; Ann Kristin Achleitner, Eva Lutz, Kerry Herman, and Josh Lerner, 'New Look: Going Private with Private Equity Support' (2010) 31 J BUS STRATEGY 38, 38-49

[234] Eilnaz Kashefi Pour and Meziane Lasfer, 'Why Do Companies Delist Voluntarily from the Stock Market?' (2013) 37 J BANK FINANC 1, 1; Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 Review of Financial Studies 1771, 1775

Furthermore, comparing the performance of the delisted companies with that of those that remained listed reveals that the delisted companies exhibited weaker financial performance compared to their listed counterparts at the time preceding their delisting.[235] However, other studies have found no performance difference between the delisted and remaining listed companies.[236] This inconsistency highlights the complexity of the delisting determinants and underscores the need for further studies to investigate the actual impact of financial performance on the likelihood of future voluntary delistings.

Additionally, companies with limited growth prospects or no need for public funding view delisting as a strategic choice to refocus on operational efficiency.[237] Moreover, studies about the relationship between the risk of financial distress and delisting have shown mixed findings. Some studies have shown that the higher risk of financial distress may not necessarily lead to delisting.[238] Others have proved the opposite assumption that the default risk of corporate bonds could likely increase the delisting rate.[239] This is another inconsistency in the existing studies, which warrants further investigation in the future.

On the other hand, managers of listed companies might be behind the undervaluation of the company's shares to influence the shareholders to remove the shares from public trading if those managers possess hidden information about the possible prospects of the company's operations and performance and aim not to share the financial outcome of these operations with the shareholders.[240]

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[235] Constant Djama, Stéphanie Serve, and Isabelle Martinez, 'What Do We Know about Delistings? A Survey of the Literature' (2012) 1, 9-10 <https://hal.science/hal-00937899/document> accessed 12 January 2025; Eilnaz Kashefi Pour and Meziane Lasfer, 'Why Do Companies Delist Voluntarily from the Stock Market?' (2013) 37 J BANK FINANC 1, 21-22; Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 801-803

[236] Charlie Weir, David Laing, and Mike Wright, 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 911

[237] The stock liquidity is generally measured by the turnover rate (i.e., the volume of transactions). See Ellen Engel, Rachel M Hayes and Xue Wang, 'The Sarbanes-Oxley Act and Firms' Going-Private Decisions' [2004] SSN ELECTRONIC J 1, 15. Also, liquidity is viewed as the primary benefit sought by companies when going public. See, Constant Djama, Stéphanie Serve, and Isabelle Martinez, 'What Do We Know about Delistings? A Survey of the Literature' (2012) 1, 4 <https://hal.science/hal-00937899/document> accessed 12 January 2025; e.g., Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 REVIEW OF FINANCIAL STUDIES 1771, 1779

[238] Tim Opler and Sheridan Titman, 'Determinants of Leveraged Buyout Activity: Free Cash Flow vs Financial Distress Costs' (1993) 48(5) The Journal of Finance 1985, 1985-1999; Hamid Mehran and Stavros Peristiani, 'Financial Visibility and the Decision to Go Private' [2011] SSRN Electronic Journal 1

[239] Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 REVIEW OF FINANCIAL STUDIES 1771, 1779

[240] Wi Saeng Kim & Esmeralda O Lyn, 'Going Private: Corporate Restructuring Under Information Asymmetry and Agency Problems' (1991) 18 JOURNAL OF BUSINESS FINANCE & ACCOUNTING 637, 637–648

Moreover, poor CG at the company level is another determinant of voluntary delisting. Companies with high CEO duality,[241] limited board independence,[242] or concentrated insider ownership[243] are more likely to delist, as weak CG frameworks increase agency conflicts. Hence, managers or controlling shareholders may pursue delisting to entrench their control and avoid disclosure obligations.

Therefore, while delisting could serve as a regulatory instrument to preserve the interests of shareholders in listed companies with weak CG practices, incumbent managers or controlling shareholders could still take advantage of it to increase their entrenchment control. Thus, delisting can be a double-edged sword, as it may help address the abusive conduct of managers or controlling shareholders but also strike the interests of shareholders if exploited by managers of controlling shareholders to enhance their control rents, thereby increasing agency costs. Accordingly, irrespective of the actual objective of delisting, whether for the sake of incentive realignment or extracting private benefits of control, delisting is likely to be pursued in listed companies with weak CG standards.[244]

2.3.3.1.3 The Market Conditions

Market conditions also play a pivotal role in voluntary delisting decisions. Insufficient liquidity reduces the attractiveness of public markets. Companies struggling with low trading volumes perceive delisting as a viable alternative.[245] Additionally, low visibility due to limited analyst attention or institutional investor interest diminishes a company's ability to attract capital and maintain stable share prices.[246]

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[241] Charlie Weir, David Laing, and Mike Wright, 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 923

[242] Christian Leuz, Alexander Triantis and Tracy Yue Wang, 'Why Do Firms Go Dark? Causes and Economic Consequences of Voluntary SEC Deregistrations' (2008) 45 J ACCOUNT ECON 181, 194

[243] Charlie Weir, David Laing, and Mike Wright, 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 958-959; András Marosi and Nadia Massoud, 'Why Do Firms Go Dark?' (2007) 42 JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS 421, 421

[244] Min-yu Stella Liao, 'Corporate Governance and Delisting: Evidence from Emerging Markets' (2020) 20 Journal of Accounting and Finance 178, 180

[245] Hamid Mehran and Stavros Peristiani, 'Financial Visibility and the Decision to Go Private' [2011] SSRN Electron J 1,2; Eilnaz Kashefi Pour and Meziane Lasfer, 'Why Do Companies Delist Voluntarily from the Stock Market?' (2013) 37 J Bank Financ 1, 3; Constant Djama, Stéphanie Serve, and Isabelle Martinez, 'What Do We Know about Delistings? A Survey of the Literature' (2012) 1, 7 <https://hal.science/hal-00937899/document> accessed 12 January 2025

[246] Patricia O' Brien and Ravi Bhushan, 'Analyst Following and Institutional Ownership' (1990) 28 JOURNAL OF ACCOUNTING RESEARCH 55, 55–76; Eric G Falkenstein, 'Preferences for Stock Characteristics As Revealed by Mutual Fund Portfolio Holdings' (1996) LI (1) Journal of Finance 111, 133

It is also plausible that companies will likely delist if the listing venue is unfavourable or does not provide them with the perceived benefits of listing, such as adequate liquidity and recognition.[247] Companies may also choose to delist and relist in more favourable or liquid markets that offer lower fees or reduced regulatory burdens.[248]

Accordingly, market dynamics directly influence companies' cost-benefit considerations, making delisting a rational response to adverse conditions.[249]

2.3.3.1.4 Delisting As a Regulatory Strategy to Alleviate Agency Conflicts

Delisting can also serve as a regulatory mechanism to mitigate agency conflicts resulting from the separation of ownership and control. The shareholders of a listed company may seek voluntary delisting as a strategy to mitigate agency costs related to the conflict of interest between shareholders and managers. These agency costs are considered indirect costs for the listed companies.[250] Consequently, it is perceivable that listed companies may decide to exit the stock market and delist their shares if these agency costs are exacerbated to the extent that they exceed the benefits of remaining listed.

Companies with excess free cash flow but limited growth opportunities may experience the misuse of resources by managers.[251] In such cases, delisting can realign management incentives by increasing accountability to private shareholders.[252] It is worth noting that listed companies that went private due to the high free cash flow problem were characterised by weak CG in the period preceding the delisting. For example, they were characterised by a high rate of CEO duality,[253] and an insufficient number of independent directors.[254]

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[247] Hamid Mehran and Stavros Peristiani, 'Financial Visibility and the Decision to Go Private' [2011] SSRN ELECTRON J 1, 4-5

[248] Hadiye Aslan and Praveen Kumar, 'Lemons or Cherries? Growth Opportunities and Market Temptations in Going Public and Private' (2010) 46 Journal of Financial and Quantitative Analysis 1, 12

[249] Patrick Bolton and Ernst-Ludwig von Thadden, 'Liquidity and Control: A Dynamic Theory of Corporate Ownership Structure' (1998) 154(1) JITE 177, 196-199

[250] Eugene F Fama and Michael C Jensen, 'Separation of Ownership and Control Separation of Ownership and Control' (1983) 26 Journal of law and economics 301, 309-311

[251] Michael C Jensen, 'American Economic Association Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers' (1986) 76(2) 323, 323

[252] Steven Kaplan, 'The Effects of Management Buyouts on Operating Performance and Value' (1989) 24 J financ econ 217, 218

[253] Charlie Weir, David Laing, and Mike Wright, 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 948

[254] Christian Leuz, Alexander Triantis and Tracy Yue Wang, 'Why Do Firms Go Dark? Causes and Economic Consequences of Voluntary SEC Deregistrations' (2008) 45 J ACCOUNT ECON 181, 194

Furthermore, in public markets, managers or blockholders possess more information than dispersed shareholders, leading to information asymmetry and adverse selection.[255] Delisting allows companies to resolve these issues by operating as closely held companies.[256]

Additionally, delisting might be pursued by managers or controlling shareholders to protect their rents and increase their entrenchment. Armed with undisclosed private information about the company's performance and potential financial returns, insiders may typically have an incentive to delist the company in order to avoid sharing any information that could lead to a possible improvement in the company's returns. Lacking adequate data about the company's future will hinder shareholders from accurately estimating its value and share price. This may result in an adverse selection problem where investors are concerned about the actual quality of the companies they invest in, fearing that they might buy a "lemon".[257] The absence of information makes it harder for the market to distinguish high-quality projects from their counterparts. In such circumstances, investors will only buy shares at a discounted rate, which will benefit low-quality projects to the detriment of good ones.[258]

On the contrary, privately owned companies are away from this adverse selection problem because they are closely held, and their shares are held or sold between a group of entrepreneurs or family members who precisely know the value of the company and its projects. Thus, companies would consider going private or delisting when the costs of adverse selection are high.

To conclude, while delisting could serve as a regulatory instrument to preserve the interests of shareholders in listed companies with weak CG, incumbent managers or controlling shareholders could still take advantage of it to increase their entrenchment control.[259] Therefore, voluntary delisting could be a double-edged sword, depending on its causes and triggers. While it is pursued if the associated costs of remaining listed become burdensome and

[255] Charlie Weir, David Laing, and Mike Wright, 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 948-949; András Marosi and Nadia Massoud, 'Why Do Firms Go Dark?' (2007) 42 Journal of Financial and Quantitative Analysis 421, 428

[256] András Marosi and Nadia Massoud, 'Why Do Firms Go Dark?' (2007) 42 Journal of Financial and Quantitative Analysis 421, 436-441; Ettore Croci and Alfonso Del Giudice, 'Delistings, Controlling Shareholders and Firm Performance in Europe' (2014) 20 EUR FINANC MANAG 374, 390

[257] George A Akerlof, 'The Market for "Lemons": Quality, Uncertainty, and Market Mechanism' (1970) 84 Quarterly Journal of Economics 488, 488-500

[258] Ibid

[259] Min-yu Stella Liao, 'Corporate Governance and Delisting: Evidence from Emerging Markets' (2020) 20 Journal of Accounting and Finance 178, 180

outweigh the benefits initially sought,[260] it could also serve as a strategic option to safeguard shareholders' interests against any opportunistic conduct by managers.

2.3.3.1.5 Voluntary Delisting Studies in Major Jurisdictions

Given the heterogeneity of delisting causes,[261] this section presents and compares the determinants of voluntary delisting across major jurisdictions to identify the diverse contributing factors for voluntary delisting internationally and regionally, considering the underlying differences in cultural, economic, and legal environments, as well as market conditions. This section thus follows the distinction highlighted by available studies that explore voluntary delistings in the US, the UK, Europe, and EMs.

2.3.3.1.5.1 Voluntary Delisting in the US

Due to the observed decline in the number of listed companies in the US,[262] delisting in the US has received significant attention in the literature, both theoretically and empirically. Such attention to the delisting determinants in the US paved the way for other scholars to study delisting in other jurisdictions and investigate its causes and effects.

Remarkably, around one-third of the listed companies from 1977 to 1990 were delisted within five years of their initial listing.[263] This "US Listing Gap" has resulted from the increasing delisting rates from US stock exchanges, which have not been offset by a similar rate of new listings.[264] In other words, the rate of delisted companies exceeded the rate of new listings, resulting in a gap in the number of listings.

Scholars have advanced many reasons for the high delisting rates in the US stock market. In this vein, a widely cited justification for delisting in the USA is the implementation of the SOX,

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[260] Hadiye Aslan and Praveen Kumar, 'Lemons or Cherries? Growth Opportunities and Market Temptations in Going Public and Private' (2010) 46 JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS 41, 12-13

[261] I Martinez and S Serve, 'Reasons for Delisting and Consequences a Literature Review and Research Agenda' (2017) 31(3) Journal of Economic Surveys 733, 761-762

[262] Xiaohui Gao, Jay R. Ritter, and Zhongyan Zhu, 'Where Have All the IPOs Gone?' (2013) 48(6) Journal of Financial and Quantitative Analysis 1663, 1663; Craig Doidge, Andrew Karolyi, and René M Stulz, 'The U.S. Listing Gap' (2015) ECGI Finance Working Paper No 451/2015, 1 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2605873> accessed 16 January 2025

[263] Bharat A Jain and Omesh Kini, 'The Life Cycle of Initial Public Offering Firms' (1999) 26(9) Journal of Business, Finance & Accounting 1281, 1281-1305. This was later supported by Demers and Joos (Elizabeth Demers and Philip Joos, 'IPO Failure Risk' (2007) 45(2) Journal of Accounting Research 333, 340) who found the delisting rate to be 9% of high-tech companies and 17% of non-tech companies over the period from 1980 to 2000.

[264] Craig Doidge, Andrew Karolyi, and René M Stulz, 'The U.S. Listing Gap' (2015) ECGI Finance Working Paper No 451/2015, 1 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2605873> accessed 16 January 2025

due to the excessive compliance costs associated with its implementation.[265] The SOX was promulgated in the wake of major financial scandals that necessitated stricter and more meticulous rules to enhance scrutiny standards over listed companies and restore investors' trust in the US stock market.[266]

Other reasons were attributed to the inherent characteristics of the listed companies and their inability to sustain the increasing listing costs. For instance, studies have found that small companies are more likely to delist than larger ones, which are better equipped to bear high listing costs.[267] In addition, the probability of delisting increases when companies' shares are undervalued[268] or have low liquidity.[269]

Moreover, one of the primary benefits of being listed is to finance future investment opportunities. Consequently, US-listed companies opted to go private when they were no longer interested in raising funds through the stock market[270] or lacked growth opportunities.[271] Additionally, the failure to gain more recognition and investors' attention led many companies to delist due to their low financial visibility.[272] To this effect, analyst coverage and share liquidity are used to measure the financial visibility of the listed companies. It follows that the absence of analysts' coverage and low stock liquidity, as measured by turnover rates,[273] diminishes the benefits of being listed and influences going-private decisions.[274] Another

[265] See e.g., Peter Hostak, Thomas Lys, Yong George Yang, and Emre Carr, 'An examination of the impact of the Sarbanes–Oxley Act on the attractiveness of U.S. capital markets for foreign firms' (2013) 18 Rev Account Stud 522, 522; Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 797

[266] The next chapter will address the impact of SOX on the attactivness of the US stock exchanages in more details.

[267] Ellen Engel, Rachel M Hayes and Xue Wang, 'The Sarbanes-Oxley Act and Firms' Going-Private Decisions' (2007) 44 J ACCOUNT ECON 1, 9-10

[268] Tim Opler and Sheridan Titman, 'Determinants of Leveraged Buyout Activity: Free Cash Flow vs Financial Distress Costs' (1993) 48(5) The Journal of Finance 1985, 1986; Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 Review of Financial Studies 1771, 1779- 1780

[269] Hamid Mehran and Stavros Peristiani, 'Financial Visibility and the Decision to Go Private' [2011] SSRN ELECTRON J 1, 4-5

[270] Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 Review of Financial Studies 1771, 1795

[271] Christian Leuz, Alexander Triantis and Tracy Yue Wang, 'Why Do Firms Go Dark? Causes and Economic Consequences of Voluntary SEC Deregistrations' (2008) 45 Journal of Accounting and Economics 181, 192

[272] Hamid Mehran and Stavros Peristiani, 'Financial Visibility and the Decision to Go Private' [2011] SSRN ELECTRON J 1, 4-5

[273] The stock liquidity is generally measured by the turnover rate (i.e., the volume of transactions). See Ellen Engel, Rachel M Hayes and Xue Wang, 'The Sarbanes-Oxley Act and Firms' Going-Private Decisions' (2007) 44 J ACCOUNT ECON 1, 15; Hamid Mehran and Stavros Peristiani, 'Financial Visibility and the Decision to Go Private' [2011] SSRN ELECTRON J 1, 16

[274] Liquidty is viewed as the primary benefit sought by firms when going public. See, e.g., Patrick Bolton and Ernst-Ludwig von Thadden, 'Liquidity and Control: A Dynamic Theory of Corporate Ownership Structure' (1998) 154 Journal of Institutional and Theoretical Economics 177, 193-194

notable feature was that the delisted companies exhibited a higher leverage rate than those remaining listed.[275]

Moreover, empirical studies on the impact of financial distress on delisting have yielded mixed findings. Some studies have shown that the higher risk of financial distress may not necessarily lead to delisting.[276] Others have proved the opposite assumption that the default risk of corporate bonds could likely increase the delisting rate.[277]

To sum up, US-listed companies might have voluntarily left the stock markets for numerous reasons. These reasons include the implementation of the SOX, the small size of the delisted companies that could not incur the compliance costs, the undervaluation of the companies' shares, low stock liquidity, low financial visibility, high leverage rates, lack of adequate analysts' coverage, the absence of future growth opportunities, and receiving no satisfactory attention from investors.

2.3.3.1.5.2 Voluntary Delisting in the UK

Unlike the delisting studies about the US stock market, there is still limited attention paid to voluntary delisting reasons in the UK. However, similar to the reasons for the US delisting, the size of the companies affects the listed company's ability to remain listed or go private. Notably, small UK-listed companies could not bear the continuing listing costs.[278]

[275] Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 Review of Financial Studies 1771, 1775

[276] Hamid Mehran and Stavros Peristiani, 'Financial Visibility and the Decision to Go Private' [2011] SSRN ELECTRON J 1, 17

[277] Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 Review of Financial Studies 1771, 1771-1818

[278] Charlie Weir, Mike Wright and Louise Scholes, 'Public-to-Private Buy-Outs, Distress Costs and Private Equity' (2008) 18 Applied Financial Economics 801, 804-806

Additionally, delisted UK companies were poorly performing,[279] undervalued,[280] and exhibited high leverage rates,[281] with insufficient growth opportunities, prior to their delisting. [282]

Furthermore, other reasons, such as low stock liquidity and inadequate financial visibility, have motivated listed companies in the UK to delist.[283]

2.3.3.1.5.3 Voluntary Delisting in Europe

Similar to the UK stock markets, studies about delisting from European stock markets remain scarce. Notably, the M&A transactions were found to be the primary reason for voluntary delisting in continental Europe from 1996 to 2004.[284]

Additionally, like other major jurisdictions, delisted companies typically exhibited low stock liquidity prior to delisting.[285] This fact might further support the idea that stock liquidity is a prime factor in considering the costs and benefits of remaining listed. In the same direction, upon analysing the causes for delisting among 21 European countries from 1995 to 2005, delisted companies were undervalued and underperforming.[286] This result aligns with other

[279] Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 813. On the other hand, some other studies did not find any support that the delisted firms had poor accounting performance. See, e.g., Charlie Weir, David Laing, and Mike Wright, 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 911

[280] Charlie Weir, David Laing, and Mike Wright, 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 933; Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 802; Ettore Croci and Alfonso Del Giudice, 'Delistings, Controlling Shareholders and Firm Performance in Europe' (2014) 20 EUR FINANC MANAG 374, 378

[281] Eilnaz Kashefi Pour and Meziane Lasfer, 'Why Do Companies Delist Voluntarily from the Stock Market?' (2013) 37 J BANK FINANC 1, 3

[282] Charlie Weir, David Laing, and Mike Wright, 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 912; Charlie Weir, Mike Wright and Louise Scholes, 'Public-to-Private Buy-Outs, Distress Costs and Private Equity' (2008) 18 APPL FINANC ECON 801, 804

[283] Eilnaz Kashefi Pour and Meziane Lasfer, 'Why Do Companies Delist Voluntarily from the Stock Market?' (2013) 37 J BANK FINANC 1, 3

[284] Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 803-813

[285] S Constant Djama, Stéphanie Serve, and Isabelle Martinez, 'What Do We Know about Delistings? A Survey of the Literature' (2012) 1, 4 <https://hal.science/hal-00937899/document> accessed 12 January 2025

[286] Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 811-812; Ettore Croci and Alfonso Del Giudice, 'Delistings, Controlling Shareholders and Firm Performance in Europe' (2014) 20 EUR FINANC MANAG 378-284

studies that have shown the poor performance of delisted companies in European stock markets prior to delisting.[287]

Another study examining the causes of delisting from the French stock market found that delisted companies from 1994 to 2004 were relatively small and undervalued.[288] Other factors that might influence European listed companies to delist include the absence of growth opportunities,[289] and the ability to secure the funds needed from sources other than public equity markets.[290]

2.3.3.1.5.4 Voluntary Delisting in EMs

Research on voluntary delisting in EMs remains limited,[291] despite its unique characteristics and the increasing frequency of delisting phenomena across various jurisdictions. While delisting trends occur globally, the determinants and consequences of delisting are jurisdiction-specific, reflecting differences in market maturity, regulatory frameworks, and economic structures. As previously discussed, factors influencing delistings in the US or UK may not fully explain similar trends in Europe or EMs, thereby highlighting the need for a separate analysis of each jurisdiction.

Studies on the Asian EMs have shed light on the causes and effects of voluntary delisting. For example, in Indonesia, illiquidity is highlighted as a primary driver of delisting decisions.[292] Both low profitability and limited growth opportunities are also underscored.[293]

A study on the Prague Stock Exchange analysed the delisting wave that occurred between 1993 and 2004.[294] The study identified that these delistings were connected to the country's mass privatisation program, where companies were obliged to list without any prior assessment of

[287] Constant Djama, Stéphanie Serve, and Isabelle Martinez, 'What Do We Know about Delistings? A Survey of the Literature' (2012) 1, 6,8 <https://hal.science/hal-00937899/document> accessed 12 January 2025
[288] Quentin Boucly, David Sraer and David Thesmar, 'Growth LBOs' (2011) 102 Journal of Financial Economics 432 <http://dx.doi.org/10.1016/j.jfineco.2011.05.014> accessed 12 January 2025; Boucly, Sraer, and Thesmar, 'Growth LBOs' [2011] (JFE forthcoming) 1, 2-18 <https://ssrn.com/abstract=1354087> accessed 12 January 2025
[289] Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 809
[290] Constant Djama, Stéphanie Serve, and Isabelle Martinez, 'What Do We Know about Delistings? A Survey of the Literature' (2012) 1, 6 <https://hal.science/hal-00937899/document> accessed 12 January 2025
[291] Min-yu Stella Liao, ' and Delisting: Evidence from Emerging Markets' (2020) 20 J ACCOUNT FINANC 178, 179
[292] L Benny and Y Hutagaol, 'Empirical Investigation of Determinant Factors of Company Delisting: Evidence From Indonesia' (2013) 6 J APPL FINANC ACCOUNT 25, 25. The Indonesian stock market has lost 31 companies from 2007 to 2011.
[293] Ibid
[294] Zuzana Fungáčová and Jan Hanousek, 'Determinants of Firm Delisting on the Prague Stock Exchange' (2011) Prague Economic Papers, Prague University of Economics and Business, vol. 2011(4), 348-365

their readiness for listing. Accordingly, most of the listed companies were unsuitable and poorly performing, which triggered their delisting decisions. Nevertheless, only around 6% of the listed companies delisted voluntarily. Another notable observation was that the size of the stock market was shrinking due to the lack of new listings, which negatively affected its development. Additionally, the study highlighted that these delistings could be beneficial in the long term, as they may have cleaned the market of poorly performing companies.

The experiences of EMs, such as Indonesia and the Czech Republic, demonstrate the diverse factors that can lead to delisting. While low liquidity was highlighted as the primary factor for delisting in Indonesia, the inadequate privatisation policies and listing mechanisms led to a massive delisting in the Czech Republic. These findings further emphasised the divergence between nations regarding the underlying determinant for delisting.

2.3.3.1.6 Concluding Remarks

As explained above, companies typically perform a cost-benefit analysis to decide whether to list, remain listed, or be delisted from a stock exchange. Other contributing factors include the intrinsic features of the companies at the time preceding their delisting and the market conditions of the country where the respective stock exchange is located. Upon analysing the delisting causes across jurisdictions, it is revealed that voluntary delisting can result from several reasons, which vary by jurisdiction; however, some common causes are noted.

In the US, studies have identified that the implementation of SOX was the primary reason for the delisting decision, as it imposed high compliance costs that were disproportionately burdensome for small companies. On the other hand, the M&A transactions were the leading delisting trigger in Europe. Additional common grounds include undervaluation, low liquidity, absence of growth opportunities, limited financial visibility, and insufficient investor interest. However, there are still no conclusive findings about the primary causes of delisting, particularly in emerging countries.

2.3.3.2 Involuntary Delisting

As explained earlier, involuntary delisting occurs when the stock exchange initiates the delisting process, thereby removing the listed company’s shares from its trading platform. However, it is essential to highlight that stock exchanges typically do not pursue involuntary delisting for every violation of the ongoing listing requirements. Instead, stock exchanges limit the imposition of penalties for breaches of significant listing requirements if they are not

rectified within a specific timeframe. These rules include disclosure requirements, specific numerical obligations, such as those relating to the required threshold for the number of shareholders and the market value of shares, as well as other violations of disclosure requirements.[295]

Nevertheless, the responses of stock exchanges to those violations are not uniform. Instead, they vary significantly across stock exchanges due to the variations in regulatory frameworks and enforcement approaches.

Still, despite its severe effects, involuntary delisting, unlike voluntary delisting, has received very little attention from scholars, with existing studies mainly focusing on the US stock exchanges. Given the scarcity of studies, the following subsections will discuss the primary causes of involuntary delistings, varying enforcement approaches across stock exchanges, and the inherent characteristics of companies that have been involuntarily delisted.

2.3.3.2.1 Violation of Ongoing Listing Requirements

Listed companies are typically subject to ongoing obligations to comply with specific listing requirements in order to remain listed. In case of failure, the defaulting company will be subject to sanctions, including involuntary delisting. Common violations include non-compliance with specific numerical obligations, such as the number of shareholders and the market value of shares, as well as other failures, including inadequate accounting practices, insufficient disclosure practices, improper handling of conflicts of interest, and an inability to settle debts, which may lead to the involuntary delisting of defaulting companies.[296]

For instance, the NASDAQ stock exchange has involuntarily delisted companies that went bankrupt or violated specific CG regulations,[297] such as those relating to the minimum requirements for net tangible assets, net income ratios, and market capitalisation.[298] Nevertheless, it is worth noting that most delisted companies from NASDAQ have moved their trading to other, less regulated venues, such as the OTC Bulletin Board or the Pink Sheets.[299]

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[295] Kevin CW Chen and Michael P Schoderbek, 'the role of accounting information in security exchange delisting' (1999) 18 JOURNAL OF ACCOUNTING AND PUBLIC POLICY 31, 31–57

[296] Gary C Sanger and James D Peterson, 'An Empirical Analysis of Common Stock Delistings' (1990) 25 JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS. 261, 262; Kevin CW Chen and Michael P Schoderbek, 'the role of accounting information in security exchange delisting' (1999) 18 JOURNAL OF ACCOUNTING AND PUBLIC POLICY 31, 31–57

[297] Jeffrey H Harris, Venkatesh Panchapagesan and Ingrid M Werner, 'Off But Not Gone: A Study of Nasdaq Delistings' [2011] SSRN Electronic Journal 1, 2

[298] Ibid

[299] Ibid

2.3.3.2.2 Stock Exchange's Response Towards Violations

As involuntary delisting is typically decided and enforced by the stock exchanges themselves, some studies attempted to examine their responses. The objective was to understand their enforcement practices and how involuntary delisting is exercised *de facto*. These studies have investigated the US regulators' demeanour when a listed company violates one of the minimum requirements for continued listing.

An analysis of 150 delisted companies from the AMEX from 1981 to 1992 revealed that 31% of the companies had frequently breached the accounting requirements in the five years preceding their delisting. However, only 21.7% of these companies were delisted within one year of breaching the accounting standards.[300] Other factors were also considered by AMEX when deciding on delistings, such as bankruptcy proceedings, shareholder lawsuits, low trading volume, and poor stock returns.[301]

The approach followed by AMEX in enforcing the delisting sanction indicates that a mere violation of the ongoing listing requirements, including the minimum standards, does not automatically warrant the involuntary delisting of the company. This flexible approach can be attributed to the so-called "delisting dilemma," which describes the regulators' challenging decision of whether to delist a company for violating the listing requirements or to grant it more time to comply.[302]

To illustrate, stock exchanges suffer from an inherent conflict of interest with listed companies on their trading platform. They have the competence to regulate listing requirements and oversee trading to ensure compliance with ongoing listing requirements. Conversely, as profit-oriented entities, they may potentially incur a loss of earnings by choosing to delist a company from their trading platforms. As a result, a stock exchange may opt for the delisting option only when retaining the defaulting company is no longer profitable to the stock exchange or when the latter's reputation is jeopardised.[303] This indicates a conflict of interest between the stock exchange and its listed companies, wherein a stock exchange may decide to delist a company when its own interests are negatively impacted. This intricate dynamic requires a separate

[300] Kevin CW Chen and Michael P Schoderbek, 'the role of accounting information in security exchange delisting' (1999) 18 Journal of Accounting and Public Policy 31, 40
[301] Ibid
[302] Jonathan Macey, Maureen O' Hara and David Pompilio, 'Down and out in the Stock Market: The Law and Economics of the Delisting Process' 51 Journal of Law and Economics 683, 685
[303] Gary C Sanger and James D Peterson, 'An Empirical Analysis of Common Stock Delistings' (1990) 25 JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS 261, 261-271

investigation to elucidate the function of the stock exchanges and formulate an appropriate regulatory or market strategy that helps mitigate this conflict. Moreover, it is critical to examine the responses and enforcement practices of other stock markets, a domain that remains unexplored.

2.3.3.2.3 The Inherent Characteristics of Involuntarily Delisted Companies

Like the above explanation of the inherent characteristics of voluntarily delisted companies, this section outlines the intrinsic features of those companies that were involuntarily delisted.

This delisting may be attributed to the company's inadequate readiness for listing in the first place. Some studies have examined the companies' intrinsic characteristics to determine which features might indicate the likelihood of future delisting. These features include the number and type of shareholders, the shareholders' structure and ownership, the board structure, industry, and pre-listing performance, among other things. Thus, comparing the characteristics of delisted companies and those of surviving ones may help explain why some listed companies are subject to compulsory delisting from the stock exchange, while others are not.

Similar to voluntarily delisted companies, small listed companies[304] with feeble financial performance are likely to be subject to involuntary delisting in the future.[305] Based on the resource-based theory that distinguishes companies on the grounds of their ability to create and maintain valuable and competitive resources, thereby enhancing their financial operation,[306] large and old companies[307] with sufficient resources necessary for their well-functioning operations would be more likely to remain listed.[308] Thus, young and small companies would be more vulnerable to compulsory delisting.

When analysing the delisting of newly listed companies, studies have followed two different paths to examine the relationship between the listed companies' performance and the

[304] George P Baker and Robert E Kennedy, 'Survivorship and the Economic Grim Reaper' (2002) 18 Journal of Law, Economics and Organization 324; Stavros Peristiani, 'Evaluating the Riskiness of Initial Public Offerings: 1980-2000' [2011] SSRN Electronic Journal 1980; Elizabeth Demers and Philip Joos, 'IPO Failure Risk' (2007) 45 Journal of Accounting Research 333; Chris Yung, Gönül Çolak and Wei Wang, 'Cycles in the IPO Market' (2008) 89 Journal of Financial Economics 1, 1-15

[305] George P Baker and Robert E Kennedy, 'Survivorship and the Economic Grim Reaper' (2002) 18 J of Law, Econ Organ 324, 326

[306] For more details about the resource based theory, see Jay Barney, 'Firm Resources and Sustained Competitive Advantage' (1991) 17 Journal of Management 99, 100-101

[307] Chris Yung, Gönül Çolak and Wei Wang, 'Cycles in the IPO Market' (2008) 89 Journal of Financial Economics 1, 14

[308] Silviano Esteve-Pérez and Juan A Mañez-Castillejo, 'The Resource-Based Theory of the Firm and Firm Survival' (2008) 30 Small Business Economics 231

possibility of being delisted. While some studies focused on explaining the causes of the mortality rates in the market, others centred on investigating the reasons for the survival rates of the listed companies. However, both strands of research have reached the same conclusion: that the performance of listed companies is a key factor in the involuntary delisting process.

Studies investigating mortality rates have focused on newly listed companies that were delisted within ten years of their listing. The death rate of newly listed companies on the NASDAQ increased when listed companies experienced low share prices and market capitalisation compared to their counterparts.[309] Additionally, delisted companies from the NYSE and AMEX experienced low stock returns and a loss in market value in the period preceding their delisting.[310]

On the other hand, studies investigating the survival reasons of the listed companies emphasised the importance of financial performance for companies to remain listed.[311] Not only did the financial performance before delisting explain the involuntary delisting of some listed companies, but the financial features and performance of the companies at the time of their IPOs might imply the possibility that a company could be involuntarily delisted in the future.

For example, delisted companies from the AIM were characterised by poor financial performance before being delisted and a low value at the IPO time.[312] Other scholars have also demonstrated that delisted companies have lower returns on assets and lower equity-to-assets ratios compared to their counterparts.[313] Furthermore, the substantial management earnings at the time of listing would likely explain the low performance of the listed companies and their increased likelihood of being delisted.[314]

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[309] PJ Seguin and MM Smoller, 'Share Price and Mortality: An Empirical Evaluation of Newly Listed Nasdaq Stocks' (1997) 45 Journal of Financial Economics 333

[310] George P Baker and Robert E Kennedy, 'Survivorship and the Economic Grim Reaper' (2002) 18 Journal of Law, Economics, & Organization 324. The study showed that the death rate of listed firms was around 39% upon analysing the entry and exit of firms in any given ten years from 1963 to 1955.

[311] Eugene F Fama and Kenneth R French, 'New Lists: Fundamentals and Survival Rates' (2004) 73 Journal of Financial Economics 229

[312] Joseph Gerakos, Mark Lang and Mark Maffett, 'Post-Listing Performance and Private Sector Regulation: The Experience of London's Alternative Investment Market' (2013) 56 Journal of Accounting and Economics 1, 4-9

[313] Stavros Peristiani and Gijoon Hong, 'Current Issues Pre-IPO Financial Performance and Aftermarket Survival' (2004) 10 Federal Reserve Bank of New York 1

[314] Jinliang Li and Jian Zhou, 'Earnings Management and Delisting Risk of Initial Public Offerings' [2006] SSRN Electronic Journal <https://papers.ssrn.com/abstract=641021> accessed 4 January 2022. Jinliang Li and Jian Zhou, 'Earnings Management and Delisting Risk of Initial Public Offerings' [2006] SSRN ELECTRON J 1, 2 <https://papers.ssrn.com/abstract=641021> accessed 12 January 2025. This is based on the presumption that these earnings are negatively correlated with the performance of the company, which would increase the delisting possibility.

Finally, other studies showed the importance of innovation for a listed company to remain listed. In this respect, listed companies with no or few patents were performing weakly and had a higher mortality rate than those with patents.[315] Similarly, the company's subscription offering size may indicate the likelihood of being delisted involuntarily. Thus, companies with small offering sizes would likely be delisted.[316]

The timing and activity of the IPO might also determine how likely the listed company is to be delisted involuntarily.[317] Regardless of their quality, many companies go public to benefit from investors' over-optimism during periods of high market activity.[318] Thus, the poorly performing companies would likely be delisted.[319]

2.3.3.2.4 Concluding Remarks

In light of the above-limited studies, the companies' size and financial performance before delisting are determining factors for the possibility of being involuntarily delisted. Another factor that should be considered when studying involuntary delisting is the stock market regulators' pattern of response to any violation of the listing requirements. In other words, the likelihood of a listed company being delisted depends on whether the stock market regulators adopt lax or rigorous enforcement policies, which is addressed in the next section.

2.3.3.3 CG and Delisting

As explained earlier, CG establishes the framework for managing relationships among key stakeholders, including management, boards of directors, shareholders, employees, creditors, and society. It is widely recognised that sound CG practices are instrumental in the

[315] S Wagner and I Cockburn, 'Patents and the Survival of Internet-Related IPOs' (2010) 39 Research Policy 214
[316] Bharat A Jain and Omesh Kini, 'The Life Cycle of Initial Public Offering Firms' (1999) 26(9) Journal of Business, Finance & Accounting 1139, 1152; Maher Kooli and Siham Meknassi, 'The Survival Profile of U.S. IPO Issuers' (2007) 10 J WEALTH MANAG 105, 106 < https://jwm.pm-research.com/content/10/2/105> accessed 12 January 2025
[317] Maher Kooli and Siham Meknassi, 'The Survival Profile of U.S. IPO Issuers' (2007) 10 J Wealth Manag 105, 105, 106 < https://jwm.pm-research.com/content/10/2/105> accessed 12 January 2025; Elizabeth Demers and Philip Joos, 'IPO Failure Risk' (2007) 45 J Account Res 333, 342; Chris Yung, Gönül Çolak and Wei Wang, 'Cycles in the IPO Market' (2008) 89 J financ econ 1, 15
[318]Jay R Ritter, 'The Long-Run Performance of Initial Public Offerings' (1991) 3; Tim Loughran and Jay R Ritter, 'The New Issues Puzzle' (1995) 50 The Journal of Finance 23-24 <https://onlinelibrary.wiley.com/doi/full/10.1111/j.1540-6261.1995.tb05166.x> accessed 4 January 2022; Esam Aldin M Algebaly, Yusnidah Ibrahim and Nurwati A Ahmad-Zaluki, 'The Determinants of Involuntary Delisting Rate in the Egyptian IPO Equity Market' (2014) 13 REV ACCOUNT FINANC 171, 175
[319] Esam Aldin M Algebaly, Yusnidah Ibrahim and Nurwati A Ahmad-Zaluki, 'The Determinants of Involuntary Delisting Rate in the Egyptian IPO Equity Market' (2014) 13 Review of Accounting and Finance 171, 175

development of capital markets, enhancing accountability and ensuring that the interests of all stakeholders are well protected.

Nevertheless, CG regulations may impact delisting decisions through multiple dimensions. From a micro-level perspective, weak or insufficient CG practices at the company level can lead to poor financial performance and agency conflicts.[320] In such cases, delisting may be used as a strategic tool to reduce agency costs, enabling companies to realign managerial incentives and improve value creation.[321] However, delisting can also be exploited by incumbent managers or controlling shareholders to enrich themselves at the expense of minority shareholders, especially if they possess privileged information about the company's prospects.[322]

However, at the country level, the adoption of stringent CG regulations may potentially influence companies to consider delisting to avoid the compliance costs associated with being listed and to mitigate any possible prejudice or unfair competition resulting from the disclosure requirements.[323] As explained above, companies usually conduct cost-benefit analyses to determine whether they should retain their listing status or opt for delisting. If the compliance costs are higher than the perceived benefits, companies will likely decide to delist.

While stringent regulations aim to enhance transparency and investor protection, excessive oversight may unintentionally harm corporate performance.[324] A study analysing approximately 2,350 companies across 23 developed countries found that companies adopting strong CG practices, such as independent boards and board committees, generally performed well.[325] However, excessive monitoring was shown to limit managerial flexibility, reduce investment efficiency, and increase capital costs.[326] Notably, in jurisdictions with already

[320] Charlie Weir, David Laing, and Mike Wright, 'Incentive Effects, Monitoring Mechanisms and the Market for Corporate Control An Analysis of the Factors Affecting Public to Private Transactions in the UK' (2005) 32(5) Journal of Business Finance & Accounting 909, 915; Andreas Charitou, Christodoulos Louca and Nikos Vafeas, 'Boards, Ownership Structure, and Involuntary Delisting from the New York Stock Exchange' (2007) 26 J ACCOUNT PUBLIC POLICY 249, 258-259

[321] Steven Kaplan, 'The Effects of Management Buyouts on Operating Performance and Value' (1989) 24 J FINANC ECON 217, 217-218

[322] Constant Djama, Stéphanie Serve, and Isabelle Martinez, 'What Do We Know about Delistings? A Survey of the Literature' (2012) 4 <https://hal.science/hal-00937899/document> accessed 12 January 2025 citing Wi Saeng Kim and Esmeralda O Lyn, 'Going Private: Corporate Restructuring Under Information Asymmetry and Agency Problems' (1991) 18 JOURNAL OF BUSINESS FINANCE & ACCOUNTING 637, 637–648

[323] , 1777

[324] Valentina Bruno and Stijn Claessens, 'Corporate Governance and Regulation: Can There Be Too Much of a Good Thing?' (2010) 19 Journal of Financial Intermediation 461

[325] Valentina Bruno and Stijn Claessens, 'Corporate Governance and Regulation: Can There Be Too Much of a Good Thing?' (2010) 19 J FINANC INTERMEDIATION 461, 463

[326] Ibid

strong legal protections, robust CG frameworks did not necessarily improve performance.[327] Instead, in environments with weaker legal frameworks, enhanced CG measures proved more effective. These findings highlight the importance of balancing regulatory rigour with managerial flexibility to optimise company performance.

Recent studies have highlighted the complex interplay between CG, regulatory environments, and company performance. It is revealed that excessive shareholder monitoring may discourage managerial initiative, thereby diminishing profitability and negatively affecting company valuations.[328] For instance, in the US, SOX compliance has harmed small companies, while having a negligible effect on companies with robust CG systems already in place.[329] This thus shows that CG regulations must be tailored to the specific institutional contexts of corporate structures and markets to avoid possible unintended consequences, such as the decline in the number of listed companies.

The decision to delist involves a trade-off between the costs of compliance and the benefits of being publicly listed. Companies may choose to delist if the costs of compliance with CG regulations outweigh the advantages of public market access. This behaviour can trigger broader market effects, where other companies follow suit, reducing market depth and liquidity. Likely, unlisted companies may opt against going public, fearing burdensome regulatory requirements.

The potential link between CG regulations and delisting gained attention following the enactment of the SOX in the US. However, research on this possible influence in EMs remains limited. Emerging economies face weaker legal systems, corruption, and institutional voids, making CG reforms even more critical. Nevertheless, stringent regulations in these contexts may exacerbate challenges rather than resolve them, especially if the adopted regulations and enforcement mechanisms are inadequate. This section discusses studies relevant to this discourse in the US, Europe, and EMs.

[327] Ibid
[328] M Burkart, D Gromb and F Panunzi, 'Large Shareholders, Monitoring, and the Value of the Firm' (1997) 112 QJE 693, 693-697
[329] Ellen Engel, Rachel M Hayes, and Xue Wang, 'The Sarbanes–Oxley Act and Firms' Going-Private Decisions' [2004] SSRN ELECTRON J 9 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=546626> accessed 17 January 2025

2.3.3.3.1 The US

In response to widespread financial scandals involving major companies, such as Enron, Xerox, and WorldCom, the US enacted the 2002 Public Company Accounting Reform and Investor Protection Act, commonly known as the SOX. The primary objective of SOX was to deter corporate fraud and auditing malpractices by strengthening transparency and accountability in financial reporting.[330] The legislation aimed to restore investor confidence by enhancing the protection of minority shareholders and ensuring greater oversight of corporate practices.[331] Key provisions under SOX required listed companies to establish internal control systems, mandated CEO and CFO certifications to confirm the authenticity of financial reports, expanded disclosure requirements, and introduced criminal penalties for fraud and misrepresentation.[332]

The passage of SOX has sparked extensive debate regarding its advantages and disadvantages, particularly its potential impact on the US stock market and whether it imposed excessive regulatory burdens that harmed market performance. Some studies have endeavoured to investigate the relationship between SOX and delistings, focusing on whether the compliance costs of SOX prompted companies to go private. The two competing perspectives in this debate are those supporting SOX's regulatory framework and those criticising its adverse effects.

Proponents of SOX emphasise the transparency and accountability it introduced, arguing that the legislation provided long-term benefits for financial markets. By enforcing stricter reporting standards and enhancing investor protection, SOX aimed to strengthen market integrity and improve access to low-cost capital. In contrast, opponents argue that SOX imposed excessive compliance costs, particularly for small companies, forcing many to go private to escape regulatory burdens. From this perspective, the cost of compliance outweighed the benefits, prompting companies to delist to maximise value and minimise expenses.

[330] For an analysis of the SOX, see John C Coates IV, 'The goals and promise of the Sarbanes-Oxley Act' (2007) 21 J ECON PERSPECT 91, 91–116; John C Coates and Suraj Srinivasan, 'SOX after Ten Years: A Multidisciplinary Review' (2015) 28 Accounting Horizons 627

[331] Ibid

[332] For example, see Ellen Engel, Rachel M Hayes, and Xue Wang, 'The Sarbanes–Oxley Act and Firms' Going-Private Decisions' [2004] SSRN Electronic Journal 1 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=546626> accessed 17 January 2025; Sarbanes-Oxley Act of 2002, Pub L No 107-204, 116 Stat 745, Approved 30 July 2002, as amended by Pub L No 117-328, Enacted 29 December 2022 <https://www.govinfo.gov/content/pkg/COMPS-1883/pdf/COMPS-1883.pdf> accessed 12 January 2025

Studies have shown a notable increase in delistings following the enactment of the SOX.[333] Considering both the costs and benefits of SOX rules, it may be economically reasonable for the listed companies to go private if the compliance costs exceed the corresponding benefits of being public.[334] This is particularly relevant for small[335] and less liquid companies[336] whose shareholders perceive little benefit in remaining public. For instance, companies with undervalued shares[337] or low trading liquidity[338] were likely to pursue delisting or going dark.

Additionally, the high administrative costs associated with SOX compliance compelled listed companies to go dark to avoid incurring such costs.[339] Approximately 101 companies went dark in the year following the implementation of SOX, compared to 44 in 2002.[340] Nevertheless, companies that went dark due to SOX's high compliance costs were characterised as less liquid,[341] smaller[342] and poorly performing.[343]

The impact of SOX extended beyond domestic markets, with foreign cross-listed companies choosing to delist from US exchanges to avoid the costs associated with compliance.[344]

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[333] ibid

[334] Ellen Engel, Rachel M Hayes and Xue Wang, 'The Sarbanes-Oxley Act and Firms' Going-Private Decisions' [2005] SSRN Electronic Journal 1, 2

[335] Christian Leuz, Alexander Triantis and Tracy Yue Wang, 'Why Do Firms Go Dark? Causes and Economic Consequences of Voluntary SEC Deregistrations' (2008) 45 Journal of Accounting and Economics 181, 205

[336] Ellen Engel, Rachel M Hayes and Xue Wang, 'The Sarbanes-Oxley Act and Firms' Going-Private Decisions' [2004] SSRN ELECTRON J 1, 2

[337] Tim Opler and Sheridan Titman, 'The Determinants of Leveraged Buyout Activity: Free Cash Flow vs Financial Distress Costs' (1993) 48(5) The Journal of Finance 1985, 1985-1999; Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 Review of Financial Studies 1771, 1771–1818

[338] Hamid Mehran and Stavros Peristiani, 'Financial Visibility and the Decision to Go Private' [2011] SSRN Electronic Journal 1, 4-5

[339] Christian Leuz, Alexander Triantis and Tracy Yue Wang, 'Why do firms go dark? Causes and economic consequences of voluntary SEC deregistrations' (2008) 45 J ACCOUNT ECON 181, 181–208; Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 794

[340] András Marosi and Nadia Massoud, 'Why Do Firms Go Dark?' (2007) 42 JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS 421, 426

[341] Ellen Engel, Rachel M Hayes, and Xue Wang, 'The Sarbanes–Oxley Act and Firms' Going-Private Decisions' [2004] SSRN Electronic Journal 1 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=546626> accessed 17 January 2025. They found, upon investigating the impact of SOX on 237 companies that went private from 1998 to 2005, that the SOX had massively impacted smaller and less liquid companies.

[342] Ehud Kamar and Eric Talley, 'Going-Private Decisions and the Sarbanes-Oxley Act of 2002: A Cross-Country Analysis' (2009) 25(1) The Journal of Law, Economics and Organization 107, 107; Ellen Engel, Rachel M Hayes and Xue Wang, 'The Sarbanes-Oxley Act and Firms' Going-Private Decisions' [2004] SSRN ELECTRON J 1, 2

[343] Christian Leuz, 'Was the Sarbanes-Oxley Act of 2002 Really This Costly? A Discussion of Evidence from Event Returns and Going-Private Decisions' (2007) 44 Journal of Accounting and Economics 1, 18

[344] Peter Hostak, Thomas Lys, Yong George Yang, and Emre Carr, ' An examination of the impact of the Sarbanes–Oxley Act on the attractiveness of U.S. capital markets for foreign firms' (2013) 18 Rev Account Stud 522, 523; Susan Chaplinsky and Latha Ramchand, 'What Drives Delistings of Foreign Firms from U.S. Exchanges?' (2012) 22 J INT FINANC MARK INSTITUTIONS MONEY 1126, 1126-1148. Chaplinsky and Ramchand

Conversely, proponents dispute the negative association between SOX and delistings, citing alternative observations for the decline in US listings. They argued that the "U.S. Listing Gap" preceded the enactment of SOX and was primarily driven by an increase in M&As rather than regulatory burdens.[345] Moreover, they further praised the SOX for its valuable benefits, including improved oversight, reliable financial reporting, and enhanced investor confidence.[346] Proponents further emphasised that companies complying with SOX would benefit from lower capital costs and greater transparency, enabling them to attract investors and foster long-term growth.[347]

They also claimed that the high compliance costs associated with SOX have diminished over time as companies adapted to the new requirements.[348] Advocates like Coates argue that SOX provided companies with long-term benefits by reducing fraud risks, improving accountability, and enabling better resource allocation.[349] Coates further noted that investors benefited from reliable disclosures and lower risks, which justified the initial costs of compliance, stating, "*In exchange for these higher costs, Sarbanes–Oxley promises a variety of long-term benefits. Investors will face a lower risk of losses from fraud and theft, and benefit from more reliable financial reporting, greater transparency, and accountability. Public companies will pay a lower cost of capital, and the economy will benefit because of a better allocation of resources and faster growth*."[350]

The literature on SOX and delisting can thus be divided into two primary schools of thought. The first group attributes high delisting rates in US stock markets to the compliance burdens imposed by SOX, viewing it as a key driver of companies going private. The second group remains sceptical about this link, asserting that SOX's impact was short-lived and outweighed by the benefits of investor protection and market discipline it introduced.

showed that the SOX was an influential factor in delisting decision for companies that had good CG structure in their home stock exchanges and had no need for external capital.

[345] Craig Doidge, Andrew Karolyi, and René M Stulz, 'The U.S. Listing Gap' (2015) ECGI Finance Working Paper No 451/2015, 1 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2605873> accessed 16 January 2025

[346] Christian Leuz, 'Was the Sarbanes-Oxley Act of 2002 Really This Costly? A Discussion of Evidence from Event Returns and Going-Private Decisions' (2007) 44 Journal of Accounting and Economics 146, 165

[347] Ibid

[348] ibid; John C Coates IV, 'The goals and promise of the Sarbanes-Oxley Act' (2007) 21 J ECON PERSPECT 91, 91–116

[349] John C Coates IV, 'The goals and promise of the Sarbanes-Oxley Act' (2007) 21 J ECON PERSPECT 91, 91–116

[350] Ibid

Despite extensive research on the effects of SOX, the relationship between CG reforms and delisting remains controversial and inconclusive.[351] While some studies highlight the unintended consequences of overregulation, others emphasise the long-term gains associated with enhanced transparency and market stability. This ongoing debate highlights the need for further studies to investigate the impact of CG reforms on delisting trends, particularly across diverse market contexts and company sizes.

2.3.3.3.2 The European Countries

Following the US's lead in enhancing investor protection and CG standards, European countries implemented similar reforms aimed at improving transparency, accountability, and oversight in publicly listed companies. However, unlike the rigid regulatory approach of the SOX in the US, European countries adopted a more flexible framework based on the "comply or explain" principle. This approach allowed listed companies to either comply with CG standards or explain deviations, thereby balancing regulatory demands with operational flexibility.

However, despite this flexibility, European stock exchanges experienced trends similar to those in the US, including a decline in IPOs and a notable increase in delistings. These developments may suggest that even a less rigid regulatory framework can result in high compliance costs, prompting companies to reconsider the benefits of remaining publicly listed.

Thomsen and Vinten conducted one of the most widely cited studies on the relationship between compliance costs associated with CG regulations and delisting activities in European stock markets from 1996 to 2004.[352] Using the investor protection index developed by LLSV, their study concluded that robust CG standards and strong protection for minority shareholders were associated with higher rates of delisting. Their findings align with the overregulation theory, suggesting that companies may find it more economically viable to delist or merge with other companies when the compliance costs outweigh the perceived benefits of remaining listed.

[351] Min-yu Stella Liao, 'Corporate Governance and Delisting: Evidence from Emerging Markets' (2020) 20 J ACCOUNT FINANC 178, 179

[352] Steen Thomsen and Frederik Vinten, 'Delistings and the Costs of Governance: A Study of European Stock Exchanges 1996-2004' (2014) 18 J Manag Gov 793, 793-833

A case study in France further supports this view by analysing the impact of the 2003 Financial Security Law, which imposed stricter auditing and CG requirements.[353] The study revealed that compliance costs were a significant driver behind voluntary delisting decisions between 1997 and 2006, particularly among small and underperforming companies.[354] This evidence reinforces the notion that increased regulatory burdens disproportionately affect small companies, compelling them to exit the stock exchange.

Similarly, Italy introduced the Italian Law on Markets and Finance, commonly referred to as the Draghi Law, to bolster investor protection.[355] A recent study analysed IPO activities from 1861 to 2011 to evaluate the law's impact on the survival of listed companies. The findings revealed that companies listed after the enactment of the Draghi Law experienced higher survival rates than those listed before its implementation. Notably, the law's stringent investor protection measures appeared to encourage companies to list and remain listed, contradicting claims that such regulations necessarily drive delistings. Additionally, the study demonstrated that market uncertainty had a minimal influence on listing decisions when investor protections were in place.[356] These results suggest that companies entering the market under stricter CG frameworks may perceive the regulatory environment as a signal of long-term stability, enabling them to benefit from enhanced credibility and investor confidence.

In Germany, a study examined the trends of listing and delisting in the Prime Standard, the high-regulation market segment established by the German Stock Exchange between 2003 and 2015.[357] The findings emphasised the cost-benefit analysis conducted by companies when deciding whether to remain listed. Companies with lower growth opportunities and weaker performance metrics tended to migrate to less-regulated markets or delist entirely to avoid compliance costs.[358] Out of 243 companies, 107 opted to move to less regulated markets, 22 were delisted, and the remaining 114 either declared bankruptcy or were acquired.[359] This evidence highlights that regulatory burdens, even in flexible frameworks, play a key role in

[353] I Martinez and S Serve, 'Reasons for Delisting and Consequences a Literature Review and Research Agenda' (2017) 31(3) Journal of Economic Surveys 733, 733-770
[354] Ibid
[355] Mattia Cattaneo, Michele Meoli and Silvio Vismara, 'Financial Regulation and IPOs: Evidence from the History of the Italian Stock Market' (2015) 31 Journal of Corporate Finance 116
[356] M Ekkayokkaya and T Pengniti, 'Governance Reform and IPO Underpricing' (2012) 18 Journal of Corporate Finance 238, 238-253
[357] Wolfgang Bessler, Marc Steffen Rapp, and Marco Vendrasco, 'Securities Market Reforms and Market Segments for IPOs - An Analysis of Listing and Delisting Decisions in Germany' (2019) 1, 1-50 < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3288663> accessed 12 January 2025
[358] Ibid
[359] Ibid

influencing listing and delisting decisions based on companies' performance outlooks and growth potential.

To conclude, the European experience with CG reforms reveals mixed outcomes. While the "comply or explain" principle provided companies with greater flexibility compared to the mandatory rules of SOX, compliance costs appeared still to influence delisting trends across European stock markets. Studies suggest that smaller, less liquid, and underperforming companies were more likely to go private or move to less-regulated markets due to the perceived burden of CG requirements.

At the same time, a study about Italy presents a contrasting perspective, suggesting that strengthened investor protections can lead to higher survival rates and market stability under certain conditions. These findings suggest that CG reforms, when designed to strike a balance between compliance costs and investor confidence, can enhance market credibility and encourage long-term listings.

Overall, the evidence from European markets supports the notion that CG regulations must be context-specific and adaptable to companies' size, performance, and growth potential. Excessive regulatory requirements may deter listings and promote delistings, while well-adjusted reforms can foster transparency, investor protection, and market resilience.

2.3.3.3.3 The EMs

Unlike the US and Europe, the potential influence of CG regulations on delisting in EMs has received limited attention in the literature. Although CG reforms in these markets aim to improve transparency and investor protection, their influence on delisting trends remains underexplored, with only a few studies addressing the topic.[360]

A recent study examined the relationship between CG rules and delisting activity across 23 EMs in the aftermath of the 2008 financial crisis, spanning from 2008 to 2014.[361] The findings suggested an inverse relationship between country-level CG reforms and delisting rates, indicating that companies operating in jurisdictions with strong investor protection[362] and the rule of law[363] were more likely to remain listed.

[360] Min-yu Stella Liao, 'Corporate Governance and Delisting: Evidence from Emerging Markets' (2020) 20 J ACCOUNT FINANC 178, 178
[361] Ibid
[362] It relied on the Investor Protection Index designed by the LLSV.
[363] It used the rankings on the Rule of Law Index developed by the World Bank as a proxy.

Interestingly, this study highlighted dual consequences of CG regulations based on the form of delisting. A positive correlation was found between CG practices and voluntary delisting, suggesting that companies may opt to delist voluntarily to reduce compliance costs and enhance value. Conversely, a negative relationship was observed between CG rules and involuntary delisting triggered by M&As, liquidation, or bankruptcy, implying that stronger CG frameworks may prevent financially distressed companies from exiting the market involuntarily.[364]

Despite its contributions, this study remains inconclusive as it did not investigate involuntary delisting caused by non-compliance with CG requirements or listing rules. Furthermore, although Egypt was included in the EMs analysed, no specific data were provided, which limits the study's applicability and relevance to the Egyptian context.

Another empirical study examined the impact of CG practices on delisting probabilities in Brazil, focusing on 86 companies that were voluntarily delisted from the BM&FBovespa between 2008 and 2012.[365] The results indicated that companies adhering to strong CG practices, particularly regarding board structures and oversight mechanisms, exhibited higher survival rates and lower tendencies to delist voluntarily. This finding highlights the protective effect of sound CG frameworks in enhancing company resilience and market confidence.

Additionally, a study has attempted to investigate the determinants of involuntary delistings in the EGX from 2002 to 2009.[366] Based on a sample of 163 IPOs, the study identified several factors, such as company size, turnover rates, institutional ownership, stock returns, asset growth rates, and insider ownership, that negatively affected the likelihood of involuntary delisting. These findings suggest that company-specific characteristics at the IPO stage have a substantial impact on long-term listing prospects.

Some other studies investigating the Egyptian IPO market focused predominantly on the advantages of public listings, such as access to capital and market visibility, while overlooking

[364] Min-yu Stella Liao, 'Corporate Governance and Delisting: Evidence from Emerging Markets' (2020) 20 J ACCOUNT FINANC 178, 178

[365] Patricia Bortolon and Annor Junior, 'Delisting Brazilian Public Companies: Empirical Evidence about Corporate Governance Issues' (2015) bbrconf Brazilian Business Review 92

[366] Esam Aldin M Algebaly, Yusnidah Ibrahim and Nurwati A Ahmad-Zaluki, 'The Determinants of Involuntary Delisting Rate in the Egyptian IPO Equity Market' (2014) 13 REV ACCOUNT FINANC 171, 171-190. This study has confirmed the high rate of involuntary delisting after issuing the new listing rules in 2002, stating that around 26% of the listed companies were involuntarily delisted during the period from 2002 to 2009.

the compliance costs and CG burdens that could potentially diminish these benefits.[367] As a result, the broader economic implications of CG regulations on listing sustainability remain understudied in Egypt's context.

The limited research on CG regulations and delisting trends in EMs highlights the complex interplay between regulatory frameworks, company-level CG practices, and market dynamics. While some evidence suggests that strong investor protections and the rule of law can promote listing stability, other studies indicate that high compliance costs may incentivise companies to delist voluntarily or avoid public listings altogether. Empirical findings from countries like Brazil emphasise the importance of well-developed CG structures, particularly at the board level, in improving company resilience and survival rates. However, research on Egypt remains scarce, with no comprehensive analysis of the impact of EGX's regulatory framework on market attractiveness.

While earlier studies in Egypt explored IPO performance and involuntary delistings, they failed to investigate the potential correlation between CG reforms and delisting. They focused solely on company-level weaknesses without examining the regulatory pressures that may have contributed to delistings. This study thus aims to contribute to this gap by investigating the potential influence of CG reforms on the delisting waves observed on the EGX, an emerging stock exchange.

2.3.3.3.4 Concluding Remarks

The interplay between CG and delisting decisions is both multifaceted and context-dependent, highlighting significant variations across company sizes, regulatory environments, and market conditions. While sound CG practices are crucial for enhancing transparency and investor confidence, the imposition of overly stringent regulations may lead to unintended consequences, such as delistings, particularly among small and underperforming companies.

At the company level, weak CG structures correlate with poor financial performance and agency conflicts, making delisting a strategic choice to realign managerial incentives and reduce agency costs. Conversely, delisting can also reflect managerial opportunism, where insiders exploit privileged information to the detriment of minority shareholders.

[367] E.g., Mohammed Omran, 'Structural Break in the Egyptian Stock Market: A Logistic Regression Analysis' (2006) 11 International Journal of Business 403, 404-415

From a regulatory standpoint, country-level CG frameworks influence companies' listing decisions through compliance costs, with evidence suggesting that excessive oversight, such as the SOX in the US, disproportionately impacts small companies. While reforms like SOX improved investor protection and market confidence, they also increased administrative burdens, leading many companies to delist or avoid public markets altogether.

European markets, with their "comply or explain" principle, offer a flexible alternative; however, compliance costs under these frameworks have similarly prompted delistings, especially among less liquid and smaller companies. At the same time, some studies highlight that well-calibrated CG reforms can enhance market credibility and support long-term listings.

In EMs, research on CG and delisting remains sparse but points to a dual effect. Strong CG frameworks promote listing stability by enhancing investor protection, while high compliance costs can encourage voluntary delistings. The limited exploration of CG's impact in markets like Egypt emphasises the need for a thorough investigation into this matter.

2.3.3.4 The Consequences of Delisting

The consequences of delisting vary significantly depending on whether it is voluntary or involuntary.[368] The nature of the delisting process has a direct impact on shareholder wealth, company value, and market stability.

Involuntary delisting occurs when a company is removed from a stock exchange due to circumstances beyond its control, such as persistent financial difficulties, regulatory non-compliance, or poor stock performance. This type of delisting is usually associated with a decline in the delisted company's stock price and deteriorating performance, leading to a significant erosion of shareholder wealth. It also affects broader market confidence by triggering adverse valuation effects and raising concerns about CG practices.[369] Involuntary delisting thus signals more profound financial distress, insolvency, or management failures, which, in turn, reduce investor trust and capital market stability.

In contrast, voluntary delisting is a corporate decision strategically executed to achieve specific corporate objectives, such as reducing compliance costs, enhancing operational efficiency, or

[368] Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) V

[369] Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) 148-151

restructuring ownership.[370] This form of delisting is executed through mechanisms, such as LBOs or freeze-outs, enabling companies to go private and refocus on long-term strategies without the pressures of quarterly reporting and public scrutiny. Voluntary delisting can create shareholder value by streamlining operations, lowering agency costs, and improving financial performance. In such cases, the value generated is contingent on the company's ability to create synergies post-delisting.[371]

Empirical evidence from the UK and the US suggests that voluntary delisting yields positive cumulative abnormal returns, ranging from 19% to 30%, with premiums of 40% to 57%, depending on the calculation method and timeframe.[372] Such returns are attributed to cost savings and synergy creation post-delisting, reinforcing the strategic appeal of voluntary transactions. However, the magnitude of value creation varies across geographical locations and depends heavily on CG structures and ownership concentration.[373]

Studies indicate that geographical factors influence the premium size shareholders earn during voluntary delisting. For example, shareholders in the US earn premiums of 34%, followed by 29% in the UK and 20% in Europe.[374] This discrepancy is often attributed to ownership concentration in European companies, where more significant shareholders hold greater control over voting rights.

In Europe, LBO targets tend to have concentrated ownership structures, with large shareholders holding nearly twice the stakes compared to companies in the US and UK. For instance, approximately 71% of European delistings by LBOs are held by a sole shareholder who owns more than 25% of the voting rights.[375] Similarly, European BOSOs are facilitated by the 90% threshold, which simplifies the ability of controlling shareholders to undertake squeeze-outs and privatisation plans.

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[370] Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) V, 126-143

[371] Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) 148

[372] Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) 149

[373] I Martinez and S Serve, 'Reasons for Delisting and Consequences a Literature Review and Research Agenda' (2017) 31(3) Journal of Economic Surveys 733, 736

[374] I Martinez and S Serve, 'Reasons for Delisting and Consequences a Literature Review and Research Agenda' (2017) 31(3) Journal of Economic Surveys 733, 759

[375] Ann-Kristin Achleitner, Andre Betzer, Marc Goergen, and Bastian Hinterramskogler, 'Private Equity Acquisitions of Continental European Firms: the Impact of Ownership and Control on the Likelihood of Being Taken Private' (2013) 19 EUROPEAN FINANCIAL MANAGEMENT 72, 72–107

While voluntary delisting generally enhances shareholder wealth, some cases suggest the potential for value destruction, particularly when controlling shareholders prioritise personal gains over the interests of minority shareholders.[376] Such practices undermine fair treatment and investor confidence, highlighting the CG risks associated with ownership concentration and information asymmetry.

The consequences of delisting reflect the complex interaction between company-level decisions, market conditions, and regulatory frameworks. Involuntary delistings result in value destruction and highlight weaknesses in financial stability and CG systems. In contrast, voluntary delistings can create shareholder value, provided they are driven by strategic goals and supported by robust CG.

Additionally, delistings may unintentionally create negative externalities for the broader economy by limiting access to corporate profits, which can, in turn, undermine public support for policies favourable to businesses. This can then result in a shrinking exchange that will lead to adverse consequences on investment, productivity, and employment.[377]

In conclusion, delisting decisions, whether voluntary or involuntary, have profound implications for shareholders and markets. While involuntary delistings are typically associated with financial distress and value erosion, voluntary delistings lead to value creation, primarily through cost reductions, strategic restructuring, and LBO transactions. Nevertheless, the extent of value creation depends on geographical factors, CG frameworks, and ownership structures.

2.4 Conclusion

Despite the growing body of literature on delisting, significant gaps remain, particularly concerning EMs. Studies on delisting have predominantly focused on the US, the UK, and Europe, with minimal and inconclusive research on EMs, particularly in Egypt.

Much of the existing work centres on voluntary delisting, with far less attention given to involuntary delisting. This limits the understanding of regulatory enforcement patterns and the

[376] I Martinez and S Serve, 'Reasons for Delisting and Consequences a Literature Review and Research Agenda' (2017) 31(3) Journal of Economic Surveys 733, 736

[377] Alexander Ljungqvist, Lars Persson, and Joacim Tåg, 'The Incredible Shrinking Stock Market: On the Political Economy Consequences of Excessive Delistings' (1 February 2018) ECGI Finance Working Paper No 458/2016, 1 <https://ssrn.com/abstract=2714916> accessed 20 January 2025; Nikita Koptyug, Lars Persson, and Joacim Tåg, 'Should we Worry about the Decline of the Public Corporation? A Brief Survey of the Economics and External Effects of the Stock Market' (1 June 2019) IFN Working Paper No 1298, 23-24 <https://ssrn.com/abstract=3456584> accessed 20 January 2025

triggers for compulsory delisting, especially in jurisdictions with weaker legal systems. Additionally, while company-specific characteristics, such as financial performance and CG practices, have been widely studied, the role of broader regulatory frameworks and enforcement practices remains underexplored, particularly in EMs.

Furthermore, studies provide mixed findings on key determinants, such as financial distress, market liquidity, and managerial opportunism, resulting in inconsistencies that necessitate more context-specific research.

Finally, while CG frameworks are recognised as influencing delisting decisions, the specific mechanisms by which they interact with regulatory environments and market dynamics remain inadequately addressed, particularly in EMs. Comparative analyses across jurisdictions are also scarce, leaving a gap in understanding how cultural, legal, and economic contexts influence delisting trends.

These primary gaps underscore the need for localised and context-sensitive studies to deepen the understanding of delisting phenomena in EMs, including Egypt, and to develop CG frameworks that balance regulatory rigour with market efficiency and investor confidence.

Chapter 3: Market Failures, Regulatory Interventions, and Corporate Governance: A Theoretical Framework

3.1 Introduction

This thesis examines the potential correlation between CG reforms, as embedded in Egypt's listing and delisting rules since 2002, and the high number of delistings from the EGX.

Since the 1990s, CG reforms have gained significant attention across both developed and emerging economies, aiming at deterring financial scandals and reinstating investors' confidence in capital markets by enhancing transparency, improving board accountability, and providing additional protections for investors.[378] Their primary objective was to address market inefficiencies caused by agency problems, information asymmetry, and weak institutional structures.[379]

However, the economic consequences of such reforms may have extended beyond their intended objectives. In Egypt, the surge in delistings following the introduction of these CG regulations raises critical questions. It may suggest, *among other things*, that regulatory requirements have imposed disproportionate burdens, particularly on SMEs and family-owned companies, compelling them to delist either voluntarily, to avoid high compliance costs, or involuntarily due to failure to meet ongoing regulatory requirements.[380]

This chapter sets the theoretical basis for investigating whether these CG reforms could have inadvertently imposed barriers to market participation, thereby undermining their intended benefits. To this effect, this study draws upon regulatory economics and theories of efficient regulation, which examine when regulation is justified, the conditions required for its efficiency, and the risks of over-regulation. These theoretical perspectives shed light on how regulatory interventions may influence corporate behaviour and, in particular, how CG reforms may have influenced listing and delisting trends in the EGX.

The focus on emerging and developing countries is especially pertinent here. Egypt's CG framework drew heavily from regulatory models in developed economies, such as those of the

[378] Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer, 'Corporate Ownership Around the World' (1999) 54 The Journal of Finance 471, 471-474
[379] Ibid
[380] For a comprehensive explanation of the studies that empirically explored the motives and causes of the voluntary delisting, please see, e.g., Barbara Fidanza, Ottorino Morresi and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018)

US and the UK. While these models may not be overly intrusive in their original contexts, their applicability to Egypt's economic and institutional environment requires closer scrutiny. This raises questions about whether the reforms align with Egypt's local context and market structure. In addressing these concerns, this Chapter further highlights the broader factors influencing regulatory effectiveness in developing countries. It also emphasises the political dimensions of regulation, highlighting the importance of balancing investor protection with market accessibility.

Accordingly, this Chapter establishes the theoretical foundation for analysing the extent to which CG reforms have promoted market efficiency and investor confidence or inadvertently created barriers to market participation.

This Chapter is thus organised as follows. **Section (3.2)** outlines general theories on regulation, efficiency, risks of over-regulation, and policy transfer concepts. **Section (3.3)** examines the unique challenges faced by emerging countries in implementing regulatory reforms. **Section (3.4)** discusses CG regulations and their economic implications. **Section (3.5)** concludes the discussion, whereas **Section (3.6)** explains the relevance of these explanations to the present study.

3.2 The Economics of Regulation: Foundations for Regulatory Intervention

Regulatory intervention plays an instrumental role in shaping economies and influencing markets both locally and globally.[381] Governmental intervention impacts not only large businesses but also SMEs.[382] Regulations should be designed to correct inefficiencies, promote transparency, and safeguard stakeholders. However, there can also be a flip side to regulations, where they can provide benefits but concurrently create challenges or unintended consequences for businesses. Given this dual nature, it is crucial to sensibly consider how regulations function and the potential consequences they may have.

In this regard, this section discusses four major themes in regulatory economics, structured as follows. Section (**3.2.1**) addresses market failures and the role of regulation. This subsection delves into the rationale for regulatory intervention, particularly in cases where markets fail due to monopolistic practices, information asymmetries, or externalities. It highlights how regulations are designed to restore the balance in these instances. Section (**3.2.2**) presents the

[381] D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 494
[382] Ibid

economics of government failure. While regulations are enacted to address market failures, they sometimes cause inefficiencies themselves. This section highlights cases where such regulations might fail due to bureaucratic inefficiency, political interference, or weaknesses in enforcement mechanisms.

Sections **(3.2.3)** and **(3.2.4)** address, respectively, the issues of regulatory efficiency, legitimacy, and risk. Efficient regulations are those that strike a balance between costs and benefits. This section examines how regulatory frameworks can ensure legitimacy at a minimal cost, as well as the risks associated with overregulation. Finally, Section **(3.2.5)** explains the issue of policy transfer. Most regulatory frameworks draw on policies of other countries. Transferring policies from developed economies risks being unresponsive to the economic realities of developing markets. The section examines how such transfers of policy might create mismatches and have unforeseen consequences.

Through this discussion, this Chapter establishes a theoretical basis to explore whether Egypt's CG reforms were effective in addressing market weaknesses or if they produced unintended consequences by contributing to the delistings from the EGX.

3.2.1 Market Failures and the Role of Regulation

Economic theory suggests that free markets, driven by competition, naturally allocate resources in a way that maximises economic welfare.[383] In ideal settling, this allocation achieves a Pareto optimal outcome, in which it is not possible to improve the position of one person without worsening the position of another; thereby, any further resource redistribution would create winners and losers instead of increasing economic welfare.[384] Under such circumstances, government intervention would be unnecessary.

However, markets do not always operate perfectly. Market failure may occur, particularly when resources are allocated inefficiently, thereby necessitating regulatory intervention to restore market efficiency.

Regulatory economics seeks to address this failure[385] and correct inefficiencies caused by many reasons, such as externalities, public goods, information asymmetries, market incompleteness,

[383] Ibid
[384] Ibid. For more details about the concept of Pareto optimality, see Vilfredo Pareto, *Manual of Political Economy* (A M Kelley tr, A M Kelley 1971) [originally published 1906 as *Manuale di Economia Politica*]
[385] Joseph E Stiglitz, 'Perspectives on Economic Development: Markets, Market Failures, and Development' (1989) 79(2) The American Economic Review 197, 201-202

monopolistic practices, and unequal wealth distribution. Each of these causes is addressed below.

Significant externalities[386] occur when the costs and benefits of an economic activity spill over onto other parties who are not party to the transaction.[387] For instance, pollution from a factory harms public health and the environment, yet the social costs are not reflected in the production price (a "negative externality").[388] In other words, an externality is deemed to be negative if the impact on that third party is adverse.[389] Conversely, if the impact on the third party is advantageous, such an externality is considered positive.[390] For instance, activities such as vaccination campaigns create benefits for the entire society beyond the individuals who are vaccinated (a "positive externality").[391] However, markets may not invest in such activities due to insufficient incentives.[392] In these cases, government intervention, through regulation, taxation, and subsidies, is essential to address these inefficiencies and promote socially optimal outcomes.

In addition, issues related to public goods can lead to market failure. Public goods are those goods and services, such as street lighting and national defence, whose benefits cannot be restricted to those who pay for them, benefiting concurrently those who do not incur their associated costs.[393] In other words, providing these goods or services to one individual does not diminish their availability to others. This implies that there is little to no economic justification for limiting their supply, as the costs of extending access to additional users are minimal.[394]

These goods and services thus pose challenges for markets because of their non-excludability and non-rivalry. Non-excludability means that no one can be excluded from benefiting from the good or service, even if they do not contribute financially. Non-rivalry implies that the use

[386] Externalities occur when the actions of individuals or companies impose costs or benefits on others who are not directly involved in the transaction.
[387] N Gregory Mankiw, *Principles of Economics* (7th edn, Cengage Learning 2014) 196; D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annals of Public and Cooperative Economics 493, 495
[388] Arthur Pigou, *The Economics of Welfare* (1st edn, Taylor and Francis 2017) xliii <https://www.perlego.com/book/1547154/the-economics-of-welfare-pdf> accessed 6 January 2025
[389] N Gregory Mankiw, *Principles of Economics* (7th edn, Cengage Learning 2014) 196
[390] Ibid
[391] Ibid; Brian C Albrecht and Shruti Rajagopalan, 'Inframarginal Externalities: Covid-19, vaccines, and universal mandates' (2022) 195 Public Choice 55, 59
[392] Paul Samuelson, 'The Pure Theory of Public Expenditure' (1954) 36(4) The Review of Economics and Statistics 387, 389
[393] Jonathan Gruber, *Public Finance and Public Policy* (6th edn, Worth Publishers 2019) 16, 181-182
[394] Ibid, 16, 181-182; D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annals of Public and Cooperative Economics 493, 495

of these goods and services by one person does not reduce their availability for others. These characteristics lead to a free-rider problem, where individuals benefit from the provision without contributing to its cost.[395] Consequently, the regulators should step in to ensure their availability.

Another important consideration is the classification of merit and demerit goods. Certain goods and services, such as healthcare, education, and housing, are considered merit goods. These goods and services are considered by society as essential to everyone, irrespective of an individual's ability to pay.[396] On the other hand, the government may seek to limit or prohibit the availability of certain demerit goods, such as alcohol, tobacco, and certain drugs, through regulation and taxation due to their negative societal impacts.[397] However, critics argue that excessive government interventions, through direct provision, subsidies, or regulations like price controls, risk creating a "nanny state" that undermines individual freedoms and disrupts market mechanisms.[398] Nonetheless, governments justify such interventions as a means to promote equity and social welfare.

Furthermore, insufficient information can contribute to market failure. In cases where information gaps are significant, resources may be allocated inefficiently. Markets rely on informed decision-making by both buyers and sellers. However, when one party possesses more information than the other, i.e., information asymmetry, inefficiencies arise, including moral hazard and adverse selection, where poor-quality goods or services may dominate the market, discouraging buyers and driving them away from high-quality options, which has been labelled as the "market for lemons".[399] Regulatory tools, such as disclosure requirements, are implemented to bridge these information gaps and restore trust in markets.

Incomplete markets can also lead to market failure. In some cases, markets may fail to provide efficient mechanisms for trading certain goods or services, resulting in market incompleteness. This occurs when resources cannot move freely across regions or industries, and in cases where markets lack the necessary infrastructure to match supply with demand, particularly in

[395] Jonathan Gruber, *Public Finance and Public Policy* (6th edn, Worth Publishers, 2019) 181-182
[396] Stanley L Brue, Campbell R McConnell, and Sean M Flynn, *Economics: Principles, Problems, and Policies* (McGraw-Hill Education 2021) 80
[397]D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 495
[398] Ibid
[399] George A Akerlof, 'The Market for "Lemons": Quality, Uncertainty, and Market Mechanism' (1970) 84 Quarterly Journal of Economics 488, 488-500. This paper has demonstrated how information gaps can cause markets to collapse, considering the used car industry as an example; D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 507

developing nations.[400] Although markets evolve to fill these gaps,[401] temporary regulatory intervention can stimulate development and reduce inefficiencies.

Monopolistic practices are another critical factor for market failures. They limit competition, which would result in higher prices, reduced innovation, and poor service quality.[402] Economic regulation is justified in cases where natural monopolies arise, which occur in industries requiring high fixed costs (e.g., electricity grids or rail infrastructure),[403] where competition is economically unfeasible. In such cases, government regulation, through price controls, licensing, and competition laws, is essential to prevent abuse and ensure fair pricing.

Additionally, market failures can also result from agency problems,[404] where managers (agents) prioritise their own interests over those of shareholders (principals). This misalignment of incentives also occurs when managers are discouraged from exerting effort to undertake innovative activities.[405] This misalignment of incentives leads to an inefficient allocation of resources and poses significant challenges for CG.[406] Regulatory mechanisms, such as the CG codes and disclosure requirements, aim to reduce conflicts of interest and promote accountability.

Finally, free markets create disparities in wealth and income, which can be perceived as unjust or socially undesirable. Governments address these disparities through redistributive policies, such as taxation, subsidies, and welfare programs.[407] In this regard, critics highlight that excessive redistribution may discourage investment and entrepreneurship, highlighting the need for a balanced approach.[408]

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[400] D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 496

[401] Ibid

[402] Ibid

[403] Paul Belleflamme and Martin Peitz, *Industrial Organization: Markets and Strategies* (2nd edn, Cambridge University Press 2015) 32-33 <https://www.perlego.com/book/1693794/industrial-organization-markets-and-strategies-pdf> accessed 6 January 2025

[404] D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 497

[405] Michael C Jensen and William H Meckling, 'Theory of the firm: Managerial behavior, agency costs and ownership structure' (1976) 3(4) Journal of Financial Economics 305, 313

[406] Ibid

[407] D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 495

[408] See, e.g., Alessio M Pacces, 'How Does Corporate Law Matter? "Law and Finance" and Beyond' [2013] SSRN Electronic Journal 1, 8-14 < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2260340> accessed 20 January 2025; Luca Enriques and Matteo Gatti, 'EC Reforms of Corporate Governance and Capital Markets Law: Do They Tackle Insiders' Opportunism?' [2006] SSRN Electronic Journal <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=886345> accessed 20 January 2025

All the aforementioned reasons can lead to market failure where a free market may struggle to resolve on their own. To address these challenges, governments implement regulations, taxes, or subsidies aimed at restoring economic efficiency and fairness.[409]

However, this represents only one side of the equation. While government interventions are intended to address market failures, they are not always effective and can sometimes introduce inefficiencies of their own, commonly referred to as government failures.[410] Poorly designed policies may result in unintended consequences, such as overregulation, corruption, or inefficiency, which undermine their intended purpose.[411] For example, overly strict regulations, through, e.g., high compliance costs, may discourage businesses from investing or expanding, thereby impeding economic growth. Another key concern is regulatory capture, where regulatory agencies prioritise the interests of the industries they regulate over those of the public.[412]

In light of these challenges, which are addressed in the subsequent section, policymakers must carefully evaluate both the benefits and limitations of government intervention,[413] seeking efficient regulations that balance oversight with flexibility.

3.2.2 Regulation and Government Failure

Market failures highlight the need for regulatory intervention to correct inefficiencies, promote fairness, and protect vulnerable groups. The causes of market failure, as discussed above, thus provide the economic rationale for government intervention in market economies.[414] For instance, legislation aimed at environmental protection and health and safety standards is justified by challenges, such as incomplete knowledge and externalities.[415] Similarly, the

[409] Arthur Cecil Pigou, *The Economics of Welfare* (4th edn, Macmillan 1932) liv; George J Stigler, ' The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 4
[410] Julian Le Grand, 'The Theory of Government Failure' (1991) 21 BJPolS 423, 423-424
[411] Richard O Zerbe Jr and Howard E McCurdy, 'The Failure of Market Failure' (1999) 18(4) Journal of Policy Analysis and Management 558, 559; Dieter Helm, 'Regulatory Reform, Capture, and the Regulatory Burden' (2006) 22(2) Oxford Review of Economic Policy 169, 182
[412] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-10; Ernesto Dal Bó, 'Regulatory Capture: A Review' (2006) 22(2) Oxford Review of Economic Policy 203, 203-204
[413] Peter J Boettke and Peter T Leeson, 'Liberalism, Socialism, and Robust Political Economy' (2004) 7(1) Journal of Markets & Morality 99, 100
[414] D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 495
[415] D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 496

regulation of public utilities stems from concerns about economies of scale and scope, as well as the need to safeguard consumers from monopolistic exploitation.[416]

However, regulations must be carefully crafted to avoid unintended consequences. While government intervention may address market inefficiencies, such actions can sometimes lead to government failure, i.e., instances where intervention either falls short of expectations or produces unintended consequences.[417] Furthermore, government intervention is necessary for markets where agents pursue their own self-interest instead of those of the principal, which ultimately makes the product being supplied in the market socially inefficient.[418]

It is also tempting to justify government action by comparing imperfect markets with an idealised vision of government, one that is efficient and infallible. However, as Alfred Marshall famously remarked when asked whether government intervention could solve a particular issue, "Do you mean government, all wise, all just, all powerful, or government as it now is?"[419]

Marshall's point underscores a critical reality: governments operate under constraints, including limited information, political influences, and bureaucratic inefficiencies, that may hinder their ability to deliver optimal outcomes. Therefore, any evaluation of regulation must consider the practical limitations of state actions rather than relying on theoretical assumptions about their effectiveness.

While critics of government intervention have grown, blanket preference for private market solutions is equally problematic. As Ricketts observes, "If the old view of government action as entirely benign seems now to be hopelessly flawed, any contrary assumption that private action is always preferable to state regulation would seem to be equally Panglossian."[420] Consequently, criticism of state intervention has generated arguments for market liberalisation and privatisation as alternative strategies,[421] which will be addressed below.

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[416] D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 496

[417] Julian Le Grand, 'The Theory of Government Failure' (1991) 21 BJPolS 423, 429-430; D Parker, ' Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 506

[418] Julian Le Grand, 'The Theory of Government Failure' (1991) 21 BJPolS 423, 423

[419] John Blundell and Colin Robinson, *Regulation without the state… The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 3

[420] Martin Ricketts, 'Introduction' in John Blundell and Colin Robinson, *Regulation without the State: The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 1

[421] D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 493

3.2.2.1 Market Liberalisation: The Case for Reducing Government Intervention

Market liberalisation refers to policies that aim to reduce government intervention in economic activities, promote free markets, and encourage the private sector to drive economic growth. Its justification is rooted in economic theories that highlight the efficiency of markets and the limitations of centralised decision-making processes.

This perspective draws from several theoretical frameworks, including Austrian economics, property rights theory, and public choice theory. These frameworks focus on information flows, incentives, and decision-making processes to assess the relative effectiveness of markets versus government intervention.

The Austrian school of economics provides substantial grounds for the case in favour of market liberalisation. It emphasises the importance of market processes and dynamics.[422] It argues that the signals provided by the market in the form of prices provide information and incentives, enabling economies to adapt and evolve.[423] From this perspective, markets can serve as a mechanism of discovery, where prices act as signals that convey information about supply, demand, and resource scarcity. Entrepreneurs respond to these signals by innovating and reallocating resources to meet changing conditions, inducing growth and efficiency.[424]

However, excessive state intervention can distort these market signals, disrupting the discovery process and leading to economic inefficiencies and stagnation.[425]

Therefore, unlike traditional approaches that emphasise market failures caused by deviations from perfect competition,[426] Austrian theorists argue that these deviations represent temporary imbalances that markets are naturally equipped to self-correct over time through entrepreneurial activity and competition.[427]

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[422] Israel M Kirzner, *How Markets Work: Disequilibrium, Entrepreneurship and Discovery* (Hobart Paper No 133, Institute of Economic Affairs 1997) 5-6 ; D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 497

[423] F A Hayek, 'The Use of Knowledge in Society' (1945) 35(4) American Economic Review 519, 526

[424] Israel M Kirzner, 'Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach' (1997) 35(1) Journal of Economic Literature 60, 81

[425] S C Littlechild, *The Fallacy of the Mixed Economy: An Austrian Critique of Recent Economic Thinking and Policy* (Hobart Paper 80, 2nd edn, Institute of Economic Affairs 1986) 42; Israel M Kirzner, *How Markets Work: Disequilibrium, Entrepreneurship and Discovery* (Hobart Paper No 133, Institute of Economic Affairs 1997) 5,29

[426] Kenneth J Arrow, 'Uncertainty and the Welfare Economics of Medical Care' (1963) 53(5) The American Economic Review 941, 947

[427] Israel M Kirzner, 'Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach' (1997) 35(1) Journal of Economic Literature 60, 71

Importantly, Austrian economists highlight that state regulation may encourage rent-seeking behaviour, whereby special interest groups may manipulate policies to gain economic advantages at the expense of society.[428] Over time, this can lead to economic sclerosis,[429] a condition marked by reduced innovation, weaker competition, and slower growth.[430]

Consequently, according to Austrian scholars, what is perceived as market failure may instead reflect transient economic rents, which are deemed a natural outcome of competitive adaptation within markets rather than evidence of systemic inefficiency.[431]

In addition to Austrian economics, property rights theory[432] and principal-agent theory[433] further support the case for market liberalisation by emphasising the role of ownership incentives in promoting efficiency.[434]

In the private sector, entrepreneurs have a direct financial stake in their companies, which creates strong incentives to minimise waste, enhance productivity, and increase profitability.[435] However, in large companies, where ownership and control are separated, principal-agent problems can arise.[436] Shareholders, being the principals, transfer decision-making responsibility to managers, who are agents, which can cause potential conflicting interests and inefficiencies when agents serve their own interests instead of the shareholders' interests.[437]

To address these challenges, market-based CG mechanisms, such as stock prices, shareholder voting rights, and performance-based incentives, act as disciplinary tools to align managerial

[428] JM Buchanan, 'Rent Seeking and Profit Seeking' in JM Buchanan, RD Tollison and G Tullock (eds), *Toward a Theory of the Rent-Seeking Society* (Texas A&M University Press 1980) 3–15
[429] D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 497
[430] Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (Yale University Press 1982)
[431] S C Littlechild, *The Fallacy of the Mixed Economy: An Austrian Critique of Recent Economic Thinking and Policy* (Hobart Paper 80, 2nd edn, Institute of Economic Affairs 1986) 55; Israel M Kirzner, *Discovery and the Capitalist Process* (University of Chicago Press 1985) 74; Israel M Kirzner, *How Markets Work: Disequilibrium, Entrepreneurship and Discovery* (Hobart Paper No 133, Institute of Economic Affairs 1997) 9
[432] Armen A Alchian and Harold Demsetz, 'Production, Information Costs, and Economic Organization' (1972) 62(5) The American Economic Review 777, 791
[433] Michael C Jensen and William H Meckling, 'Theory of the firm: Managerial behavior, agency costs and ownership structure' (1976) 3(4) Journal of Financial Economics 305, 309
[434] D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 497-498
[435] Harod Damsetz, 'Toward A Theory of Property Rights' (1967) 57(2) The American Economic Review 347, 353
[436] Michael C Jensen and William H Meckling, 'Theory of the firm: Managerial behavior, agency costs and ownership structure' (1976) 3(4) Journal of Financial Economics 305, 307
[437] Eugene F Fama and Michael C Jensen, 'Separation of Ownership and Control' (1983) XXVI Journal of Law and Economics 1, 11

actions with investor expectations.[438] For example, poor performance may lead to declining share prices, prompting investors to redirect capital elsewhere.[439] Similarly, share trading on stock exchanges provides information signals about agents' performance, enabling principals to evaluate managerial performance.[440] In this context, persistent inefficiency can trigger hostile takeovers, forcing managers to improve performance or risk losing control.[441]

These mechanisms thus ensure accountability in private companies since they are adaptable to market signals. However, state-owned enterprises (SOEs) may still face structural inefficiencies due to weaker CG frameworks and misaligned incentives.[442]

Unlike private companies, which operate under the disciplinary forces of competitive capital markets, SOEs are primarily financed through government budgets or state-backed loans.[443] This financing arrangement undermines financial discipline and weakens incentives for efficiency, as SOEs may prioritise political and social objectives over profitability.[444]

Furthermore, since decisions are influenced by government agencies rather than market mechanisms, accountability is diluted, making it challenging to enforce performance improvements.[445] Even in cases where SOEs issue shares, these may not be publicly tradable, thereby restricting the ability of market signals to monitor and discipline management performance.[446] Additionally, SOEs lack market-driven monitoring mechanisms, such as stock market feedback or takeover threats, which further weakens their ability to adapt to changing economic conditions.[447]

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[438] Kevin J Murphy, 'Executive Compensation' (1999) 3 Handbook of Labor Economics 2485, 2485-2500

[439] Henry G Manne, 'Mergers and the Market for Corporate Control' (1965) 73(2) Journal of Political Economy 110, 120

[440] Sanford J Grossman and Oliver D Hart, 'Takeover Bids, the Free-Rider Problem, and the Theory of the Corporation' (1980) 11(1) The Bell Journal of Economies 42, 43

[441] Michael C Jensen, 'Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers' (1986) 76(2) American Economic Review 323, 328

[442] Andrei Shleifer and Robert W Vishny, 'Politicians and Firms' (1994) 109(4) The Quarterly Journal of Economics 995, 995-996

[443] William L Megginson and Jeffry M Netter, 'From State to Market: A Survey of Empirical Studies on Privatization' (2001) 39(2) Journal of Economic Literature 321, 321-337

[444] M Boycko, A Shleifer and R W Vishny, 'A Theory of Privatization' (1996) 106(435) Economic Journal 309, 309-319; Sergio G Lazzarini and Aldo Musacchio, 'State Ownership Reinvented? Explaining Performance Differences Between State-Owned and Private Firms' (2018) 26 Corp Govern Int Rev 255, 255-256

[445] Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'Corporate Ownership Around the World' (1999) 54(2) Journal of Finance 471, 471-517

[446] Tsedal L Mikael and Isaac Mabhungu, 'Performance reporting practices in state-owned enterprises: A systematic literature review' (2024) 12(1) Africa's Public Service Delivery and Performance Review 1, 2-3 <https://doi.org/10.4102/apsdpr.v12i1.866> accessed 9 January 2025

[447] Jean-Jacques Laffont and Jean Tirole, 'Privatization and Incentives' (1991) 7 The Journal of Law, Economics, and Organization 84, 84-105

Additionally, elections, being the primary means by which citizens express preferences about public policies, are inefficient tools for gathering feedback on specific state investments.[448] They are infrequent and tend to focus on broad political issues rather than providing the detailed oversight required for effective CG of SOEs. This thus limits the ability of citizens to influence the day-to-day CG practices of SOEs.

As a result, state officials may lack adequate information about the preferences and priorities of the public, which results in inefficient resource allocation and bureaucratic inefficiencies.[449]

Empirical studies have demonstrated that SOEs underperform relative to private companies, especially when it comes to profitability and productivity.[450] Governments ought to have greater awareness of SOE costs and revenues, which should theoretically decrease the regulatory transaction cost,[451] as these costs are expected to be lower compared to situations where the regulator must actively search for information.[452] However, this advantage is seldom leveraged effectively. Instead, bureaucratic processes and political interferences frequently dilute incentives to use this information to promote efficiency or consumer responsiveness.[453] As a result of the structural challenges facing SOEs, privatisation has emerged as a key strategy for improving efficiency and performance.[454]

In light of these discussions, the insights of Austrian economics, property rights theory, and principal-agent theories support the argument that competitive markets, when governed by transparent institutions, are better equipped to promote innovation, efficiency, and economic growth.

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[448] Anthony Downs, *An Economic Theory of Democracy* (Harper and Row 1957) 264

[449] Kenneth Joseph Arrow, *Social Choice and Individual Values* (2nd edn, Yale University Press 1970) 27; Giuseppe Grossi, Ulf Papenfuß, and Marie-Soleil Tremblay, 'Corporate Governance and accountability of state-owned enterprises: Relevance for science and society and interdisciplinary research perspectives' (2015) 28(4/5) International Journal of Public Sector Management 274, 274-285; D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 498

[450] Sergio G Lazzarini and Aldo Musacchio, 'State ownership and Firm-level Performance' (2015) 2 <https://www.chaire-eppp.org/files_chaire/state_ownership_and_performance_2-3-2015.pdf> accessed 9 January 2025; Andrei Shleifer and Robert W Vishny, 'Politicians and Firms' (1994) 109(4) Quarterly Journal of Economics 995, 996

[451] Oliver E Williamson, *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting* (Free Press 1985) 15-38

[452] D Parker, 'Economic Regulation: a review of issues' (2002) 73(4) Annuals of Public and Cooperative Economics 493, 499

[453] Andrei Shleifer and Robert W Vishny, 'Politicians and Firms' (1994) 109(4) Quarterly Journal of Economics 995, 995-997

[454] Jean-Jacques Laffont and Jean Tirole, 'Privatization and Incentives' (1991) 7 The Journal of Law, Economics, and Organization 84, 84-105; William L Megginson and Jeffry M Netter, 'From State to Market: A Survey of Empirical Studies on Privatization' (2001) 39(2) Journal of Economic Literature 1, 1-2

3.2.2.2 Public Choice Theory

Public choice theory[455] provides another dimension for analysing state intervention through regulation,[456] complementing insights drawn from property rights theory[457] and principal-agent theory.[458] It applies economic principles to the analysis of political behaviour, challenging the assumption that government officials act purely in the public interest. Instead, it emphasises that self-interest, rather than societal welfare, generally drives the decisions of politicians and bureaucrats.[459]

According to public choice theory, government officials lack both the incentives and the knowledge necessary to manage state resources effectively.[460] This aligns with the principal-agent framework, which highlights information asymmetries and misaligned incentives between principals (citizens) and agents (government officials) tasked with managing state resources.

Public choice scholars argue that politicians and bureaucrats are primarily driven by motives, including re-election goals, budget maximisation, and personal prestige, rather than efficiency or profitability.[461] Consequently, SOEs tend to prioritise political objectives, such as job creation, regional development, and rent-seeking opportunities, over profitability and economic efficiency.[462]

Moreover, government officials may lack the technical expertise and localised knowledge required for optimal resource allocation.[463] Unlike private companies, which are subject to market discipline and competitive pressures, SOEs operate under weak accountability mechanisms because taxpayers, as residual risk-bearers, have limited influence over decision-

[455] James M Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (University of Michigan Press 1962) 6
[456] William A Niskanen Jr, *Bureaucracy and Representative Government* (Transaction Publishers 1971) 183; Gordon Tullock, *The Vote Motive* (Hobart Paper 9, Institute of Economic Affairs 1976) 11
[457] Armen A Alchian and Harold Demsetz, 'Production, Information Costs, and Economic Organization' (1972) 62(5) The American Economic Review 777, 791
[458] Michael C Jensen and William H Meckling, 'Theory of the firm: Managerial behavior, agency costs and ownership structure' (1976) 3(4) Journal of Financial Economics 305, 305-306
[459] James M Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (University of Michigan Press 1962) 28
[460] William A Niskanen Jr, *Bureaucracy and Representative Government* (Transaction Publishers 1971), 152
[461] Eamonn Butler, 'Public Choice – A Primer' (2021) Institute of Economic Affairs Monographs, Forthcoming 15
[462] Andrei Shleifer and Robert W Vishny, 'Politicians and Firms' (1994) 109(4) The Quarterly Journal of Economics 995, 995-998
[463] F A Hayek, 'The Use of Knowledge in Society' (1945) 35(4) American Economic Review 519, 519-530; Anthony Downs, *An Economic Theory of Democracy* (Harper and Row 1957) 519, 519-530

making.[464] Although elections provide a general check on governance, they fail to address specific preferences related to public investments, leading to bureaucratic inefficiencies and rent-seeking behaviour.[465] This dynamic results in ineffective resource allocation, which, in turn, reinforces the claims for market liberalisation and privatisation as tools for improving performance.

However, despite its valuable insights, public choice theory has faced criticism. It is argued that institutional checks, political oversight, and accountability mechanisms constrain bureaucratic behaviour.[466] Others highlight the potential for mission-driven behaviour among public servants, especially in healthcare and education, where they are driven by professional values rather than self-interest.[467] However, proponents of public choice theory maintain that these checks and balances are imperfect and may fail to prevent waste, inefficiency, and rent-seeking, particularly in developing economies where institutional weaknesses are more prevalent.

To conclude, public choice theory challenges the idealised view of government as a benevolent entity acting solely in the public interest. Instead, it highlights the self-interested motivations of politicians and bureaucrats, emphasising how these motivations can lead to inefficiencies, budget inflation, and misallocation of resources. While critics of this theory emphasise the role of institutional safeguards and mission-driven behaviour in mitigating such risks, the persistent inefficiencies observed in SOEs lend support to market liberalisation and privatisation as strategies for enhancing accountability, efficiency, and economic performance.[468]

3.2.2.3 Rent-Seeking and Regulatory Failures

Building on insights from public choice theory, the concept of rent-seeking sheds light on how special interest groups and rent-seeking behaviour can distort government interventions.[469] Rather than promoting productive economic activities, rent-seeking involves efforts to secure economic benefits, including subsidies, licensing advantages, or protectionist policies, through

[464] Anthony Downs, *An Economic Theory of Democracy* (Harper 1957) 264
[465] Anne O Krueger, 'The Political Economy of the Rent-Seeking Society' (1974) 64(3) American Economic Review 291, 291-292
[466] Terry M Moe, 'The New Economics of Organization' (1984) 28(4) American Journal of Political Science 739, 762-763
[467] James L Perry and Lois Recascino Wise, 'The Motivational Bases of Public Service' (1990) 50(3) Public Administration Review 367, 367-368
[468] Andrei Shleifer, 'State versus Private Ownership' (1998) 12(4) Journal of Economic Perspectives 133, 135
[469] Anne O Krueger, 'The Political Economy of the Rent-Seeking Society' (1974) 64(3) American Economic Review 291, 291-293

the use of political influence and lobbying.[470] While these benefits favour politically connected groups, they primarily come at the expense of broader societal welfare, undermining market efficiency and economic growth.

On the other hand, individual taxpayers face collective action problems[471] and are less likely to resist new regulations due to unfavourable cost-benefit dynamics. The diffuse costs of regulation are spread across the population, making it costly and time-consuming for individuals to organise effective opposition. Conversely, special interest groups, such as industry associations, unions, and lobbyists, actively seek to influence regulations and policy design to secure exclusive privileges or protections that shield them from competition.[472]

Once favourable policies are established, these groups fight to maintain their advantages, leading to policy inertia and resistance to reforms that threaten their gains. In such circumstances, regulators themselves may evolve into rent-seekers, resisting reforms that threaten their institutional power and privileges.[473] This phenomenon, known as regulatory capture,[474] occurs when regulatory agencies prioritise the interests of the industries they oversee over the public interest.

Over time, regulatory capture transforms what should be protective measures into tools that perpetuate monopolies and restrict market access, undermining the core purpose of regulation. That is why the public choice theory raises critical concerns about what is described as a "remorseless tendency" for government intervention to exceed optimal levels.[475] This is where the marginal costs of additional rules exceed their marginal benefits.[476]

Consequently, overregulation would result in resource misallocation,[477] as excessive rules distort investment decisions and market signals, diverting resources away from their most productive uses. Additionally, regulatory burdens increase compliance costs and discourage

[470] James M Buchanan, 'Rent Seeking and Profit Seeking' in James M Buchanan, Robert D Tollison and Gordon Tullock (eds), *Toward a Theory of the Rent-Seeking Society* (Texas A&M University Press 1980) 113
[471] Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Harvard University Press 1965) 166
[472] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-21
[473] William A Niskanen Jr, *Bureaucracy and Representative Government* (Transaction Publishers 1971) 183
[474] Ernesto Dal Bó, 'Regulatory Capture: A Review' (2006) 22(2) Oxford Review of Economic Policy 203, 203-204
[475] James M Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (University of Michigan Press 1962) 14
[476] Martin Ricketts, 'Introduction' in John Blundell and Colin Robinson, *Regulation without the State ... The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 1
[477] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 8

entrepreneurial activity as well as technological advancement.[478] It further creates obstacles for new companies to enter the market, protecting incumbents and reducing competition.[479]

3.2.2.4 Regulatory Capture Concept

The concept of regulatory capture builds on insights from public choice theory, offering a critical perspective on the dynamics of regulation. Both frameworks challenge the traditional view that regulations are crafted solely to shield the public interest. Instead, they argue that special interest groups exert disproportionate influence over regulatory processes, shaping outcomes that prioritise private interests over the welfare of society.[480]

Regulatory capture occurs when regulatory agencies, established initially to oversee industries and prevent market failures, gradually evolve to serve the interests of the very industries they are tasked with regulating.[481] This occurs as regulators develop close relationships with industry actors, leading to biased decision-making, weakened oversight, and policies that prioritise industry profits over public welfare. This phenomenon thus highlights how close relationships between regulators and industry actors can lead to conflicts of interest, undermining the original purpose of regulation.

A more nuanced perspective on regulatory capture is captured in the "Bootleggers and Baptists" theory,[482] which illustrates how seemingly opposing groups may collaborate to promote regulatory frameworks that appear public-spirited but ultimately benefit private interests.[483] For example, environmental regulations might be championed by activists to promote sustainability but simultaneously supported by large companies seeking to block competition from small players who may lack sufficient resources to comply.

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[478] Ibid, 23
[479] Ibid, 28-29
[480] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-21; Sam Peltzman, 'Toward a More General Theory of Regulation' (1976) 19(2) Journal of Law and Economics 211, 211-240
[481] Jean-Jacques Laffont and Jean Tirole, 'The Politics of Government Decision-Making: A Theory of Regulatory Capture' (1991) 106(4) Quarterly Journal of Economics 1089, 1089-1093
[482] Bruce Yandle, 'Bootleggers and Baptists: The Education of a Regulatory Economist' (1983) 7(3) AEI Journal on Government and Society 12, 12-16; Bootleggers refers to industry groups, while Baptists refers to advocates of moral or public causes.
[483] Sam Peltzman, 'Toward a More General Theory of Regulation' (1976) 19(2) Journal of Law and Economics 1, 4-6

In its most extreme form, regulations may be championed from the outset by special interests and are thus enacted to maximise the utility of those interests.[484]

Regulatory capture also reflects the political bargaining that shapes regulatory frameworks. Regulation is viewed as a reflection of the balance of interests between politicians seeking votes and lobbyists seeking economic rents.[485] This dynamic creates incentives for legislators to design regulations that produce benefits to powerful groups while imposing diffuse costs on the public, who lack the resources or coordination to resist regulatory overreach.[486]

These dynamics help explain why regulatory capture perpetuates inefficiencies and rent-seeking behaviour, leading to either overregulation or underregulation, depending on the interests at play. Public choice scholars emphasise that addressing these issues necessitates institutional reforms that enhance transparency, reduce the influence of lobbying, and strengthen accountability mechanisms.[487]

3.2.2.5 The Costs of Regulation: Hidden Economic Burdens of Regulation

In light of the preceding discussions, state regulation is likely to be oversupplied, frequently extending beyond economically optimal levels. One primary reason for this tendency is the inadequate accounting of regulatory costs in national economic evaluations.[488]

While the direct costs of establishing and maintaining regulatory agencies and compliance monitoring are explicitly recorded in public spending, the indirect costs imposed on the private sector, such as compliance expenses and lost productivity, tend to be underreported or even invisible.[489]

The most significant economic burden of regulation arises not from government budgets but from the broader economic effects that ripple through businesses, workers, and consumers. For

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[484] Sam Peltzman, Toward a More General Theory of Regulation' (1976) 19(2) Journal of Law and Economics 1, 4-6; Bruce Yandle, 'Bootleggers and Baptists: The Education of a Regulatory Economist' (1983) 7(3) AEI Journal on Government and Society 12, 12-16. Bootleggers refers to industry groups, while Baptists refers to advocates of moral or public causes.

[485] Sam Peltzman, 'Toward a More General Theory of Regulation' (1976) 19(2) Journal of Law and Economics 1, 35

[486] Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Harvard University Press 1965) 5

[487] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 8

[488] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 6

[489] R Hahn and J Hird, 'The Costs and Benefits of Regulation: Review and Synthesis' (1991) 8(1) Yale Journal on Regulation 233, 273-277; T D Hopkins, *Federal Regulatory Burdens – An Overview* (European Policy Forum 1995) 1-4

example, companies incur expenses related to reporting requirements, legal obligations, and administrative procedures in order to comply with regulations.

From the economic efficiency perspective, regulations should ideally persist as long as the marginal social costs and marginal social benefits are equal.[490] Nevertheless, since most compliance costs are not visible or are dispersed, regulations often continue beyond the level of efficiency, resulting in net social losses.[491] In such cases, the earlier externalities argument for regulation is effectively reversed, where the regulations themselves create negative externalities by imposing hidden costs on economic actors. Remarkably, regulation now results in net external costs.[492]

This phenomenon, referred to as "regulatory creep", reflects the tendency for regulations to accumulate over time, even as their marginal benefits decline relative to their marginal costs.[493] Public choice theorists attribute this trend to rent-seeking behaviour and regulatory capture, where special interest groups exert influence to expand regulations that benefit them disproportionately.[494]

In this regard, a key distinction in regulatory costs is between direct expenses incurred by government agencies and compliance costs imposed on the private sector. For instance, in the US, the direct costs of regulation for federal agencies are estimated at approximately USD 25 billion annually.[495] However, compliance costs, including administrative burdens, reporting requirements, and legal obligations, are believed to exceed USD 600 billion annually.[496]

This gap underscores the hidden economic burden of regulation, which extends beyond budgetary expenditures to include opportunity costs, where resources devoted to regulatory compliance could otherwise be allocated to investment, growth, or innovation, as well as

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[490] Arthur Pigou, *The Economics of Welfare* (1st edn, Taylor and Francis 2017) 793 <https://www.perlego.com/book/1547154/the-economics-of-welfare-pdf> accessed 7 January 2025

[491] Richard A Posner, 'Theories of Economic Regulation' (1974) 5(2) Bell Journal of Economics and Management Science 335, 335-338

[492] John Blundell and Colin Robinson, *Regulation without the state… The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 4-6

[493] Magazine of the ESRC Centre for Analysis of Risk and Regulation, 'Regulatory Creep' (Winter 2004) 8 Economic & Social Research Council Magazine 3-19

[494] Sam Peltzman, 'Toward a More General Theory of Regulation' (1976) 19(2) Journal of Law and Economics 1, 40; Gordon Tullock, 'The Welfare Costs of Tariffs, Monopolies, and Theft' (1967) 5(3) Western Economic Journal 224, 224-227

[495] John Blundell and Colin Robinson, *Regulation without the state… The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 1-93

[496] R Hahn and J Hird, 'The Costs and Benefits of Regulation: Review and Synthesis' (1991) 8(1) Yale Journal on Regulation 233, 271-275; Nicole V Crain and W Mark Crain, *The Cost of Federal Regulation to the U.S. Economy, Manufacturing, and Small Business* (National Association of Manufacturers 2014) 30-34

distortions in market behaviour.[497] Compliance costs disproportionately affect small businesses and startups, which lack the financial resources and organisational capacity to absorb regulatory expenses. Consequently, excessive regulation can stifle entrepreneurship, innovation, and technological advancement.[498]

One of the main challenges is the counterfactual problem, i.e., the inability to directly observe how the economy would function in the absence of regulation.[499] As a result, most attempts to measure the economic impacts of regulation, including its effects on investment, productivity growth, and technological change, rely on theoretical models and proxies rather than observable data.[500] Opponents argue that these measurement difficulties lead policymakers to underestimate the costs of regulation while overestimating its benefits.[501] Conversely, proponents argue that regulation, despite its costs, may generate positive externalities, including environmental protection, consumer safety, and financial stability.[502]

Given these contrasting perspectives, debates over regulation require a balanced approach that considers both quantifiable costs and qualitative benefits. Conclusively, while regulation is justified as a means to correct market failures, its hidden costs, such as compliance burdens, reduced competitiveness, and lost productivity, highlight the risks of overregulation.

3.2.2.6 Self-regulation: Market-Based Alternatives to State Regulation

State regulation is defended as a necessary tool for addressing market failures and promoting social welfare. However, opponents argue that excessive regulation can distort economic activity, hinder entrepreneurship, and stifle innovation.[503] Overregulation, they contend, may crowd out voluntary market-based solutions that could otherwise provide more cost-effective and adaptable responses to economic and social challenges.[504] Market-based approaches leverage competition, trust, and reputation to address issues, such as information asymmetries,

[497] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 29-34
[498] James B Bailey and Diana W Thomas, 'Regulating Away Competition: The Effect of Regulation on Entrepreneurship and Employment' (2017) 52(1) Journal of Regulatory Economics 237, 237-238
[499] Massimo Loi, Margarida Rodrigues, 'A Note on the Impact Evaluation of Public Policies: The Counterfactual Analysis' (2012) European Commission JRC Scientific and Policy Reports Viscusi 3, 4
[500] Andrei Shleifer, 'State versus Private Ownership' (1998) 12(4) Journal of Economic Perspectives 133, 137-143
[501] Sam Peltzman, 'Toward a More General Theory of Regulation' (1976) 19(2) Journal of Law and Economics 211, 211-221
[502] Cass R Sunstein, *The Cost-Benefit State: The Future of Regulatory Protection* (American Bar Association 2002) 1-10
[503] James B Bailey and Diana W Thomas, 'Regulating Away Competition: The Effect of Regulation on Entrepreneurship and Employment' (2017) 52(1) Journal of Regulatory Economics 237, 237-238
[504] R H Coase, 'The Problem of Social Cost' (1960) 3(1) Journal of Law and Economics 1, 1-6

quality assurance, and risk management, without relying heavily on state intervention.[505] These mechanisms foster accountability and ethical behaviour by creating incentives for companies to uphold high standards and maintain consumer trust.

Recent studies underscore the growing importance of trust and reputation in modern economies. Businesses recognise that unethical practices and reputational damage can lead to long-term financial losses,[506] making ethical behaviour a key driver of competitiveness. A company's reputation, reflected in its brand value and goodwill, constitutes a significant portion of its overall market value.[507] As consumers increasingly favour socially responsible companies, the latter are motivated to adopt voluntary compliance programs, ethical standards, and sustainability practices.[508] This dynamic illustrates how market incentives can align with broader public interests, thereby reducing the need for rigid state intervention.

Market-based solutions are further praised for their flexibility and efficiency. Unlike state regulations, which can be slow to adapt to economic changes and technological advancements, market-driven approaches are inherently more dynamic.[509] Companies operating under competitive pressures innovate faster, allocate resources more effectively, and respond more swiftly to evolving market demands.[510] Proponents argue that self-regulation and insurance-based risk management frameworks lower compliance costs while improving accountability.[511] For instance, businesses can utilise liability insurance and performance guarantees to manage risks and demonstrate reliability, reducing the burden on regulatory agencies.[512]

Deregulation and reliance on market-based solutions are also viewed as pathways to economic growth, as they minimise bureaucratic inefficiencies and regulatory capture.[513] According to this approach, simplified rules and reduced compliance costs can enhance competitiveness, encourage entrepreneurship, and stimulate innovation. Nevertheless, on the other hand,

[505] Benjamin Klein and Keith B Leffler, 'The Role of Market Forces in Assuring Contractual Performance' (1981) 89(4) Journal of Political Economy 615, 615-622
[506] Ibid, 627-633
[507] Charles Fombrun, *Reputation: Realizing Value from the Corporate Image* (Harvard Business School Press, 1996), 55
[508] Michael E Porter and Mark R Kramer, 'Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility' (2006) 84(12) Harvard Business Review 78, 78-92
[509] F A Hayek, 'The Use of Knowledge in Society' (1945) 35(4) American Economic Review 519, 524
[510] Andrei Shleifer, 'State versus Private Ownership' (1998) 12(4) Journal of Economic Perspectives 133, 134
[511] Cary Coglianese and Evan Mendelson, *Meta-Regulation and Self-Regulation* (The Oxford Handbook of Regulation 2010) 1-17
[512] Ibid
[513] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 35-36

opponents argue that "pure self-regulation" rarely takes place[514] and that self-regulation may be insufficient in high-risk industries, including healthcare, finance, and environmental protection, where market failures and externalities remain significant concerns.[515] In such cases, state oversight is viewed as a necessary complement to market-based mechanisms, providing baseline protections while allowing private-sector initiatives to thrive.[516]

In short, while market-based solutions provide low-cost and adjustable tools to address economic challenges, their success relies on the industry and the associated risks. In areas where public goods, information asymmetries, or systemic risks are dominant, state regulation may still be crucial. Thus, achieving the right balance between regulatory oversight and market-driven CG is essential for fostering economic growth, promoting accountability, and protecting the respective stakeholders.

3.2.3 Regulatory Efficiency

For regulation to be economically efficient and effective, several key conditions must be met.[517] Regulatory frameworks must ensure stability, credibility, and legitimacy to maintain investor confidence and support market efficiency. Achieving this requires clear rules, institutional safeguards, and mechanisms for accountability and transparency. Regulatory systems should strike a balance between formal constraints and flexibility,[518] allowing regulators to respond to changing market conditions while minimising the risks of arbitrary decision-making and regulatory capture.[519] While discretionary authority is particularly valuable in addressing uncertainty and complexity in modern markets, excessive discretion can lead to regulatory capture or arbitrary decision-making if not accompanied by checks and balances.[520]

Economic stability is also critical for regulatory efficiency, as unpredictable economic environments can lead to sudden policy changes that undermine credibility and investor trust.[521] For example, in economies facing inflationary shocks or currency crises, poorly

[514] Neil Gunningham and Joseph Rees, 'Industry Self-Regulation: An Institutional Perspective' (1997) 19(4) Law & Policy 363, 365
[515] Ibid
[516] Ibid, 400
[517] Anthony Ogus, 'Corruption and Regulatory Structures' (2004) 26(3-4) Law and Policy 329, 329-340
[518] Mario I Blejer, 'Economic Growth and the Stability and Efficiency of the Financial Sector' (2006) Journal of Banking & Finance 3429, 3429-3432
[519] Giandomenico Majone, 'The Rise of the Regulatory State in Europe' (1994) 17(3) West European Politics 77, 77-90
[520] Ross Levine and Sara Zervos, 'Stock Markets, Banks, and Economic Growth' (1998) 88(3) American Economic Review 537, 537-558
[521] Mario I Blejer, 'Economic Growth and the Stability and Efficiency of the Financial Sector' (2006) Journal of Banking & Finance 3429, 3429-3432

implemented regulations, such as price caps, lead to market distortions and policy reversals.[522] In contrast, countries with stable monetary systems and sound fiscal policies are better positioned to implement sustainable regulations that promote long-term growth.[523]

Equally important is the independence of regulators.[524] Arm's-length regulation, where agencies operate autonomously and free from political interference, enhances credibility and reduces the risk of regulatory capture.[525] Judicial oversight, democratic checks, and independent review bodies are vital for safeguarding regulatory autonomy while preventing abuses of power.[526] Transparent systems, supported by civil society and a free press, also serve as watchdogs, promoting accountability and reducing the risks of corruption.[527] Without these safeguards, investors may lose confidence,[528] which would result in higher capital costs and reduced market efficiency.[529]

In this regard, this subsection discusses the following interlinked points: (A) regulatory expertise and political independence, (B) institutions and regulatory effectiveness, (C) regulatory design and local contexts, and lastly, (D) the principles of regulatory legitimacy.

3.2.3.1 Regulatory Expertise and Political Independence

A key challenge in maintaining regulatory efficiency is ensuring that agencies are staffed with individuals who possess the necessary technical expertise and specialised knowledge.[530] Effective regulators must interpret complex legal frameworks, evaluate economic models, and oversee compliance across various industries, such as finance, energy, and

[522] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 29
[523] Ross Levine and Sara Zervos, 'Stock Markets, Banks, and Economic Growth' (1998) 88(3) American Economic Review 537, 538
[524] Brian Levy and Pablo T Spiller, 'The Institutional Foundations of Regulatory Commitment: A Comparative Analysis of Telecommunications Regulation' (1994) 10(2) JLEO 201, 229-236
[525] Giandomenico Majone, 'From the Positive to the Regulatory State: Causes and Consequences of Changes in the Mode of Governance' (1997) 17(2) Journal of Public Policy 139, 152-155
[526] W J Henisz, 'The Institutional Environment for Economic Growth' (2000) 12(1) Economics and Politics 1, 1-31
[527] D Parker, 'Policy Transfer and Policy Inertia: Privatization in Taiwan' (1999) 6(2) Asia Pacific Business Review 1, 1-20; D Parker, 'Regulating Public Utilities: What Other Countries Can Learn from the UK Experience' (1999) 1(1) Public Management 93, 93-120
[528] WJ Henisz, 'The Institutional Environment for Economic Growth' (2000) 12(1) Economics and Politics 1, 1-31
[529] Andrei Shleifer, 'Understanding Regulation' (2005) 11(4) European Financial Management 439, 439-451
[530] Brian Levy and Pablo T Spiller, 'The Institutional Foundations of Regulatory Commitment: A Comparative Analysis of Telecommunications Regulation' (1994) 10(2) JLEO 201, 201-246

telecommunications.[531] However, developing economies face human capital constraints, making it challenging to recruit and retain highly skilled regulators.[532]

In addition to technical challenges, regulatory frameworks are shaped by political, social, and economic contexts,[533] which influence their capacity and performance, resulting in variations in regulatory performance across countries.[534] Countries with fragile institutions or environments prone to corruption struggle to maintain regulatory independence,[535] as politicians may exert influence over appointments to advance their agendas.[536] This politicisation of regulatory bodies[537] undermines their impartiality and increases the risk of regulatory capture,[538] thereby eroding public trust and investor confidence.[539] It may also result in biased decision-making, weakened law enforcement, and policy reversals driven by short-term political incentives rather than long-term economic efficiency.[540]

3.2.3.2 Institutions and Regulatory Effectiveness

The effectiveness of regulation depends heavily on pre-existing institutional frameworks.[541] Institutions create the rules which govern social, economic, and political interactions.[542] Douglass North defines institutions as human-made constraints that organise interactions and determine incentives.[543] They are either formal constraints, such as laws, regulations, and constitutions, or informal constraints, such as norms, customs, and traditions.

[531] Giandomenico Majone (ed), *Regulating Europe* (1st edn, Routledge 1996) 26
[532] Miguel Angel Santos, Farah Hani, 'Diagnosing Human Capital as a Binding Constraint to Growth: Tests, Symptoms and Prescriptions' (2021) 4, 4, 35
[533] Brian Levy and Pablo T Spiller, 'The Institutional Foundations of Regulatory Commitment: A Comparative Analysis of Telecommunications Regulation' (1994) 10(2) JLEO 201, 201
[534] Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions and Economic Growth* (Princeton University Press 2007) 52
[535] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert Vishny, 'The Quality of Government' (1999) 15(1) Journal of Law 222, 222-279
[536] Ibid
[537] Andrei Shleifer and Robert W Vishny, 'Politicians and Firms' (1994) 109(4) The Quarterly Journal of Economics 995, 995-1005
[538] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-21
[539] OECD Public Governance Reviews, 'Trust and Public Policy How Better Governance Can Help Rebuild Public' (2017), 11-13
[540] Gordon Tullock, 'The Welfare Costs of Tariffs, Monopolies, and Theft' (1967) 5(3) Western Economic Journal 224, 224-229
[541] P Evans, *Embedded Autonomy* (Princeton University Press 2012) 32 <https://www.perlego.com/book/733946> accessed 8 January 2025
[542] Douglass C North, 'Institutions' (1991) 5(1) Journal of Economic Perspectives 97, 97-98
[543] Ibid

Formal constraints promote investment and growth by reducing uncertainty and transaction costs.[544] They are codified and backed by the judiciary or regulatory bodies, ensuring accountability and compliance.[545] Weak formal institutions, however, create opportunities for corruption and rent-seeking behaviour, undermining regulatory efficiency and compliance.[546]

On the other hand, informal constraints include social norms, customs, traditions, and cultural practices that influence behaviour even in the absence of formal enforcement.[547] These mechanisms operate through social expectations and reputational incentives, complementing formal rules by encouraging cooperation and trust. In societies with strong informal institutions, such as trust networks or community-based monitoring systems, contract enforcement may occur outside formal legal frameworks.[548] Conversely, when informal norms conflict with formal rules, regulatory legitimacy may be challenged, leading to non-compliance and inefficiency.[549]

Despite their differences, formal and informal constraints share a common feature: they are products of historical processes and reflect a society's social, economic, and political evolution.[550] These frameworks shape the conduct of economic transactions and influence the effectiveness of regulatory systems. For instance, developed economies tend to exhibit strong institutions, the rule of law, and independent regulators, which foster investment and market efficiency.[551] In contrast, developing economies struggle with weak institutions, bureaucratic inefficiencies, and informal practices, which undermine regulatory enforcement and create barriers to economic development.[552]

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[544] Aron Acemoglu, Simon Johnson, and James A Robinson, 'Institutions as a Fundamental Cause of Long-Run Growth' in Philippe Aghion and Steven N Durlauf (eds), *Handbook of Economic Growth* (vol 1A, Elsevier 2005) 385, 385-366

[545] O E Williamson, 'The New Institutional Economics: Taking Stock, Looking Ahead' (2000) 38(3) Journal of Economic Literature 595, 595-613

[546] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert Vishny, 'The Quality of Government' (1999) 15(1) Journal of Law 222, 222-279

[547] O E Williamson, 'The New Institutional Economics: Taking Stock, Looking Ahead' (2000) 38(3) Journal of Economic Literature 595, 600

[548] Jorge Fleta-Asin, Fernando Munoz, Carlos Saenz-Rayo, 'Unravelling the Influence of Formal and Informal Institutions on the Duration of Public Concessions' (2024) 95 101966 Socio-Economic Planning Sciences 1, 2

[549] D Acemoglu and J A Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (Crown Publishers 2012) 239

[550] Aron Acemoglu, Simon Johnson, and James A Robinson, 'Institutions as a Fundamental Cause of Long-Run Growth' in Philippe Aghion and Steven N Durlauf (eds), *Handbook of Economic Growth* (vol 1A, Elsevier 2005) 385, 385-362

[551] Ross Levine, 'Finance and Growth: Theory and Evidence' (2005) 1 Handbook of Economic Growth 865, 867-869

[552] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 1-10

Economic reforms that ignore institutional contexts may produce unintended consequences. For example, imposing Western-style regulations in countries with weak institutions can lead to policy failures if cultural norms and informal constraints are not taken into account.[553]

Moreover, it is worth noting that in nations with weak judicial systems, inefficient governments, or low levels of trust, regulatory costs tend to be higher due to poor enforcement mechanisms and corruption risks.[554] Weak institutions create an environment where regulatory capture, rent-seeking behaviour, and arbitrary decision-making thrive.[555]

In such settings, regulatory outcomes are generally distorted to favour special interest groups, thereby perpetuating inefficiencies and inequalities.[556] Regulatory decisions may be influenced by private negotiations, political pressure, or even outright corruption, resulting in biased policies and weakened enforcement mechanisms. Consequently, the risk of regulatory capture, where regulators prioritise private interests over public welfare, remains a persistent concern.[557]

Therefore, weak institutions lead to high transaction costs, resulting in lengthy bureaucratic processes, delays, and higher compliance costs.[558] In addition, corruption and favouritism can dominate decision-making, making processes vulnerable to bribes, political patronage, and biased rulings, which ultimately undermine fair competition.[559]

Furthermore, market distortions frequently arise when regulations protect incumbent companies rather than promoting competition, which exacerbates inefficiency and the misallocation of resources.[560] Investor uncertainty is also amplified by unpredictable regulations that discourage foreign investment and hinder economic growth by increasing risk premiums and eroding confidence in institutional reliability.[561]

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[553] Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions and Economic Growth* (Princeton University Press 2007) 85-90
[554] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 1-37
[555] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-10
[556] D Acemoglu and JA Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (Crown Publishers 2012) 366
[557] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-10
[558] Ibid
[559] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert Vishny, 'The Quality of Government' (1999) 15(1) Journal of Law 222, 222-279
[560] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 1-37
[561] W J Henisz, 'The Institutional Environment for Multinational Investment' (2000) 16 Journal of Law, Economics, and Organization 334, 334-340

These challenges are prevalent in EMs, where institutional weaknesses, such as a lack of judicial independence and ineffective accountability mechanisms, enable short-term political interventions that compromise long-term economic stability.[562]

Accordingly, strengthening institutions is critical for reducing regulatory costs and improving economic growth.[563] Institutional reforms should thus focus on building capacity,[564] enhancing transparency,[565] and promoting accountability[566] to mitigate corruption risks and political interference.[567]

3.2.3.3 Regulatory Design and Local Contexts

The economic and political environment within which regulation is formulated has a key role in determining the CG structure.[568] The design of regulatory frameworks reflects underlying political ideologies and institutional traditions, which influence the balance between democratic accountability and regulatory independence.[569] Effective regulations require context-sensitive approaches that align with local values and CG priorities while maintaining flexibility and efficiency.

Populist regulatory approaches prioritise public accountability through legislative oversight, political appointments, and judicial reviews. Legislative oversight ensures accountability, as regulatory agencies are required to report directly to elected representatives, strengthening checks and balances.[570] Similarly, political appointments are framed as mechanisms for reflecting the will of the electorate by ensuring regulators are nominated by elected officials.[571] Additionally, judicial review ensures that regulatory decisions operate within constitutional

[562] Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions and Economic Growth* (Princeton University Press 2007) 90
[563] Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions and Economic Growth* (Princeton University Press 2007) 184-192
[564] Norhaslinda Jamaiudin, 'Building Governance Capacity Through Institutional Reforms: The Malaysian Experience' (2021) 18 Journal of Administrative Science 1, 1-5
[565] Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, 'The Worldwide Governance Indicators: Methodology and Analytical Issues' (2010) World Bank Policy Research Working Paper No 2, 3-5
[566] Dieter Helm, 'Regulatory Reform, Capture, and the Regulatory Burden' (2006) 22(2) Oxford Review of Economic Policy 169, 178
[567] Simeon Djankov, Edward Glaeser, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 'The New Comparative Economics' (2003) 31 Journal of Comparative Economics 595, 596-598
[568] Ralph Bradburd and David R Ross, 'Regulation and Deregulation in Industrial Countries: Some Lessons for LDCs' World Bank Policy Research Working Paper Series 699, 699-704
[569] Brian Levy and Pablo T Spiller, 'The Institutional Foundations of Regulatory Commitment' (1994) 10(2) JLEO 201, 201-246
[570] Mathew D McCubbins, Roger G Noll, and Barry R Weingast, 'Administrative Procedures as Instruments of Political Control' (1987) 3(2) Journal of Law, Economics, and Organization 243, 243-277
[571] Giandomenico Majone (ed), *Regulating Europe* (1st edn, Routledge 1996) 301

limits and adhere to due process requirements, offering a legal safeguard against arbitrary actions.[572]

While these systems emphasise transparency and fairness,[573] it is argued that they may increase political interference, policy instability, and regulatory inefficiency, especially in industries that require technical expertise and long-term planning.[574] A primary concern is the risk of politicisation, as populist approaches increase political interference in regulatory decisions, potentially prioritising short-term political gains over long-term economic efficiency.[575]

Furthermore, regulations influenced by public opinion or electoral cycles may lead to frequent policy reversals, undermining stability and creating fragmented goals.[576] Also, reliance on public accountability mechanisms can make regulatory processes vulnerable to interest group lobbying, which may distort outcomes in favour of narrow economic interests rather than broad public welfare.[577]

Another criticism of populist models is their tendency to prioritise procedural fairness over technical competence. In industries that require specialised knowledge, such as finance, telecommunications, and energy, prioritising political representation over expertise can lead to ineffective regulation and implementation gaps.[578] As a result, critics advocate for hybrid approaches that combine democratic legitimacy with technocratic expertise to strike a balance between accountability and efficiency.[579]

In contrast to populist regulatory models, a substantive approach to regulation emphasises expertise, consistency, and evidence-based policymaking. This model prioritises technical

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[572] OECD, 'G20/OECD Principles of Corporate Governance 2023' (OECD Publishing 2023) 3, 12 <https://doi.org/10.1787/ed750b30-en> accessed 14 January 2025

[573] C (Lord) Haskins, 'The Challenge to State Regulation' in J Blundell and C Robinson (eds), *Regulation without the State… The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 60

[574] Giandomenico Majone, 'The Rise of the Regulatory State in Europe' (1994) 17(3) West European Politics 77, 77-101

[575] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-6

[576] Sam Peltzman, 'Toward a More General Theory of Regulation' (1976) 19(2) Journal of Law and Economics 211, 211-220

[577] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-10

[578] Giandomenico Majone (ed), *Regulating Europe* (1st edn, Routledge 1996) 94

[579] Brian Levy and Pablo T Spiller, 'The Institutional Foundations of Regulatory Commitment' (1994) 10(2) JLEO 201, 201-246

competence and focuses on achieving broad-based economic and social goals rather than responding to short-term political pressures.[580]

A substantive regulatory framework that prioritises consistency and stability would ensure that expert assessments and data-driven frameworks inform policy decisions. This approach supports long-term planning and minimises the risks of policy reversals, enhancing predictability for investors and stakeholders.[581] It also highlights the importance of technical expertise by selecting regulators based on their qualifications, analytical skills, and problem-solving capacity.[582] Such expertise allows regulators to respond effectively to complex economic challenges and emerging risks in specialised industries.

Therefore, substantive regulation reduces the risk of regulatory capture and ensures that policies promote equitable outcomes.[583] This model also emphasises clear objectives and institutional boundaries, designing regulations with well-defined goals, performance metrics, and safeguards to limit regulatory discretion and reduce opportunities for manipulation.[584]

Substantive legitimacy is particularly useful in technical fields, such as financial regulation, energy markets, and telecommunications, where policy consistency and expert judgment are crucial for credibility and investor confidence.[585] In these sectors, expertise-based approaches provide a stable foundation for market efficiency and regulatory performance, ensuring that regulations address long-term challenges rather than responding to short-term political pressures.

However, in light of the above divergent objectives, policymakers tend to adopt hybrid models that combine democratic accountability with technical expertise to have a balance between flexibility and credibility. In other words, policymakers weigh between procedural legitimacy and substantive legitimacy to create regulatory frameworks that are both accountable and technically sound.[586] Delegating authority to independent regulatory agencies is one approach

[580] Ibid, 206-208
[581] Brian Levy and Pablo T Spiller, 'The Institutional Foundations of Regulatory Commitment' (1994) 10(2) JLEO 201, 242
[582] Giandomenico Majone (ed), *Regulating Europe* (1st edn, Routledge 1996) 308-315
[583] Andrei Shleifer, 'Understanding Regulation' (2005) 11(4) European Financial Management 439, 439-446
[584] Joseph E Stiglitz, 'Principles of Financial Regulation: A Dynamic Portfolio Approach' (2001) 16 The World Bank Research Observer 1, 1-5
[585] Witold J Henisz, 'The Institutional Environment for Economic Growth' (2000) 12(1) Economics and Politics 1, 1-6; Joseph E Stiglitz, 'Principles of Financial Regulation: A Dynamic Portfolio Approach' 16 (2001) The World Bank Research Observer 1, 1-5
[586] Giandomenico Majone, 'The Rise of the Regulatory State in Europe' (1994) 17(3) West European Politics 77, 77-101

to achieving this balance. Such agencies should have sufficient autonomy to make technical decisions while being subject to oversight mechanisms to prevent abuse of power.[587] By combining independence with accountability, policymakers can ensure that regulations are both credible and responsive to public concerns.

In this regard, transparency is regarded as an essential tool for balancing these two approaches. Incorporating public consultations alongside expert-driven analyses reinforces accountability while enhancing the legitimacy of regulatory decisions.[588] Transparency thus helps bridge the gap between public expectations and technocratic expertise, fostering both trust and compliance with regulatory policies.

Additionally, institutional safeguards, such as judicial review, impact assessments, and performance audits, are crucial in preventing regulatory capture and ensuring that decisions align with public interests.[589] These mechanisms provide checks and balances that strengthen CG structures without undermining regulatory independence.

Consequently, when evaluating a nation's regulatory framework, policymakers should carefully consider the trade-offs between populist and substantive approaches. While procedural models emphasise democratic accountability, they may lack the technical expertise and policy consistency required for complex regulatory systems.[590] Conversely, substantive models emphasise expert-driven CG frameworks, but they may still require additional mechanisms to enhance transparency and regulatory legitimacy. Policymakers must thus adopt context-sensitive frameworks that integrate the best elements of both approaches.

3.2.3.4 Principles of Regulatory Legitimacy

The legitimacy of a regulatory system is crucial for fostering public confidence and ensuring its credibility and effectiveness. Regulatory legitimacy relies on adherence to five key principles, i.e., accountability, transparency, proportionality, targeting, and consistency.[591] Together, these principles promote economic efficiency and reduce the risks of arbitrariness

[587] Brian Levy and Pablo T Spiller, 'The Institutional Foundations of Regulatory Commitment' (1994) 10(2) JLEO 201, 240-241
[588] Cary Coglianese and Evan Mendelson, *Meta-Regulation and Self-Regulation* (The Oxford Handbook of Regulation 2010) 1-17
[589] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 1-37
[590] Giandomenico Majone, 'Regulatory Legitimacy' in Giandomenico Majone (ed), *Regulating Europe* (1st edn, Routledge 1996) 308-317
[591] C (Lord) Haskins, 'The Challenge to State Regulation' in J Blundell and C Robinson (eds), *Regulation without the State… The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 60

and regulatory capture.[592] They also have a key role in correcting market failures while keeping compliance costs and economic activity distortions at a low level, thereby promoting market stability and long-term economic growth.[593] These five principles are thus addressed in more detail below.

3.2.3.4.1 Accountability

Accountability is a cornerstone of regulatory legitimacy, ensuring that regulators operate independently while remaining accountable for their actions and decisions within clearly defined rules and procedures.[594] It requires mechanisms to justify actions, monitor performance, and offer recourse for stakeholders affected by regulatory policies. Through reporting obligations,[595] regulators can explain their decisions to legislatures, judiciaries, and industry stakeholders, strengthening public trust and transparency.[596]

Performance monitoring, through audits and evaluations, assesses whether regulatory agencies meet their stated objectives and performance benchmarks.[597] Additionally, appeal and review processes provide avenues for stakeholders to challenge decisions and ensure fairness.[598]

Accordingly, without adequate accountability, regulators risk becoming inefficient, unresponsive, or susceptible to regulatory capture by special interest groups, ultimately eroding public confidence in the regulations.[599]

[592] Brian Levy and Pablo T Spiller, 'The Institutional Foundations of Regulatory Commitment' (1994) 10(2) JLEO 201, 231
[593] Ibid
[594] Mathew D McCubbins, Roger G Noll, and Barry R Weingast, 'Administrative Procedures as Instruments of Political Control' (1987) 3(2) Journal of Law, Economics, and Organization 243, 243-246
[595] Tony Prosser, *The Regulatory Enterprise: Government, Regulation and Legitimacy* (Oxford University Press 2010) 206-214
[596] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-6
[597] Cary Coglianese, 'Managing the Performance of Regulatory Agencies' in Martino Maggetti, Fabrizio Di Mascio and Alessandro Natalini (eds), *Handbook on Regulatory Authorities* (Elgar 2022) U of Penn Law School, Public Law Research Paper No 22, 22-30 <https://ssrn.com/abstract=4096166> accessed 13 January 2025
[598] Ibid
[599] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-12

3.2.3.4.2 Transparency

Transparency is equally important, as it emphasises openness and traceability in regulatory processes.[600] Transparent systems enable regulatory decisions to be accessible, examinable, and understandable to stakeholders, thereby reducing the likelihood of corruption and bias.[601]

Transparency mechanisms include stakeholder participation, where businesses, consumer groups, and other relevant institutions are consulted during the rule-making processes.[602] It also demands public disclosure of rationales, impact assessments, and justifications for regulatory decisions.[603] Additionally, audit trails documenting regulatory processes can be reviewed for fairness.[604]

By promoting trust and compliance, transparency reduces uncertainty and exposes irregularities,[605] helping regulators improve oversight and defend their decisions effectively.[606]

3.2.3.4.3 Proportionality

Proportionality ensures that regulations are measured and commensurate with the scale and nature of the problems they address.[607] This principle avoids overregulation, which can hinder innovation, increase compliance costs, and lead to economic inefficiencies.[608]

Proportional regulations rely on cost-benefit analyses to determine whether the expected benefits outweigh the costs imposed on businesses and relevant stakeholders.[609] Proportionality also emphasises minimal intrusion, encouraging risk-based regulation that focuses on high-risk

[600] OECD Public Governance Reviews, 'Trust and Public Policy How Better Governance Can Help Rebuild Public' (2017), 105-113
[601] Ibid, 11-13
[602] C (Lord) Haskins, 'The Challenge to State Regulation' in J Blundell and C Robinson (eds), *Regulation without the State… The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 60-70
[603] Cass R Sunstein, 'Deliberative Trouble? Why Groups Go to Extremes' (2000) 110 Yale LJ 71, 78
[604] Robert Baldwin, 'Better Regulation: The Search and the Struggle' in Robert Baldwin, Martin Cave and Martin Lodge (eds), *The Oxford Handbook on Regulation* (Oxford University Press 2010) 261
[605] C (Lord) Haskins, 'The Challenge to State Regulation' in J Blundell and C Robinson (eds), *Regulation without the State… The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 60
[606] Ibid
[607] OECD, *Flexibility and Proportionality in Corporate Governance* (OECD Publishing 2018) 22-25 <https://doi.org/10.1787/9789264307490-en> accessed 13 January 2025; Fernando Restoy, ' Proportionality in Financial Regulation: Where Do We Go from Here' (Bank for International Settlements 8 May 2019) 2 <https://www.bis.org/speeches/sp180704b.pdf> accessed 13 January 2025
[608] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 15-27
[609] R Hahn and J Hird, 'The Costs and Benefits of Regulation: Review and Synthesis' (1991) 8(1) Yale Journal on Regulation 233, 233-237

activities while allowing low-risk sectors to operate with minimal oversight.[610] Regulatory interventions must thus adopt frameworks that support innovation and competition rather than creating barriers.[611] This is because disproportionate regulations would lead to overregulation, reduced investment, resource misallocation, and economic inefficiencies.[612] Therefore, proportionality ensures that regulatory responses remain efficient and practical while addressing market failures.[613]

3.2.3.4.4 Targeting

Targeting emphasises the need for regulations to focus precisely on the specific problems they aim to address, thereby minimising spillover effects and unintended consequences.[614]

Effective targeting requires regulations to establish clear objectives and measurable outcomes, ensuring that interventions address identified market failures without creating additional distortions.[615] Flexible regulatory designs that allow adjustments based on new information, technologies, or economic changes further enhance targeting.[616]

Furthermore, regulatory interventions should focus exclusively on addressing market failures where private mechanisms cannot effectively self-correct.[617] This is because poorly targeted regulations would result in compliance burdens, resource misallocations, and reduced market efficiency.[618] In contrast, well-targeted interventions ensure that regulations remain focused and responsive, strengthening legitimacy and stakeholder confidence.

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[610] OECD, *Flexibility and Proportionality in Corporate Governance* (OECD Publishing 2018) 22-25 <https://doi.org/10.1787/9789264307490-en> accessed 13 January 2025; Fernando Restoy, 'Proportionality in Financial Regulation: Where Do We Go from Here' (Bank for International Settlements 8 May 2019) 2 <https://www.bis.org/speeches/sp180704b.pdf> accessed 13 January 2025

[611] Andrei Shleifer, 'Understanding Regulation' (2005) 11(4) European Financial Management 439, 440-450

[612] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 5-9

[613] C (Lord) Haskins, 'The Challenge to State Regulation' in J Blundell and C Robinson (eds), *Regulation without the State… The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 60-65

[614] Anthony Ogus, 'Corruption and Regulatory Structures' (2004) 26(3-4) Law and Policy 329, 341; C (Lord) Haskins, 'The Challenge to State Regulation' in J Blundell and C Robinson (eds), *Regulation without the State… The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 60

[615] Cary Coglianese and Evan Mendelson, *Meta-Regulation and Self-Regulation* (The Oxford Handbook of Regulation 2010) 146, 146-155

[616] Ibid

[617] R H Coase, 'The Problem of Social Cost' (1960) 3 Journal of Law and Economics 1, 27-28

[618] Cary Coglianese and Evan Mendelson, *Meta-Regulation and Self-Regulation* (The Oxford Handbook of Regulation 2010) 146, 150-157

3.2.3.4.5 Consistency

Consistency underscores the importance of uniformity and continuity in regulatory frameworks,[619] enabling stakeholders to make long-term plans and strategic investments based on predictable rules.[620] Consistent regulations minimise arbitrary changes and policy reversals, thereby reducing uncertainty and fostering trust between regulators, industries, and the public.[621]

Predictable regulatory systems encourage foreign investment, innovation, and economic growth by lowering risk premiums and enhancing market stability.[622] Frequent changes to regulations, however, can create regulatory risks, undermining confidence and credibility.[623] Therefore, maintaining consistency ensures that regulations align with long-term objectives, reinforcing trust and market predictability.[624]

In conclusion, the principles of regulatory legitimacy, i.e., accountability, transparency, proportionality, targeting, and consistency, provide a foundation for designing effective regulatory systems that address market failures while promoting economic efficiency and stakeholder confidence. These principles ensure that regulations remain credible, responsive, and adaptable, thereby minimising the risks of inefficiency and regulatory capture. A well-functioning regulatory framework not only fosters stability and growth but also builds public trust, ensuring that rules are fair, predictable, and aligned with societal interests.

3.2.4 Regulatory Risk

Regulatory risk is a unique form of uncertainty faced by businesses operating in regulated industries. It arises from ambiguities in the form, interpretation, or enforcement of regulations, creating difficulties for companies in anticipating how rules will be applied.[625] Unlike commercial risks, such as fluctuations in market demand or rising input costs, regulatory risks stem from policy uncertainties and inconsistent enforcement, which can lead to unexpected

[619] Ross Levine and Sara Zevros 'Stock Markets, Banks, and Economic Growth' (1998) 88(3) American Economic Review 537, 537-549
[620] Ibid
[621] W J Henisz, 'The Institutional Environment for Multinational Investment' (2000) 16 Journal of Law, Economics, and Organization 334, 334-341
[622] Ibid, 334-341
[623] Simeon Djankov, Edward Glaeser, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 'The new comparative economics' (2003) 31 Journal of Comparative Economics 595, 595-601
[624] C (Lord) Haskins, 'The Challenge to State Regulation' in J Blundell and C Robinson (eds), *Regulation without the State… The Debate Continues* (Readings 52, Institute of Economic Affairs 2000) 60
[625] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-12

obligations and financial instability.[626] These risks are further exacerbated by information asymmetries between regulators and companies, where businesses may lack clarity about regulatory expectations, while regulators may exploit these gaps to enforce opportunistic measures.[627]

Once companies have committed capital to these industries, they may face regulatory hold-ups following their investment,[628] i.e., situations where regulators impose rules that reduce prices or limit profits, exploiting the companies' inability to exit without incurring substantial losses.[629] For example, regulators may enforce pricing mechanisms based solely on short-term marginal costs, overlooking the need for companies to recover their fixed costs, which can lead to financial instability.[630] Such interventions undermine profitability and discourage further investment, creating a chilling effect on economic growth and development.

Regulatory risk also emerges from information asymmetries inherent in regulation.[631] Companies may not have complete insight into how regulations will be interpreted or adjusted over time, leaving them exposed to unexpected policy shifts. Regulators, on the other hand, may use their informational advantage to enforce decisions that penalise businesses or extract economic rents after investments have already been made.[632] In cases where sunk costs are high, companies cannot quickly exit the market, making them dependent on regulators' decisions and vulnerable to adverse policies. This dynamic increases market volatility and investment risk, thus eroding confidence in regulatory systems. In this section, the implications of regulatory risks and strategies for mitigating them are discussed.

3.2.4.1 Implications of Regulatory Risk

The presence of regulatory risk has broad implications for investment behaviour, innovation, and market efficiency. One significant consequence is underinvestment, as companies may delay or avoid capital-intensive projects in industries with high regulatory uncertainty, fearing

[626] Brian Levy and Pablo T Spiller, 'The Institutional Foundations of Regulatory Commitment: A Comparative Analysis of Telecommunications Regulation' (1994) 10(2) JLEO 201, 216
[627] George A Akerlof, 'The Market for "Lemons": Quality, Uncertainty, and Market Mechanism' (1970) 84 Quarterly Journal of Economics 488, 488-500
[628] Oliver Hart and John Moore, 'Incomplete Contracts and Renegotiation' (1988) 56 Econometrica 755, 755-85
[629] Brian Levy and Pablo T Spiller, 'The Institutional Foundations of Regulatory Commitment: A Comparative Analysis of Telecommunications Regulation' (1994) 10(2) JLEO 201, 201-215
[630] Paul L Joskow, 'Regulation and Deregulation after 25 Years: Lessons Learned for Research in Industrial Organization' (2005) 26(2) Review of Industrial Organization 169, 169-193
[631] D Parker, 'Reducing Regulatory Risk: The Case for a New Regulatory Contract with the Privatised Utilities' (1998) 18(4) Public Money & Management 51, 51-57
[632] Brian Levy and Pablo T Spiller, 'The Institutional Foundations of Regulatory Commitment: A Comparative Analysis of Telecommunications Regulation' (1994) 10(2) JLEO 201, 240-241

policy reversals or arbitrary enforcement.[633] Such hesitation limits capital inflows, economic growth, and infrastructure development, particularly in sectors that require long-term investments.

Regulatory risk also increases the cost of capital, as investors demand risk premiums to compensate for the associated uncertainty.[634] This increases financing costs, reduces profitability, and limits companies' ability to expand operations.[635] High regulatory uncertainty further discourages innovation since businesses hesitate to invest in research and development when regulatory frameworks lack stability or clarity.[636]

Market distortions are another substantial consequence of regulatory risk. Inconsistent enforcement favours incumbent companies with established relationships and resources while discouraging new entrants who may face higher compliance costs and considerable uncertainties.[637] This reduces competition, reinforces monopolistic behaviour, and limits choices, ultimately destroying market efficiency and economic growth.[638]

3.2.4.2 Mitigating Regulatory Risk

Addressing regulatory risk requires policymakers to focus on enhancing clarity, transparency, and accountability in regulatory frameworks. Clear and well-defined rules are essential for limiting ambiguity and ensuring fair and consistent enforcement. Regulations should establish explicit objectives and performance metrics, ensuring consistent application and reducing opportunities for misinterpretation.[639] By aligning regulations with measurable outcomes, policymakers can enhance predictability and compliance, thereby avoiding regulatory uncertainty.

Independent regulatory bodies should be established to operate at arm's length from political interference, ensuring credibility and impartiality.[640] Independent regulators help stabilise

[633] Witold Henisz and Bennet A Zelner, 'The Institutional Environment for Telecommunications Investment' (2001) 10(1) Journal of Economics & Management Strategy 123, 123
[634] Ross Levine and Sara Zevros 'Stock Markets, Banks, and Economic Growth' (1998) 88(3) American Economic Review 537, 540
[635] Ibid
[636] Bastian Schwark, 'Influence of regulatory uncertainty on capacity investments – Are investments in new technologies a risk mitigation measure' [2009] Ecole Polytechnique Federale de Lausanne (EPFL) 1, 8-9
[637] Andrei Shleifer, 'Understanding Regulation' (2005) 11(4) European Financial Management 439, 446
[638] Ibid
[639] Robert Baldwin, 'Better Regulation: The Search and the Struggle' in Robert Baldwin, Martin Cave and Martin Lodge (eds), *The Oxford Handbook on Regulation* (Oxford University Press 2010) 260-262
[640] Giandomenico Majone, 'From the Positive to the Regulatory State: Causes and Consequences of Changes in the Mode of Governance' (1997) Journal of Public Policy 139, 163

policies, reducing fears of policy reversals driven by political shifts. Such independence fosters investor confidence and promotes long-term planning by ensuring that decisions are based on economic principles rather than short-term political incentives.

Transparency and accountability mechanisms must also be strengthened to safeguard companies against excessive enforcement and regulatory capture. Regulators should publish impact assessments, disclose their decision-making processes, and allow for judicial review, so that companies can challenge unfair actions.[641] These measures reinforce trust and compliance, while also limiting the influence of special interest groups.

In this regard, and to enhance regulatory adaptability, policymakers should conduct periodic reviews to assess whether existing regulations remain relevant and effective.[642] Such mechanisms prevent regulatory creep by mitigating rigidities in regulatory frameworks. Regular evaluations also help identify inefficiencies and allow adjustments to enhance performance and legitimacy.

Stakeholder participation is another critical tool for managing regulatory risk. Policymakers should actively involve businesses, consumers, and advocacy groups in the rule-making process to bridge information gaps and improve compliance.[643] Engaging stakeholders during policy formulation fosters alignment of expectations, reduces ambiguities, and ensures that regulations address practical challenges faced by businesses.[644] Inclusive consultations further enhance transparency and trust, thereby strengthening the legitimacy of regulatory frameworks.

To conclude, regulatory risk presents significant challenges for businesses, particularly in industries that require substantial capital investments and long-term commitments. Ambiguities in rule interpretation, inconsistent enforcement, and policy reversals create uncertainty, leading to underinvestment, reduced innovation, and market distortions. By increasing capital costs and discouraging entrepreneurship, regulatory risks undermine economic growth and market efficiency.

To address these pressing challenges, policymakers must focus on enhancing clarity, transparency, and accountability within regulatory frameworks. Clear rules, independent

[641] Robert Baldwin, 'Better Regulation: The Search and the Struggle' in Robert Baldwin, Martin Cave and Martin Lodge (eds), *The Oxford Handbook on Regulation* (Oxford University Press 2010) 261
[642] Dieter Helm, 'Regulatory Reform, Capture, and the Regulatory Burden' (2006) 22(2) Oxford Review of Economic Policy 169, 170
[643] Alberto Alemanno, 'Stakeholder Engagement in Regulatory Policy' (2015) Regulatory Policy Outlook OECD Publishing 4-5
[644] Ibid

regulators, and stakeholder participation are vital for reducing uncertainties and building trust in regulatory processes. It is equally essential to conduct periodic reviews and impact assessments to ensure that regulations remain functional and responsive to changing conditions. Effective management of regulatory risk fosters an environment that supports investment, innovation, and competition while minimising market distortions and safeguarding public welfare.

3.2.5 Policy Transfer Concept

The concept of policy transfer, which is also referred to as "lesson drawing",[645] describes the process by which nations adopt programs, policies, or institutional frameworks that have been successfully implemented in other jurisdictions. This process has gained significant attention in the context of globalisation, where ideas, practices, and CG models are increasingly flowing across national boundaries.[646]

Policy transfer operates within a broader framework of globalisation, where industrial economies, particularly in North America and Europe, serve as the primary sources of economic values and policy innovations that are transferred to the world at large.[647] Several factors contribute to the diffusion of such policies. First, is the perceived effectiveness, when policies are justified based on their demonstrated success in addressing economic challenges and social problems in source countries.[648] Second, economic pressures stemming from globalisation create interdependencies that compel nations to harmonise their standards and adopt practices to remain competitive in global markets.[649] Third, ideological influence, through dominant frameworks, such as neoliberalism, promotes values like market liberalisation, deregulation, and private-sector-led growth, which encourage the adoption of market-oriented reforms.[650]

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[645] Colin J Bennett, 'What is Policy Convergence and What Causes It?' (1992) 21 BJPolS 215, 215-233; D P Dolowitz and David Marsh, 'Who Learns from Whom: A Review of the Policy Transfer Literature' (1996) 44(2) Political Studies 343, 343-357

[646] David P Dolowitz and David Marsh, 'Learning from Abroad: The Role of Policy Transfer in Contemporary Policy-Making' (2000) 13(1) Governance 5, 5-24

[647] Diane Stone, 'Learning Lessons, Policy Transfer, and the International Diffusion of Policy Ideas' (2001) Centre for the Study of Globalisation and Regionalisation Working Paper 69/1, 1, 1-22

[648] David P Dolowitz and David Marsh, 'Learning from Abroad: The Role of Policy Transfer in Contemporary Policy-Making' (2000) 13(1) Governance 5, 5-24

[649] Mark Evan (ed), *Policy Transfer in Global Perspective* (Routledge 2009) 66

[650] David P Dolowitz and David Marsh, 'Learning from Abroad: The Role of Policy Transfer in Contemporary Policy-Making' (2000) 13(1) Governance 5, 5-24

In this section, the following points will be addressed: **(A)** types of policy transfer, **(B)** global influence and local realities, **(C)** the political nature of policy transfer, and **(D)** policymaking as a non-rational process.

3.2.5.1 Types of Policy Transfer

The literature identifies three main types of policy transfer mechanisms, i.e., coercive, normative, and mimetic transfers, through which ideas spread and policies evolve internationally.[651] These mechanisms interact, contributing to policy convergence and a trend toward global policy homogeneity.[652] These three types of policy transfer are briefly discussed below.

3.2.5.1.1 Coercive Policy Transfer

Coercive transfers occur when governments adopt policies under external pressure imposed by international institutions or powerful states, even when these policies may conflict with domestic preferences or economic priorities.[653] Such transfers are frequently associated with conditionality agreements with international institutions, such as the World Bank and the IMF.

Since the early 1980s, these institutions have required recipient countries to implement measures, including reducing public spending, privatising SOEs, and liberalising markets, as conditions for receiving financial aid.[654] These reforms, rooted in neoliberal economic principles, were promoted as solutions to debt crises and macroeconomic instability but have faced criticism for exacerbating inequality, social unrest, and institutional weaknesses in developing countries.[655]

Therefore, coercive transfers highlight the power dynamics of global CG frameworks, where economic dependence enables wealthier nations and international institutions to shape policies in less-developed economies.[656] While these reforms seek to enhance efficiency and

[651] Ibid
[652] Ibid
[653] Diane Stone, 'Transfer Agents and Global Networks in the 'Transnationalization' of Policy' (2004) 11(3) Journal of European Public Policy 545, 545–566
[654] Ibrahim Elwan, Privatization, 'Deregulation, and Macroeconomic Policies: The Case of Pakistan' (1992) International Monetary Fund, 84-109
[655] Dani Rodrik, 'Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank' s Economic Growth in the 1990s: Learning from a Decade of Reform' (2006) XLIV Journal of Economic Review 973, 973-987
[656] Mark Evans (ed), *Policy Transfer in Global Perspective* (Routledge 2009) 98, 152

competitiveness, they may also undermine sovereignty and local priorities, raising concerns about legitimacy and fairness in global policymaking.

3.2.5.1.2 Normative Policy Transfer

Normative transfers emerge from international norms and economic theories that define best practices and shape global expectations.[657] These transfers reflect dominant ideologies, such as property rights theory and public choice theory, which emphasise private ownership, market efficiency, and individual incentives.[658]

Normative transfers are promoted through epistemic communities, e.g., networks of experts, economists, and consultants, who embed these ideas in global CG discourses.[659] International institutions and policy networks reinforce such transfers by standardising practices related to CG, transparency, and fiscal responsibility.[660]

Countries adopt these frameworks not only for economic benefits but also to enhance legitimacy within the international community.[661] Normative transfers thus reflect the voluntary adoption of policies based on shared norms and a desire to align them with global standards, thereby ensuring credibility and investor confidence.

3.2.5.1.3 Mimetic Policy Transfer

Mimetic transfers occur when nations imitate policies implemented in other countries due to peer pressure, competitive pressures, or the demonstration effect,[662] which occurs when there is a broad international covenant on the definition of a problem or a solution.[663] Such transfers

[657] Peter A Hall, 'Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain' (1993) 25(3) Comparative Politics 275, 275–296

[658] James M Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (University of Michigan Press 1962) 10-15

[659] Peter M Haas 'Epistemic Communities and International Policy Coordination' (1992) 46(1) International Organization 1, 1-15

[660] David Levi-Faur, 'The Global Diffusion of Regulatory Capitalism' (2005) 598 The Annals of the American Academy of Political and Social Science 12, 12-32; Diane Stone, 'Learning Lessons, Policy Transfer, and the International Diffusion of Policy Ideas' (2001) Centre for the Study of Globalisation and Regionalisation Working Paper, 69/1, 1, 1-17

[661] Jamie Peck and Nik Theodore, *Fast Policy: Experimental Statecraft at the Thresholds of Neoliberalism* (University of Minnesota Press 2015)

[662] Paul J DiMaggio and Walter W Powell, 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields' (1983) 48(2) American Sociological Review 147, 147-160

[663] D P Dolowitz, and D Marsh, 'Policy Transfer: A Framework for Comparative Analysis' in M Minogue, C Polidano and D Hulme (eds), *Beyond The New Public Management: Changing Ideas and Practices in Governance* (Edward Elgar 1998) 38-58

are prevalent during times of uncertainty, where policymakers seek to establish legitimacy by following successful models that have been implemented elsewhere.[664]

A notable example is the privatisation wave of the 1980s and 1990s, which originated in the UK and subsequently spread across Europe, Latin America, and Asia.[665] Policymakers facing economic crises replicate market reforms perceived as functional solutions, contributing to policy convergence across nations.[666]

Therefore, the concept of policy transfer highlights how ideas, policies, and CG frameworks spread across nations, shaping regulatory systems and institutional structures. Driven by globalisation, policy transfers occur through coercive, normative, and mimetic mechanisms, promoting policy diffusion and, in many cases, homogeneity among nations.

While coercive transfers involve external pressure from international institutions, normative transfers are shaped by global norms and epistemic communities advocating for best practices. Meanwhile, mimetic transfers arise from the demonstration effect, where countries replicate successful policies to enhance legitimacy and competitiveness.

These transfer mechanisms reflect the complex interplay of economic pressures, ideological influences, and institutional dynamics, thereby underscoring the importance of context-sensitive approaches to policymaking.

3.2.5.2 Global Influence and Local Realities

The interaction of coercive, normative, and mimetic transfers gives rise to a phenomenon known as policy convergence, a process whereby policy frameworks across nations become increasingly similar.[667] Several factors contribute to the growing homogeneity in regulatory systems.

First, economic globalisation underscores the need for standardised policies to facilitate trade, investment, and market integration.[668] As economies become increasingly interconnected, the

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[664] David P Dolowitz and David Marsh, 'Learning from Abroad: The Role of Policy Transfer in Contemporary Policy-Making' (2000) 13(1) Governance 5, 5-24

[665] Gerard Roland, 'Privatization: Successes and Failures' (Columbia University Press 2008) 224

[666] Diane Stone, 'Transfer Agents and Global Networks in the 'Transnationalization' of Policy' (2004) 11(3) Journal of European Public Policy 545, 545-566, G J Ikenberry, 'The International Spread of Privatization Policies' in E N Suleiman and J Waterbury (eds), *The Political Economy of Public Sector Reform and Privatization* (Westview 1990), 88-107

[667] Diane Stone, 'Transfer Agents and Global Networks in the 'Transnationalization' of Policy' (2004) 11(3) Journal of European Public Policy 545, 545-566

[668] David Levi-Faur, 'The Global Diffusion of Regulatory Capitalism' (2005) 598 The Annals of the American Academy of Political and Social Science 12, 12-32

harmonisation of regulatory frameworks reduces transaction costs and creates a more predictable environment for business operations. Second, institutional pressures from international institutions advocate for uniform regulations to ensure global stability, cooperation, and compliance with multilateral agreements.[669] These institutions establish guidelines and best practices that countries feel compelled to adopt. Third, reputational concerns motivate governments to align with global norms to signal credibility and attract foreign investors.[670] Adopting policies that conform to international standards enhances a nation's legitimacy in the global economic order.

However, critics caution that policy convergence may result in the emergence of policy monocultures, i.e., rigid frameworks that impose one-size-fits-all solutions without accounting for local contexts.[671] Such standardisation may perpetuate inequalities and fail to address unique socio-economic challenges faced by developing economies. For example, privatisation programs promoted as universal remedies may exacerbate social disparities in countries with weak institutions and limited state capacities.[672]

Therefore, the impact of policy transfer does not occur uniformly across nations. Instead, notable disparities exist in the rates of assimilation, the patterns of diffusion, and the specific policy outcomes that emerge in different contexts.[673] These variations stem from differences in institutional arrangements, political dynamics, and cultural norms, which influence how nations define, interpret, and implement policies such as those relating to privatisation, deregulation, and market liberalisation.[674]

Rather than viewing regulation and deregulation as the export of a fixed set of rules, it is more productive to conceptualise them as context-sensitive processes shaped by domestic conditions

[669] Dani Rodrik, 'Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank' s Economic Growth in the 1990s: Learning from a Decade of Reform' (2006) XLIV Journal of Economic Literature 973, 973-987

[670] W J Henisz, 'The Institutional Environment for Economic Growth' (2000) 12(1) Economics and Politics 1, 1–31

[671] Mark Evans (ed), *Policy Transfer in Global Perspective* (Routledge 2009) 15-20

[672] Dani Rodrik, 'Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's Economic Growth in the 1990s: Learning from a Decade of Reform' (2006) XLIV Journal of Economic Literature 973, 973-987

[673] David P Dolowitz and David Marsh, 'Learning from Abroad: The Role of Policy Transfer in Contemporary Policy-Making' (2000) 13(1) Governance 5, 5-24; M Evans (ed), *Policy Transfer in Global Perspective* (Routledge 2009) 16

[674] Diane Stone, 'Learning Lessons, Policy Transfer, and the International Diffusion of Policy Ideas' (2001) Centre for the Study of Globalisation and Regionalisation Working Paper, 69/1, 1, 1-22;

and institutional frameworks.[675] The success of policy transfer largely depends on how policies are received, interpreted, and operationalised in the host nation.[676] This perspective underscores the importance of adapting imported policies to local contexts rather than implementing them as universal solutions.

It is worth noting that the first critical dimension influencing the success of policy transfer is institutional compatibility. Policies are more likely to be effective when they fit seamlessly within the existing CG frameworks and align with the bureaucratic capacities of the host nation.[677] When policies are incompatible with domestic institutions, they encounter implementation barriers or necessitate significant changes to function as intended. Such challenges can delay adoption or result in inefficiencies, undermining the intended impact of the policy.

The second dimension is public perception and legitimacy. Policies that are perceived as alien or externally imposed may provoke public resistance, undermining legitimacy and compliance. Hence, policymakers must carefully balance international standards with domestic priorities to ensure broad-based acceptance and trust in the reform process. Failure to address local legitimacy concerns may create political instability and limit the effectiveness of transferred policies.

The third dimension relates to interpretation and adaptation. Policies are rarely adopted unchanged; instead, they are revised, reinterpreted, and localised to align with domestic development goals and socioeconomic priorities.[678] This adaptive process allows nations to preserve policy relevance while addressing context-specific challenges and institutional constraints. Through customisation, policymakers can tailor policies to be more applicable and responsive to the needs of the target population, thereby enhancing both effectiveness and legitimacy.

In summary, while policy convergence encourages harmonisation and the adoption of global standards, it also highlights the risks of over-standardisation and the loss of contextual relevance. Effective policy transfer necessitates a balanced approach that acknowledges

[675] Mark Evans, 'Understanding Policy Transfer as a Form of Governance' (2004) 82 Public Administration 521, 521–548
[676] Mark Evans (ed), *Policy Transfer in Global Perspective* (Routledge 2009) 226
[677] Ishani Mukherjee, M Kerem Coban, Azad Singh Bali, 'Policy Capacities and Effective Policy Design: A Review' (2021) 54 Policy Sciences 243, 247
[678] David P Dolowitz and David Marsh, 'Learning from Abroad: The Role of Policy Transfer in Contemporary Policy-Making' (2000) 13(1) Governance 5, 5-24

institutional settings, respects local values, and fosters context-sensitive adaptations to ensure sustainability and effectiveness. Policymakers must, therefore, adopt flexible frameworks that integrate global lessons while remaining responsive to domestic needs, ultimately promoting economic stability and social cohesion in the long term.

3.2.5.3 The Political Nature of Policy Transfer

Both market liberalisation and regulation are inherently political processes that require careful negotiation, consensus-building, and compromise to achieve successful outcomes.[679] The dynamics of interest groups, power struggles, and conflicting priorities shape policy adoption.[680] It is thus crucial that policymakers account for political realities when designing and implementing policy transfers.

The stakeholder landscape for both existing and proposed policies typically includes financial institutions, supporting institutions, companies, management, labour unions, and domestic and foreign investors.[681] These groups thus play a significant role in shaping regulatory outcomes, which reflect a complex web of interests that policymakers must manage effectively.

Financial institutions, including domestic and international banks, frequently advocate for stable regulatory frameworks to protect investments, reduce uncertainty, and minimise risk.[682] They advocate for transparent rules and predictable enforcement mechanisms to ensure that financial markets remain liquid and stable. Similarly, supporting institutions, such as the World Bank, generally promote privatisation, deregulation, and liberalisation as conditions for their financial aid programs.[683] Their influence can result in policy conditionalities, compelling governments to implement reforms that may not align with local preferences or institutional capacities.

On the other hand, companies play another pivotal role in policy transfer, advocating for deregulation to improve market access and investment opportunities while simultaneously

[679] P A Hall, 'Policy Paradigms, Social Learning, and the State' (1993) 25(3) Comparative Politics 275, 275-296; Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions and Economic Growth* (Princeton University Press 2007) 116

[680] David P Dolowitz and David Marsh, 'Learning from Abroad: The Role of Policy Transfer in Contemporary Policy-Making' (2000) 13(1) Governance 5, 5-24

[681] A S de Kessler, 'Privatization of the Enterprises of the Argentine Ministry of Defense' (1993) 28(1) Columbia Journal of World Business 133, 133-143

[682] Ross Levine and Sara Zervos, 'Stock Markets, Banks, and Economic Growth' (1998) 88(3) American Economic Review, 537, 537-558

[683] Ibrahim Elwan, Privatization, Deregulation, and Macroeconomic Policies: The Case of Pakistan' (1992) International Monetary Fund, 84-109

demanding predictable legal environments to manage investment risks.[684] Their economic influence gives them leverage in negotiations over investment protections, tax incentives, and regulatory compliance standards. Meanwhile, management and labour unions frequently represent divergent interests. Management groups may favour reforms aimed at enhancing profitability, reducing costs, and increasing productivity, whereas labour unions resist changes that threaten job security, workers' rights, and wage structures.[685]

Ultimately, domestic and foreign investors assess reforms based on their credibility, transparency, and consistency.[686] Their willingness to commit capital depends largely on their perceptions of stability and regulatory predictability, making them key players in influencing policy frameworks. Investors typically advocate for reforms that minimise compliance costs, enhance contract enforcement, and provide effective dispute resolution mechanisms to safeguard their interests.

Given the diverse interests at play, ensuring smooth policy implementation requires early engagement with stakeholders and the development of strategies to either neutralise opposition or align incentives effectively.[687] Effective strategies may include consultations to gather input and build trust, compensatory mechanisms to offset the costs borne by disadvantaged groups, and phased transitions to manage short-term disruptions while highlighting the long-term benefits.[688]

Engaging stakeholders in policy design helps establish credibility, reduce resistance, and enhance compliance. It also ensures that reforms are pragmatic and address legitimate concerns raised by interest groups, thereby improving their sustainability and effectiveness. In this sense, policy transfer must be viewed not just as a technical process but as a political negotiation that balances global influences with domestic priorities to create broadly acceptable solutions.

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[684] W J Henisz, 'The Institutional Environment for Economic Growth' (2000) 12(1) Economics and Politics 1, 1-31

[685] James Bailey and D Thomas, 'Labour Market Dynamics and Reform Resistance' (2017) 156(2) International Labour Review 215, 215-233

[686] Zdenek Drabek and Warren Payne, 'The Impact of Transparency on Foreign Direct Investment' (2002) 17(4) Journal of Economic Integration 777, 777-780

[687] Robert Baldwin, 'Better Regulation: The Search and the Struggle' in Robert Baldwin, Martin Cave and Martin Lodge (eds), *The Oxford Handbook on Regulation* (Oxford University Press 2010) 263-268

[688] Tony Prosser, *The Regulatory Enterprise: Government, Regulation and Legitimacy* (Oxford University Press 2006) 219

3.2.5.4 Policy-Making as a Non-Rational Process

Policymaking is not a rational or linear process; instead, it reflects a complex interplay of political interests, institutional constraints, and external influences.[689] Policies are shaped by power dynamics, historical precedents, and context-specific challenges, making their design and implementation inherently adaptive rather than formulaic. Borrowed policies tend to be modified during implementation to reflect local realities and governance capacities, highlighting the path-dependent nature of policy-making processes.[690]

One manifestation of this non-rational character is policy drift, where policies gradually deviate from their original goals due to "the failure to update its rules or structures to reflect changing circumstances",[691] such as local pressures, unintended consequences, or shifts in political priorities. For example, regulatory reforms aimed at liberalisation may, over time, evolve into protectionist frameworks under pressure from interest groups seeking to maintain monopolistic advantages. Such drift illustrates the challenges of maintaining policy integrity in the face of domestic pressures and changing contexts.

Another example is symbolic adoption, where policies are implemented primarily to signal modernisation or alignment with global standards, rather than to drive substantive reforms.[692] Governments may adopt policies to gain international credibility, attract foreign investment, or comply with external obligations, yet fail to implement the institutional changes necessary for effective enforcement. In such cases, reforms often serve as symbolic gestures rather than effective solutions, resulting in policy failures and inadequate enforcement mechanisms.

Partial implementation is also a common outcome, particularly in developing economies where resource constraints, bureaucratic inefficiencies, or political opposition hinder the full enforcement of reforms.[693] Policies may be introduced piecemeal, leaving gaps in accountability, inconsistencies in enforcement, and fragmented outcomes. Such incomplete implementation risks undermining credibility and legitimacy, potentially exacerbating economic inefficiencies and social inequalities.

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[689] David P Dolowitz and David Marsh, 'Learning from Abroad: The Role of Policy Transfer in Contemporary Policy-Making' (2000) 13(1) Governance 5, 5-24

[690] P Pierson, 'Increasing Returns, Path Dependence, and the Study of Politics' (2000) 94(2) American Political Science Review 251, 251–267

[691] Daniel J Galvin and Jacob S Hacker, 'The Political Effects of Policy Drift: Policy Stalemate and American Political Development' (2020) 34 Studies in American Political Development 216, 216

[692] Jamie Peck and Nik Theodore, *Fast Policy: Experimental Statecraft at the Thresholds of Neoliberalism* (University of Minnesota Press 2015)

[693] Mark Evans, *Policy Transfer in Global Perspective* (Routledge 2009) 173

This non-rational character of policymaking underscores the importance of flexibility and continuous evaluation to adjust policies as circumstances evolve.[694] Effective policy design thus requires mechanisms for monitoring performance, collecting feedback, and adapting frameworks based on lessons learned during implementation. Such an approach can help policymakers identify gaps, correct errors, and respond proactively to emerging challenges.

3.3 Economic Regulation in EMs

The above sections discussed the primary theories and concepts in the economics of regulation. Given that this thesis focuses on EMs, this section briefly addresses economic regulation in these markets.

In these markets, economic regulation plays a fundamental role in addressing market imperfections and protecting stakeholders from unfair competition and exploitative practices by monopolies and businesses with market power.[695] Effective regulation aims to promote efficiency, stability, and fairness while encouraging competitiveness and economic growth. However, regulation should prioritise efficiency and effectiveness over excessive bureaucratic controls.[696]

The success of regulatory frameworks largely depends on context-specific challenges, particularly in developing economies where institutional weaknesses and limited enforcement capacities exacerbate the negative impacts of regulations. These challenges disproportionately affect SMEs, which form the backbone of employment creation, poverty reduction, and local economic development.

Accordingly, this section will primarily examine the roles of regulation, deregulation, and competition policies in developing markets, with a particular focus on their impact on SMEs.

3.3.1 The Role of Regulation in Promoting Competitiveness

Regulation provides stability and predictability in rapidly expanding economies, serving as a foundation for investment, innovation, and market restructuring.[697] Effective regulatory frameworks encourage domestic and foreign direct investment by reducing uncertainty and

[694] Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions and Economic Growth* (Princeton University Press 2007) 41-43
[695] Anthony Ogus, *Regulation: Legal Form and Economic Theory* (Oxford University Press 2004) 330-343
[696] Giandomenico Majone, 'From the Positive to the Regulatory State: Causes and Consequences of Changes in the Mode of Governance' (1997) 17(2) Journal of Public Policy 139, 141
[697] Ross Levine and Sara Zevros, 'Stock Markets, Banks, and Economic Growth' (1998) 88(3) American Economic Review 537, 537-549

enhancing confidence in the business environment.[698] Regulations also support research and development, as well as technological innovation, by protecting intellectual property rights and promoting technology transfer.[699] Furthermore, regulatory policies facilitate market restructuring and orderly exits, enabling businesses to adapt to changing economic conditions without creating market disruptions.[700]

Additionally, regulatory frameworks help streamline product and factor markets by removing barriers to entry, encouraging fair competition, and addressing externalities.[701] They provide clear rules for market players, which would ensure accountability and transparency. However, despite these positive contributions, the design flaws in regulations can disproportionately burden SMEs, resulting in the limitation of their competitiveness and ability to expand operations.

3.3.2 SMEs and Regulatory Challenges

SMEs have a vital role in national development by generating employment, promoting entrepreneurship, and supporting local industries. Nevertheless, their ability to thrive depends on supportive regulatory frameworks. In many developing countries, SMEs face unique challenges due to administrative burdens, high compliance costs, and unequal access to resources. These constraints lead to reduced competitiveness, discouraged entrepreneurship, and stagnant growth.

In particular, SMEs face disproportionately high administrative and compliance costs compared to large companies. Registration fees, licensing processes, and legal compliance create fixed costs that are primarily unaffordable for smaller businesses.[702] Unlike large ones, SMEs lack dedicated compliance teams, which results in their adaptation to regulatory changes

[698] Ibid, 537-558
[699] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 35
[700] OECD, 'Going for Growth' (2018) Interim Report <https://www.oecd.org/content/dam/oecd/en/publications/reports/2018/03/economic-policy-reforms-2018_g1g8a996/growth-2018-en.pdf> accessed 20 January 2025
[701] Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions and Economic Growth* (Princeton University Press 2007) 44
[702] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 1-37

being costly and time-consuming.[703] Many SMEs are now compelled to hire external consultants or accountants, which further increases transaction costs.[704]

Transaction costs also impose disproportionate burdens on SMEs, as compliance-related expenses represent a larger share of their revenues compared to large companies.[705] These pressures drive many SMEs to operate informally to avoid regulatory obligations, leaving them vulnerable to penalties, corruption, and arbitrary enforcement.[706] Furthermore, trade liberalisation policies aimed at export-led growth expose SMEs to foreign competition, thereby reducing their market share and profitability.[707]

However, on the other hand, large companies frequently receive preferential treatment, through tax incentives, subsidies, and policy support, which further marginalises SMEs and creates an uneven playing field.[708]

The cumulative effects of regulatory burdens include reduced competitiveness, barriers to entry, and lower profitability for SMEs. High transaction costs and inefficient regulations undermine SME performance, forcing many to scale back operations or shift to the informal sector.[709] SMEs operating informally also face legal vulnerabilities, higher penalties, and limited growth opportunities.[710]

Therefore, while regulatory frameworks are important in fostering competitiveness and economic stability, their design flaws impose disproportionate burdens on SMEs, undermining their ability to grow, innovate, and create jobs. Addressing these challenges requires simplified procedures, size-sensitive regulations, and financial support programs that enable SMEs to compete effectively in both domestic and international markets. Therefore, by adopting

[703] Halima Oluwabunmi, Courage Idemudia and Toluwalase Vanessa Iyelolu, 'Navigating Financial Compliance in Small and Medium-Sized Enterprises (SMEs): Overcoming challenges and implementing effective solutions' (2024) 23(1) World Journal of Advanced Research and Reviews 42, 42-55
[704] Ibid
[705] Ibid
[706] Rafael La Porta and Andrei Shleifer, 'Informality and Development' (2014) 28(3) Journal of Economic Perspectives 109, 109-126
[707] Kalim Siddiqui, 'Trade Liberalization and Economic Development' (2015) 44 Interntional Journal of Political Economy 228, 236
[708] W J Henisz, 'The Institutional Environment for Economic Growth' (2000) 12(1) Economics and Politics 1, 1-31; Andrei Shleifer and Robert W Vishny, 'Politicians and Firms' (1994) 109(4) Quarterly Journal of Economics 995, 995-1025
[709] W J Henisz, 'The Institutional Environment for Economic Growth' (2000) 12(1) Economics and Politics 1, 1-31; Andrei Shleifer and Robert W Vishny, 'Politicians and Firms' (1994) 109(4) Quarterly Journal of Economics 995, 995-1025
[710] Rafael La Porta and Andrei Shleifer, 'Informality and Development' (2014) 28(3) Journal of Economic Perspectives 109, 109-126

context-sensitive policies, developing countries can unlock the full potential of SMEs and drive inclusive economic growth.

3.4 Regulation of CG

This section addresses the regulation of CG since it is the subject of the thesis. CG regulation serves as a mechanism to enforce accountability, prevent market failures, and protect stakeholders from corporate abuses of power. It establishes rules and oversight systems to ensure transparency, fairness, and ethical conduct in corporate activities. However, its application presents complex challenges, including questions about its scope, effectiveness, and the risks of regulatory capture, especially in developing economies where institutional weaknesses exacerbate CG failures.[711]

This section briefly examines the purpose, limitations, and vulnerabilities of CG regulation, particularly in contexts where regulators may become compromised or co-opted by the companies they are tasked with overseeing.

3.4.1 The Scope and Purpose of CG Regulation

CG regulation aims to protect stakeholders, ensure market stability, facilitate fair transactions, and mitigate systemic risks. It safeguards the interests of shareholders, employees, consumers, investors, and communities from corporate misconduct and market abuse.[712] By promoting transparency and accountability, regulation reduces asymmetric information, prevents fraud, and maintains fair pricing practices in sectors prone to externalities and natural monopolies.[713] It also establishes disclosure requirements and corporate reporting standards, enabling shareholders to make informed decisions and enhancing market confidence.[714]

While regulations usually target specific market failures, they fail to protect all stakeholders equally. For instance, labour-oriented regulations prioritise employee rights, workplace safety, and minimum wages while leaving investors and suppliers vulnerable.[715] Utility regulations

[711] Andrei Shleifer and R W Vishny, 'A Survey of Corporate Governance' (1997) 52(2)Journal of Finance 737, 737-758; R La Porta, F Lopez-de-Silanes, A Shleifer,and R W Vishny, 'Law and Finance' (1998) 106(6) Journal of Political Economy 1113, 1113-1155

[712] OECD, Principles of Corporate Governance (Meeting of the OECD Council at Ministerial Level 1999) < https://one.oecd.org/document/C/MIN(99)6/en/pdf> accessed 12 January 2025

[713] Paul L Joskow, 'Regulation of Natural Monopoly' (2007) 2 Handbook of Law and Economics 1229, 1244-1247

[714] Cadbury's Committee on the Financial Aspects of Corporate Governance, *Report of the Committee on Financial Aspects of Corporate Governance* (1992) <https://media.frc.org.uk/documents/Cadbury_Code_-_The_Financial_Aspects_of_Corporate_Governance.pdf> accessed 9 January 2025

[715] Ximena V Del Carpio, Laura M Pabon, 'Implications of Minimum Wage Indreases on Labor Market Dynamics Lessons for Emerging Economies' (2017) World Bank Group, 1, 1-10

aim to protect consumers from monopolistic pricing but may fail to ensure investor profitability.[716] Regulations in financial markets primarily focus on protecting transaction integrity but overlook the interests of minority investors, particularly in developing economies.[717]

This selective focus implies that CG regulation is designed to stabilise markets and protect other constituents rather than serving the interests of corporate owners. This thus creates gaps in protection frameworks.[718]

Furthermore, it is essential to note that the interplay between CG, mandatory disclosure, and market efficiency emerges as a central theme across scholarly debates on securities regulation. Some studies emphasise the importance of compulsory disclosures in addressing market failures by reducing information asymmetry and agency problems, thereby enhancing investor confidence and promoting efficient resource allocation.[719] However, they emphasised that these benefits must be balanced with the compliance burdens they impose on companies, considering the importance of enforcement in ensuring the effectiveness of disclosure in mitigating agency conflicts.[720] Moreover, for disclosure regulations to be effective, they must reflect the evolving complexity of financial markets[721] and be supplemented by mechanisms that ensure the information is processed and acted upon by market participants.[722]

It is also worth noting that the effectiveness of mandatory disclosures has been subject to criticism. A key limitation is the significant financial burden of disclosures, which delivers limited practical benefits to the intended recipient due to information overload, compounded

[716] Paul L Joskow, 'Regulation of Natural Monopoly' (2007) 2 Handbook of Law and Economics 1229, 1244-1247

[717] Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer, 'Corporate Ownership Around the World' (1999) 54 The Journal of Finance 471, 471-475; John C Coffee Jr, 'A Theory of Corporate Scandals: Why the U.S. and Europe Differ' (2005) 21 Oxford Review of Economic Policy 1, 17

[718] Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer, 'Corporate Ownership Around the World' (1999) 54 The Journal of Finance 471, 471-475

[719] John C Coffee Jr, 'Market failure and the Economic case for a Mandatory Disclosure System' (1984) 70 Virginia Law Review 717; Zohar Goshen and Gideon Parchomovsky, 'The Essential Role of Securities Regulation' (2006) 55 Duke Law Journal 711

[720] Paul G Mahoney, 'Mandatory Disclosure as a Solution to Agency problems' (1995) 62 University of Chicago Law Review 1047

[721] Luigi Zingales, 'The Future of Securities Regulation' (2009) 47 Journal of Accounting Research 391, 394; Christian Leuz and Peter D Wysocki, 'Economic Consequences of Financial Reporting and Disclosure Regulation: A Review and Suggestions for Future Research' (March 2008) SSRN Electronic Journal 1, 10 < https://ssrn.com/abstract=1105398> accessed 20 January 2025

[722]Ronald J Gilson and Reinier Kraakman, 'The Mechanisms of Market Efficiency' (1984) 70 Virginia Law Review 549; Edmund W Kitch, 'The Theory and Practice of Securities Disclosure' (1995) 61 Brooklyn Law Review 763

by investors' lack of expertise in comprehending complex financial data.[723] Additionally, it is not guaranteed that investors will act rationally even if they are provided with sufficient information.[724] It is also crucial to address the conflict between transparency and companies' need to protect sensitive information, which would require carefully tailored disclosure requirements to prevent competitive harm while ensuring investor protection.[725] Equally, it is essential to keep exploring alternative mechanisms that would address such market failures.[726]

Hence, the broader implications of disclosure regulation are related to its role in shaping the competitiveness of financial markets and addressing inherent risks. However, disclosures cannot address all market failures.[727] A more flexible and harmonised regulatory approach that balances transparency with market adaptability is thus necessary.[728]

3.4.2 Regulatory Capture: The Achilles Heel of CG Regulation

A significant risk associated with CG regulation is regulatory capture, where regulators develop close ties with the companies they oversee, leading to biased decision-making and compromised neutrality.[729] This phenomenon undermines public trust, distorts market dynamics, and perpetuates inefficiencies in regulatory enforcement.

Mechanisms of regulatory capture include sympathetic oversight, where regulators prioritise industry interests over public welfare due to empathy with corporate concerns.[730] It further

[723] Omri Ben-shahar and Carl E Schneider, 'The Failure of Mandated Disclosure' (2011) 159(3) University of Pennsylvania Law Review 647
[724] Ibid
[725] Wolfgang Schön, 'Corporate Disclosure in a Competitive Environment – The Quest for a European Framework on Mandatory Disclosure' (2006) ECGI Working Paper No 55/2006, pp <https://www.ecgi.global/sites/default/files/working_papers/documents/SSRN-id885961.pdf> accessed 20 January 2025; Sergio Gilotta, 'Disclosure in Securities Markets and the Firm's Need for Confidentiality: Theoretical Framework and Regulatory Analysis' (2012) 13 European Business Organization Law Review 45, 66-69
[726] Omri Ben-shahar and Carl E Schneider, 'The Failure of Mandated Disclosure' (2011) 159(3) University of Pennsylvania Law Review 647
[727] Luigi Zingales, 'The Future of Securities Regulation' (2009) 47 Journal of Accounting Research 391, 394; John C Coffee Jr, 'Market failure and the Economic case for a Mandatory Disclosure System' (1984) 70 Virginia Law Review 717
[728] Alessio M Pacces, 'How Does Corporate Law Matter? "Law and Finance" and Beyond' [2013] SSRN Electronic Journal 1, 8-14 < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2260340> accessed 20 January 2025; Wolfgang Schön, 'Corporate Disclosure in a Competitive Environment – The Quest for a European Framework on Mandatory Disclosure' (2006) ECGI Working Paper No 55/2006, pp <https://www.ecgi.global/sites/default/files/working_papers/documents/SSRN-id885961.pdf> accessed 20 January 2025; Sergio Gilotta, 'Disclosure in Securities Markets and the Firm's Need for Confidentiality: Theoretical Framework and Regulatory Analysis' (2012) 13 European Business Organization Law Review 45, 66-69
[729] Daniel Carpenter & David A Moss, 'Introduction' in: *Preventing Regulatory Capture: Special Interest Influence and How to Limit It* (Cambridge University Press 2013) 1-5
[730] Ibid

encompasses revolving door dynamics, where regulators transition into lucrative corporate roles. This erodes regulatory integrity by allowing former officials to exploit insider knowledge and networks.[731] Additionally, information asymmetries enable companies to manipulate regulators by leveraging their superior knowledge of industry practices.[732]

These features lead to, *among other things*, weak enforcement, as regulators adopt lenient practices and fail to penalise violations effectively.[733] It also leads to barriers to entry, where regulations favour incumbent companies, deterring SMEs and startups from entering markets.[734] Moreover, public trust in regulatory bodies diminishes, resulting in disillusionment and weakened support for CG reforms.[735]

In this regard, both weak enforcement and regulatory capture contributed to the 2008 financial crisis, where regulators failed to address systemic risks posed by subprime lending practices.[736] Similarly, the Enron scandal exposed regulatory loopholes that allowed fraudulent accounting practices to flourish.[737] In developing economies, regulatory capture enables rent-seeking behaviour, perpetuating inequality and favouritism.[738]

Accordingly, CG regulation provides a framework for accountability, market stability, and risk mitigation, but it also faces limitations stemming from selective protections and regulatory capture. While regulations safeguard various stakeholders, such as employees, consumers, and investors, gaps remain, particularly in developing countries where institutional weaknesses expose regulatory frameworks to political interference and rent-seeking behaviour.

Future reforms should prioritise transparency, accountability, and independence to maintain regulatory integrity and promote market fairness. Therefore, strengthening CG frameworks is needed to promote sustainable growth and protect minority shareholders, while considering the

[731] Ibid, 19-20; Ernesto Dal Bó, 'Regulatory Capture: A Review' (2006) 22(2) Oxford Review of Economic Policy 203, 203-210
[732] Daniel Carpenter & David A Moss, 'Introduction' in: *Preventing Regulatory Capture: Special Interest Influence and How to Limit It* (Cambridge University Press 2013) 1-5; Andrei Shleifer and Robert W Vishny, 'Politicians and Firms' (1994) 109(4) The Quarterly Journal of Economics 995, 997
[733] Daniel Carpenter & David A Moss, 'Introduction' in: *Preventing Regulatory Capture: Special Interest Influence and How to Limit It* (Cambridge University Press 2013) 17-18
[734] Ibid, 7
[735] OECD Public Governance Reviews, 'Trust and Public Policy How Better Governance Can Help Rebuild Public' (2017), 1-10
[736] John C Coffee Jr, 'A Theory of Corporate Scandals: Why the U.S. and Europe Differ' (2005) 21 Oxford Review of Economic Policy 1, 16-17
[737] Krishna Palepu and Paul M Healy, 'The Fall of Enron' (2003) 17 The Journal of Economic Perspectives 3, 3-26
[738] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) The Quarterly Journal of Economics 1, 29

above elements to support inclusive development and ensuring that markets remain efficient and resilient to economic shocks.[739]

3.5 Concluding Remarks

Economic regulation theories provide a valuable perspective for understanding the potential connection between CG reforms and delisting rates on the EGX. These theories explain why governments introduce regulations in markets and how such interventions influence the behaviour of companies and investors. They also shed light on how regulations may sometimes lead to unintended consequences, such as companies choosing to delist due to higher compliance costs.

These theories suggest that governments create rules to address market problems and protect public interests. These problems include information gaps, conflicts of interest, and market inefficiencies. Without proper regulations, markets may fail to function effectively, causing harm to investors and undermining confidence in the financial system.

However, reforms can also create barriers for SMEs. This raises questions about whether reforms in the EGX have achieved their intended goals or whether they have led to higher delisting rates by imposing high costs on companies, as will be discussed in the next section.

3.6 Relevance to the Thesis

The relevance of the above theoretical discussions to this thesis lies in their ability to establish a comprehensive foundation for understanding how country-level CG reforms may have contributed to the rise of delisting incidents on the EGX. By synthesising insights from regulatory economics, institutional theory, and public choice theory, this study aims to explore the possible unintended consequences of CG reforms. While CG reforms are designed to address market failures resulting from, among other things, information asymmetry and agency conflicts, they could have introduced unintended inefficiencies that contributed to the delisting decisions.

In well-functioning markets, transparency and access to reliable information are crucial. However, when information asymmetry exists, i.e., when one party possesses superior or better

[739] Andrei Shleifer and R W Vishny, 'A Survey of Corporate Governance' (1997) 52(2) Journal of Finance 737, 773-774; World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment—Egypt' (March 2004) 35082

information than the other, it disrupts market equilibrium.[740] This asymmetry can lead to inefficiencies, including moral hazard, adverse selection, and the dominance of lower-quality companies,[741] a phenomenon described as a "market for lemons".[742] Although CG reforms, such as mandatory disclosure and auditing requirements, aim to reduce information asymmetry,[743] they impose substantial compliance costs. These costs disproportionately burden SMEs, which frequently lack the resources to meet these requirements, potentially leading them to delist or avoid public listings.[744]

Agency theory introduces one more dimension to this dynamic, emphasising the inherent conflict within public companies, particularly those with dispersed ownership, since managers are likely to favour their own interests over those of the shareholders.[745] CG reforms address these agency problems through mechanisms, such as enhanced oversight, stricter accountability measures, and performance-based incentives. However, the increased regulatory scrutiny that accompanies these reforms can discourage companies from maintaining public listings, particularly in emerging economies like Egypt, where enforcement mechanisms are weak and corporate practices are less developed.

In Egypt, the challenges associated with CG reforms are compounded by institutional constraints. The regulatory environment struggles to enforce rules consistently and effectively, which may lead to selective enforcement and unpredictability. Additionally, many CG reforms in Egypt have been shaped by policy transfers from developed economies, which emphasise international best practices. While these frameworks are theoretically robust, their implementation may fail to account for local economic realities, cultural norms, and institutional weaknesses. This creates a dual burden for companies, as they must not only bear

[740] Paul M Heay and Krishna G Palepu, 'Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature' (2001) 31(1-3) Journal of Accounting and Economics 405, 427-429
[741] Anthony Ogus, 'Corruption and Regulatory Structures' (2004) 26(3-4) Law and Policy 329, 331-332
[742] George A Akerlof, 'The Market for "Lemons": Quality, Uncertainty, and Market Mechanism' (1970) 84 Quarterly Journal of Economics 488, 488-500; Hadiye Aslan and Praveen Kumar, 'Lemons or Cherries? Growth Opportunities and Market Temptations in Going Public and Private' (2010) 46 JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS 41, 12-13
[743] OECD, *OECD Principles of Corporate Governance* (2004), OECD Legal Instruments, OECD/LEGAL/0327, 49-57; John C Coffee Jr, 'A Theory of Corporate Scandals: Why the U.S. and Europe Differ' (2005) 21 Oxford Review of Economic Policy 1, 10-11
[744] Michael Ewens, Kairong Xiao, and Ting Xu, 'Regulatory Costs of Being Public: Evidence from bunching estimation' (2024) 153 Journal of Financial Economics 2, 2,15
[745] Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure' (1976) 3(4) Journal of Financial Economics 305, 305-357

the direct costs of compliance but also navigate the uncertainty of inconsistent enforcement. This may have prompted companies to opt for private ownership or informal operations.

Additionally, regulations intended to address market failures can inadvertently lead to government failures, particularly when they are poorly designed or implemented.[746] Overregulation, regulatory capture, and rent-seeking behaviours are critical issues that undermine the effectiveness of CG frameworks. Overregulation occurs when excessive compliance obligations distort market signals, deter investment, and stifle innovation and entrepreneurship.[747] This misallocation of resources not only reduces market efficiency but also creates significant barriers to entry for new companies.[748] Moreover, regulatory burdens increase compliance costs and discourage entrepreneurial activity and technological advancement.[749] It further creates obstacles for new companies to enter the market, protecting incumbents and reducing competition.[750]

In Egypt, stricter listing standards, enhanced reporting requirements, and complex compliance procedures have created significant barriers to entry. These issues are particularly acute for SMEs and family-owned companies, which dominate Egypt's corporate landscape. Many companies may have chosen to delist, remain informal, or transition to private ownership to avoid the scrutiny and obligations of public markets, thereby escaping regulatory scrutiny.[751] Therefore, delisting may have also resulted from companies finding private ownership more cost-effective, as they avoid the public scrutiny and reporting obligations imposed by listing rules.

Regulatory capture, informed by public choice theory, further exacerbates these challenges. Both frameworks challenge the traditional view that regulations are crafted solely to protect the public interest. Instead, they argue that special interest groups exert disproportionate influence over regulatory processes, shaping outcomes that prioritise private interests over the welfare of society.[752] Regulatory capture occurs in this context when dominant companies and

[746] Julian Le Grand, 'The Theory of Government Failure' (1991) 21 BJPolS 423, 423-424
[747] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-21
[748] Simeon Djankov, Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Shleifer, 'The Regulation of Entry' (2002) 117(1) Quarterly Journal of Economics 1, 8
[749] Ibid, 23
[750] Ibid, 28-29
[751] R La Porta and A Shleifer, 'Informality and Development' (2014) 28(3) Journal of Economic Prespecives 109, 109-111
[752] George J Stigler, 'The Theory of Economic Regulation' (1971) 2(1) Bell Journal of Economics and Management Science 3, 3-21; Sam Peltzman, 'Toward a More General Theory of Regulation' (1976) 19(2) Journal of Law and Economics 211, 211-240

those with political connections influence the design and enforcement of regulations to their own advantage.[753] This undermines competition and exacerbates market inefficiencies, as smaller companies are effectively excluded from the benefits of public markets. In Egypt, these dynamics appeared to have not only discouraged new listings but also contributed to high rates of delisting, particularly among companies that struggle to compete under the existing regulatory regime.

The phenomenon of regulatory creep, where compliance obligations accumulate over time, creates additional economic distortions. High compliance costs disproportionately impact SMEs, thereby reducing their competitiveness and discouraging public offerings.

The principles of regulatory legitimacy, i.e., accountability, transparency, proportionality, targeting, and consistency, provide a framework for evaluating the effectiveness of CG reforms.[754] These principles emphasise the need for regulations to be fair, predictable, and aligned with the specific challenges they aim to address. However, in Egypt, these principles appear to be inadequately applied. High compliance costs, inconsistent enforcement, and limited stakeholder participation undermine the perceived legitimacy of regulatory measures, potentially discouraging companies from participating in stock markets.

Regulatory risk adds another dimension to this issue. Companies may perceive public listings as risky due to unpredictable regulatory design and enforcement practices. These uncertainties may contribute to a preference for private ownership or informal operations, further exacerbating delisting trends.

This thesis thus posits that these considerations may have contributed to the rise of delisting incidents in the EGX. It hypothesises that CG reforms aimed at aligning with global standards create mismatches with local contexts, increasing compliance costs and discouraging public listings. Additionally, companies with higher compliance costs are more likely to delist, while SMEs are disproportionately affected by the burdens of regulation. Inconsistent enforcement further amplifies the adverse effects of CG reforms, creating a regulatory environment that discourages new listings.

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[753] Jean-Jacques Laffont and Jean Tirole, 'The Politics of Government Decision-Making: A Theory of Regulatory Capture' (1991) 106(4) Quarterly Journal of Economics 1089, 1089-1093

[754] Giandomenico Majone (ed), *Regulating Europe* (1st edn, Routledge 1996) 159-163; Robert Baldwin, Martin Cave, and Martin Lodge, *Understanding Regulation: Theory, Strategy, and Practice* (Oxford University Press 2012) 27

Additionally, policy transfers from developed economies, framed as best practices, are shown to exacerbate these issues when not adapted to local realities. While these reforms aim to modernise markets and attract foreign investment, their failure to address domestic institutional constraints and economic contexts undermines their effectiveness. Consequently, they may have created a regulatory framework that deters companies from remaining listed or pursuing IPOs, contributing to the observed delisting trends and low listing activity on the EGX.

Chapter 4: The Evolution of Stock Market and CG Reforms: The Egyptian Context

4.1 Introduction

Given that this thesis explores the potential influence of CG reforms, as enshrined in the listing and delisting rules, on the surge in delistings from the EGX, this chapter examines the contextual development of the EGX and CG reforms applicable to publicly traded companies on the EGX, as an emerging stock exchange.

This examination is necessary because understanding the local context is crucial for designing and evaluating the appropriateness of a regulation.[755] Therefore, considering the historical development that has shaped the current regulatory design and performance is essential for identifying the root causes of any suboptimal outcomes and proposing directions for regulators and policymakers to achieve their desired objectives.

The EGX has served as a cornerstone of Egypt's economy,[756] functioning as a gateway for investments and a platform for capital mobilisation. With roots dating back to the 19th century, the EGX has undergone a dynamic evolution, reflecting broader economic policies and legal reforms.[757] Over the past few decades, Egypt has made extensive efforts to modernise its financial sector by introducing CG reforms to improve shareholders' protection and enhance transparency.[758]

Particularly in EMs, such as Egypt, effective CG frameworks are viewed as essential for strengthening institutions, attracting foreign investment, and fostering sustainable growth.[759]

This Chapter aims to trace the historical evolution of the EGX, study the CG framework, and clarify key CG reforms that were integrated into the listing and delisting rules for securities in the EGX. It also addresses how CG regulations affect companies' performance in Egypt. This

[755] Masahiro Kawai and Eswar S Prasad, *Financial Market Regulation and Reforms in Emerging Markets: Highlights* (Brookings Institution Press 2011) 1, 1-4; Birungi Korutaro and Nicholas Biekpe, 'Effect of Business Regulation on Investment in Emerging Market Economies' (2013) 3 Review of Development Finance 41, 41-46
[756] Mauro Mecagni and Maged Shawky Sourial, *The Egyptian Stock Market: Efficiency Tests and Volatility Effects* (IMF Working Paper No 1999/048, April 1999); M Adly Wahba et al, ' Effects of Stock Market Development on Economic Growth: Case Study Egypt' (2022) 1 International Journal of Public Policies in Egypt 92, 96-99
[757] Mohammed Omran, 'Privatization, State Ownership, and Bank Performance in Egypt' (2007) 35 World Development 714, 714-733
[758] Samiha Fawzy, *Assessment of Corporate Governance in Egypt* (Egyptian Center for Economic Studies 2003) 1, 5-6
[759] Jennifer Bremer and Nabil Elias, 'Corporate Governance in Developing Economies: The Case of Egypt' (2007) 3(4) Journal of Economic and Administrative Sciences 1, 14

Chapter thus sets the contextual foundation for the subsequent analytical investigation into the possible linkage between CG reforms and delisting in the EGX.

Accordingly, this Chapter is organised as follows. **Section (4.2)** explains the historic path of the EGX's development as well as its institutional context. **Section (4.3)** examines the CG regulatory framework within the EGX. **Section (4.4)** presents the CG reforms embedded in the listing and delisting rules of the EGX. **Section (4.5)** explains how CG regulations affect the performance of listed companies within the EGX. It concludes in **Section (4.6)**.

4.2 Egypt Stock Exchange

Egypt was among the first countries globally to recognise the importance of establishing a stock market, resulting in it being one of the oldest stock markets in the MENA region. This section provides a historical overview and a brief analysis of the evolution of the EGX, followed by an examination of the primary institutional setting that has shaped its development.

4.2.1 A Historical Perspective

The EGX has a rich history that mirrors Egypt's broader economic trajectory. From its establishment in the late 19th century to its present form, the EGX has undergone significant transformations shaped by political, economic, and legal changes. These phases reveal how shifts in ownership, regulatory frameworks, and market reforms have impacted its operation,[760] including listing and delisting trends.

Egypt's economic history can be categorised into distinct phases that correspond to transitions in the country's economic model: from colonial capitalism to socialist centralisation and later to privatisation and market liberalisation.[761] Each phase had a significant impact on the institutional and regulatory frameworks governing the EGX.[762]

[760] Mohammed Omran, 'Post-privatization Corporate Governance and Firm Performance: The Role of Private Ownership Concentration, Identity and Board Composition' (2009) 37 Journal of Comparative Economics 658, 658-665; Omneya H Abdelsalam and Pauline Weetman, 'Measuring Accounting Disclosure in a Period of Complex Changes: The Case of Egypt' (2007) 20 Advances in International Accounting 75, 75-85

[761] Gouda Abdel-Khalek, *Stabilization and Adjustment in Egypt: Reform or Deindustrialization?* (Edward Elgar Publishing, 2001) 1-2

[762] Aiman A Ragab & Mohammed Omran, 'Accounting information, value relevance, and investors' behavior in the Egyptian equity market' (2006) 5(3) Review of Accounting and Finance 279, 279-289; Mohamed Okasha Abdelaal, 'Importance of Politics in the Reform of Capital Markets: Case Study of the Egyptian Capital Market' (2016) 16 Chicago-Kent Journal of International and Comparative Law 5, which highlighs the potentital impact of politics in shaping the EGX's developmetn path.

For clarity, the historical development of the EGX is divided into the following phases, each capturing a distinct economic and regulatory transformation, as follows:

4.2.1.1 From 1861 to 1956: The Inception and Expansion

The history of Egypt's stock exchange dates back to 1861, when the first trading exchange for cotton futures was established.[763] This was followed by the establishment of Egypt's first securities exchange in Alexandria in 1883, making it one of the oldest globally and the oldest in Africa and the Middle East.[764] Another exchange was established in Cairo in 1903,[765] and by the early 20th century, Egypt had a unified stock market operated through the CASE,[766] albeit with independent management.[767]

The Royal Decree of 1909 formalised stock exchange regulations,[768] which took effect in 1910 for Cairo and in 1913 for Alexandria. These regulations laid the groundwork for organised market operations. However, the First World War caused significant disruptions, with a gradual recovery following the war. By 1925, 104 securities were listed, up from 96 in 1914.[769]

Furthermore, the 1933 General Stock Exchange Regulations, introduced through another Royal Decree, enhanced transparency and investor protection, leading to significant growth.[770] By the late 1930s, the EGX was the fifth-largest global stock exchange in terms of activity and transaction volumes.[771] Despite this, the Second World War and subsequent political changes,

[763] *See* EGX' s website <https://egx.com.eg/en/homepage.aspx> accessed 10 January 2025
[764] *See* EGX' s history <https://www.egx.com.eg/en/History.aspx> accessed 10 January 2025
[765] *See* EGX' s primary milestones <https://www.egx.com.eg/en/EGX_Milestones.aspx?Year=1883> accessed 10 January 2025; Shahira Abdel Shahid, 'Corporate Governance Is Becoming a Global Pursuit: What Could Be Done in Egypt?' (2001) 1, 42 <http://papers.ssrn.com/abstract=286875> accessed 10 January 2025
[766] US Securities and Exchange Commission, 'Cairo and Alexandria Stock Exchanges' (16 April 2003) <https://www.sec.gov/divisions/corpfin/cf-noaction/cairo041603.htm> accessed 10 January 2025; Samiha Fawzy, 'Assessment of Corporate Governance in Egypt' (Egyptian Center for Economic Studies 2003) 1, 1; Maged S Sourial, 'Corporate Governance in the Middle East and North Africa: An Overview' (2004) 2, 14 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=508883> accessed 10 January 2025
[767] This name was changed in 2008, and the Egyptian stock exchange started to be referred to as the "EGX".
[768] This Royal Decree was issued on 8 November 1909.
[769] Aiman A Ragab & Mohammed Omran, 'Accounting information, value relevance, and investors' behavior in the Egyptian equity market' (2006) 5(3) Review of Accounting and Finance 279, 279-297
[770] Shahira Abdel Shahid, 'Corporate Governance Is Becoming a Global Pursuit: What Could Be Done in Egypt?' (2001) 1, 42 <http://papers.ssrn.com/abstract=286875> accessed 10 January 2025
[771] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081; World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment—Egypt' (March 2004) 35082; Shahira Abdel Shahid, 'Corporate Governance Is Becoming a Global Pursuit: What Could Be Done in Egypt?' (2001) 1, 42 <http://papers.ssrn.com/abstract=286875> accessed 10 January 2025

including the 1952 revolution, marked the beginning of a transformative era, with nationalisation policies reshaping the market.[772]

4.2.1.2 From 1959 to 1973: The Shift to Socialist Policies

The CASE witnessed a sharp decline following its remarkable performance in the early 20th century. This downturn was primarily driven by Egypt's sudden shift towards adopting socialist policies during the 1960s, which resulted in the state's control over major industries,[773] and the nationalisation of many private companies.[774] By nationalising these assets, Egypt sought to reduce its economic dependence on foreign capital and establish a centrally planned economic framework.[775] These policies led to the dominance of SOEs and a dramatic decline in stock market activity.[776]

This transformation, besides the other international conflicts and wars involving Egypt at that time, had a notable impact on the operation and activity of Egypt's capital market. With the diminished role of private companies and the state assuming ownership of most economic activities,[777] the CASE became dormant.[778] By 1974, the number of listed companies had fallen from 952 in 1958 to just 55.[779] During this period, trading was limited to government bonds,[780] reflecting the exchange's near dormancy.

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[772] Joel Gordon, *Nasser's Blessed Movement: Egypt's Free Officers and the July Revolution* (Oxford University Press 1992); Kirk J Beattie, *Egypt During The Nasser Years: Ideology, Politics, and Civil Society* (1st edn, Westview Press 1994)

[773] Gouda Abdel-Khalek, *Stabilization and Adjustment in Egypt: Reform or Deindustrialization?* (Edward Elgar Publishing, 2001) 1, 1

[774] Mohammed Omran, 'Structural Break in the Egyptian Stock Market: A Logical Regression Analysis' (2006) 11(4) International Journal of Business 403, 405-406

[775] P J Vatikiotis, *The History of Modern Egypt: From Muhammad Ali to Mubarak* (4th edn, Johns Hopkins University Press 1991)

[776] Shahira Abdel Shahid, 'The Impact of Globalization on Capital Markets: The Egyptian Case' (Unpublished manuscript, Cairo & Alexandria Stock Exchanges, June 2002) 9 <http://www.egx.com.eg/pdf/the_impact_of_globalization.pdf> accessed 10 January 2025; Gouda Abdel-Khalek, *Stabilization and Adjustment in Egypt: Reform or Deindustrialization?* (Edward Elgar Publishing, 2001) 1-4

[777] Brent Hansen and Karim Nashashibi, 'The Administration of Foreign Trade and Foreign Exchange since 1961' in Bent Hansen and Karim Nashashibi (eds), *Foreign Trade Regimes and Economic Development: Egypt* (NBER 1975) 107, 125

[778] Mohammed Omran, 'Structural Break in the Egyptian Stock Market: A Logical Regression Analysis' (2006) 11(4) International Journal of Business 403, 406

[779] Mohammed Omran, 'Privatization, State Ownership, and Bank Performance in Egypt' (2007) 35 World Development 714, 714-733; Mohammed Omran, 'Structural Break in the Egyptian Stock Market: A Logical Regression Analysis' (2006) 11(4) International Journal of Business 403, 406; World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment—Egypt' (March 2004) 35082

[780] Aiman A Ragab & Mohammed Omran, 'Accounting information, value relevance, and investors' behavior in the Egyptian equity market' (2006) 5(3) Review of Accounting and Finance 279, 279-289

However, by 1971, Egypt began to recognise the need to reverse the harm caused by nationalisation and restore investor confidence. In a notable policy shift, Law No. 65 of 1971 was enacted to protect investors from the risks of expropriation and confiscation, signalling the beginning of a gradual policy shift.[781]

4.2.1.3 From 1974 to 1990: Economic Reform and Revival of the Exchange

Following the 1973 war, Egypt embraced the open-door policy (Infitah) in 1974 to encourage private and foreign investment.[782] A key development during this period was the enactment of Law No. 43 of 1974, which facilitated the investment of Arab and foreign funds, as well as the establishment of free zones.[783] This law aimed to promote foreign investment, encourage joint ventures, and provide tax incentives to stimulate economic growth. However, initial progress was hindered by structural deficiencies, including weak CG practices and inadequate securities regulation.[784] Additionally, tax incentives that favoured non-securities-based investments discouraged capital flows into the stock market, leaving it underdeveloped and ill-equipped to attract significant investment activity.[785]

In alignment with the goal of revitalising and modernising Egypt's capital markets, a new regulatory structure was introduced through Presidential Decree No. 520 of 1979, which established the CMA to establish the regulatory framework for the stock market.[786] The CMA was entrusted with broad responsibilities for regulating and overseeing the stock exchange, as well as ensuring the orderly operation of securities markets.[787] Subsequent reforms, including the promulgation of Law No. 159 of 1981,[788] which regulates joint-stock companies,

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[781] Law No 65 of 1971, issued on 23 September 1971, published on 30 December 1971, Egyptian Official Gazette Issue No 39; Marvin G Weinbaum, 'Egypt's "Infitah" and the Politics of US Economic Assistance' (1985) 21(2) Middle Eastern Studies 206, 206-211

[782] Nazih N M Ayubi, 'Organization for Development: The Politico-Administrative Framework of Economic Activity in Egypt under Sadat' (1982) 2(4) PUB ADMIN DEV 279, 281

[783] This law was promulgated on 19 June 1974, amended by Law No 32 of 1977 dated 9 June 1977.

[784] E.g., Se Mohammed Omran, 'Structural Break in the Egyptian Stock Market: A Logical Regression Analysis' (2006) 11(4) International Journal of Business 403, 403-415; Shahira Abdel Shahid, 'Does Ownership Structure Affect Firm Value? Evidence From the Egyptian Stock Market' (2003) 10 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=378580> accessed 10 January 2025; Aiman A Ragab & Mohammed Omran, 'Accounting information, value relevance, and investors' behavior in the Egyptian equity market' (2006) 5(3) Review of Accounting and Finance 279, 279-285

[785] Mohammed Omran, 'Structural Break in the Egyptian Stock Market: A Logical Regression Analysis' (2006) 11(4) International Journal of Business 403, 405; Brent Hansen and Karim Nashashibi, 'The Administration of Foreign Trade and Foreign Exchange since 1961' in Bent Hansen and Karim Nashashibi (eds), *Foreign Trade Regimes and Economic Development: Egypt* (NBER 1975) 107, 115

[786] This is through Presidential Decree No. 520 in 1979.

[787] Mohammed Omran, 'Structural Break in the Egyptian Stock Market: A Logical Regression Analysis' (2006) 11(4) International Journal of Business 403, 406

[788] Law No 159 of 1981, issued on 17 September 1981, published on 1 October 1981, Egyptian Official Gazette Issue No 40

partnerships limited by shares, and limited liability companies, improved CG and transparency,[789] leading to a rise in listed companies.[790]

By 1990, the number of listed companies had grown to 542 from 353 companies in 1986, reflecting the gradual revival of the exchange.[791]

Despite this notable progress, the market continued to face structural and operational challenges that hindered its development and limited its growth potential. These obstacles highlighted the need for further reforms to address regulatory inefficiencies, market transparency, and CG standards.[792] Additionally, the state held a dominant leadership in the economy, limiting the extent of private-sector expansion and leaving the EGX in a state of latent development.[793]

By the early 1990s, Egypt faced severe economic challenges, including high inflation, large fiscal deficits, and mounting external debt.[794] To address these issues, Egypt implemented the ERSAP in 1990, with support from the World Bank and the IMF.[795] This program focused on macroeconomic stabilisation and structural reforms, including trade liberalisation, fiscal and monetary policy adjustments, and the privatisation of SOEs. Key measures also involved deregulating industries, strengthening the financial sector through prudential regulations, and enhancing supervisory mechanisms to improve the performance of banks.[796]

[789] Mohammed Omran, 'Post-privatization Corporate Governance and Firm Performance: The Role of Private Ownership Concentration, Identity and Board Composition' (2009) 37 Journal of Comparative Economics 658, 658-673; Heba Handoussa and Gillian Potter (eds), *Employment and Structural Adjustment: Egypt in the 1990s* (American University in Cairo Press 1991) 149

[790] Aiman A Ragab & Mohammed Omran, 'Accounting information, value relevance, and investors' behavior in the Egyptian equity market' (2006) 5(3) Review of Accounting and Finance 279, 279-297

[791] Aiman A Ragab & Mohammed Omran, 'Accounting information, value relevance, and investors' behavior in the Egyptian equity market' (2006) 5(3) Review of Accounting and Finance 279, 279-289

[792] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment—Egypt' (March 2004) 35082

[793] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment—Egypt' (March 2004) 35082

[794] Anton Dobronogov and Farrukh Iqbal, *Economic Growth in Egypt: Constraints and Determinants* (World Bank Working Paper No 42, October 2005) 2–3

[795] Mokhlis Y Zaki, 'IMF-Supported Stabilization Programs and their Critics: Evidence from the Recent Experience of Egypt' (2001) 29(11) World Development 1867, 1867-1883

[796] Mokhlis Y Zaki, 'IMF-Supported Stabilization Programs and their Critics: Evidence from the Recent Experience of Egypt' (2001) 29(11) World Development 1867, 1867-1883

Consequently, the EGX gradually regained momentum,[797] with more companies being listed and trading volumes increasing, supported by the privatisation program and the radical reforms made to the legal and regulatory framework.[798]

4.2.1.4 Post 1991 to Present: Privatisation, Modernisation, and Global Integration

The 1990s marked a significant period of reform for the EGX. Under the ERSAP, Egypt transitioned to a market-oriented economy.[799] One of the central pillars of this program was the revitalisation of the capital market through a dual strategy that emphasised privatisation and liberalisation.

The privatisation of SOEs provided a critical stimulus for the capital market, as it encouraged more companies to go public.[800] In parallel, the adoption of liberalisation policies attracted substantial foreign capital inflows, reflecting investor trust in the market's prospects, which led to a notable increase in trading volumes and market activity.[801]

Legal reforms also played a fundamental role in boosting market performance. Egypt promulgated the CML in 1992,[802] offering improved protections for investors and shareholders, strengthening CG structures and enhancing transparency.[803] These reforms further encouraged companies to list their shares on the EGX, improving liquidity and facilitating access to capital markets.[804]

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[797] Shahira Abdel Shahid, Shahira Abdel Shahid, 'The Impact of Globalization on Capital Markets: The Egyptian Case' (Unpublished manuscript, Cairo & Alexandria Stock Exchanges, June 2002) 1 <http://www.egx.com.eg/pdf/the_impact_of_globalization.pdf> accessed 10 January 2025

[798] Mokhlis Y Zaki, 'IMF-Supported Stabilization Programs and their Critics: Evidence from the Recent Experience of Egypt' (2001) 29(11) World Development 1867, 1867-1874

[799] Anton Dobronogov and Farrukh Iqbal, 'Economic Growth in Egypt: Constraints and Determinants' (Working Group Series No 42, Middle East and North Africa Social and Economic Development Group, October 2005) 34510

[800] Mohammed Omran, 'Structural Break in the Egyptian Stock Market: A Logical Regression Analysis' (2006) 11(4) International Journal of Business 403, 413

[801] Shahira Abdel Shahid, 'The Impact of Globalization on Capital Markets: The Egyptian Case' (Unpublished manuscript, Cairo & Alexandria Stock Exchanges, June 2002) 1 <http://www.egx.com.eg/pdf/the_impact_of_globalization.pdf> accessed 10 January 2025

[802] Capital Market Law No 95 of 1992, issued on 22 June 1992, published on 25 June 1992, Egyptian Official Gazette Issue No 25 (bis)

[803] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081

[804] Aiman A Ragab & Mohammed Omran, 'Accounting information, value relevance, and investors' behavior in the Egyptian equity market' (2006) 5(3) Review of Accounting and Finance 279, 279-290; Gouda Abdel-Khalek, *Stabilization and Adjustment in Egypt: Reform or Deindustrialization?* (Edward Elgar Publishing, 2001) 6

By 1997, further structural reforms consolidated the CASE into a single entity under Presidential Decree No. 51 of 1997.[805] This decree redefined the legal framework and management structure of CASE, integrating the two venues under the supervision of a single board of directors. The CASE was also placed under the auspices of the General Authority for Capital Markets, requiring its decisions to be reviewed by the Chairman of the CMA.[806]

Egypt's efforts to modernise its stock market and attract foreign investment culminated in its inclusion in the Emerging Market Index of IFC, Standard & Poor's, and Morgan Stanley in 1996.[807] This inclusion reflected Egypt's growing significance in international financial markets and its adherence to global standards of transparency and CG.

The positive effects of these reforms were evident in the number of listed companies, which increased to 1,076 by December 2000, up from 656 in 1992.[808] Scholars argue that this expansion was driven not only by structural reforms but also by Egypt's efforts to create an investor-friendly climate and promote the privatisation of SOEs.[809]

Another milestone during this period was the implementation of an automated trading system, which modernised trading processes and aligned them with global standards.[810] Complementing this technological upgrade was the establishment of the Egypt Information Dissemination Company, which facilitated the provision of real-time market data to investors and participants, thereby promoting transparency and information symmetry.[811]

A significant symbolic transformation occurred in 2008 when the CASE was rebranded as the EGX, reflecting its modernised identity and operational framework.[812]

Regrettably, the 2008 Global Financial Crisis posed substantial challenges, exposing vulnerabilities within EMs, including Egypt. As global financial markets faced widespread

[805] Presidential Decree No 51 of 1997, issued on 06/03/1997, published on 13/03/1997, Egyptian Official Gazette Issue No 11, art 5
[806] Presidential Decree No 51 of 1997, issued on 06/03/1997, published on 13/03/1997, Egyptian Official Gazette Issue No 11, art 7
[807] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081
[808] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081, 1
[809] Khalid Ikram, *The Egyptian Economy, 1952-2000: Performance, Policies, and Issues* (1st edn, Routledge 2006) 298
[810] Khalid Ikram, *The Egyptian Economy, 1952-2000: Performance, Policies, and Issues* (1st edn, Routledge 2006) 201-202
[811] EGX, 'Annual Report 2008' (Egyptian Exchange 2008) <https://www.egx.com.eg/get_pdf.aspx?ID=720&Lang=ENG> accessed 10 January 2025
[812] EGX, 'Annual Report 2008' (Egyptian Exchange 2008) <https://www.egx.com.eg/get_pdf.aspx?ID=720&Lang=ENG> accessed 10 January 2025

disruptions, investor confidence plummeted, leading to significant capital outflows from emerging economies.[813]

Studies have emphasised that the volatility caused by the financial crisis revealed deficiencies in risk management systems and underscored the susceptibility of EMs to external economic shocks.[814] Despite these challenges, the EGX demonstrated resilience. Post-crisis measures, such as the introduction of circuit breakers, stabilised the market during periods of volatility.[815]

Accordingly, the development path of the EGX reflects a dynamic trajectory shaped by regulatory reforms, economic disruptions, and efforts to modernise market operations. While socialism in the 1960s led to stagnation, subsequent liberalisation and privatisation policies revitalised the market, positioning the EGX as a key player in the region. Despite contemporary challenges, the EGX remains a central component of Egypt's economic development and global financial integration.

4.2.2 The Institutional Setting

Egypt's capital market operates within a robust institutional framework designed to ensure transparency, market stability, and investor protection. Over the decades, Egypt's regulatory landscape has undergone significant transformation to meet the evolving needs of its financial ecosystem.

This section outlines the roles and responsibilities of the key regulatory bodies, focusing on their development, mandates, and contributions to Egypt's capital market.

4.2.2.1 Regulatory Bodies

Egypt's regulatory framework has been shaped by successive reforms aimed at centralising oversight, enhancing market efficiency, and aligning with international standards. The primary institutions involved in regulating Egypt's capital market include the CMA, the EFSA (now the FRA), and the EGX.

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[813] Mohammed Omran, 'Post-privatization Corporate Governance and Firm Performance: The Role of Private Ownership Concentration, Identity and Board Composition' (2009) 37 Journal of Comparative Economics 658, 661; Eric Girard and Mohammed Omran, 'On the relationship between trading volume and stock price volatility in CASE' (2009) 5(1) International Journal of Managerial Finance 110, 110-134 <https://doi.org/10.1108/17439130910932369> accessed 10 January 2025

[814] Mohammed Omran, 'Post-privatization Corporate Governance and Firm Performance: The Role of Private Ownership Concentration, Identity and Board Composition' (2009) 37 Journal of Comparative Economics 658, 658-673

[815] EGX, 'Annual Report 2009' (Egyptian Exchange 2009) <https://www.egx.com.eg/get_pdf.aspx?ID=724&Lang=ENG> accessed 10 January 2025

4.2.2.1.1 The CMA: 1979 – 2009

The establishment of the CMA in 1979 represented a critical step toward institutionalising capital market regulation in Egypt.[816] Created as a public authority that reports to the Minister of Economy, Foreign Trade, and Economic Cooperation,[817] its primary mandate was to regulate and oversee the securities market, ensuring compliance with applicable laws and fostering economic growth by channelling capital into productive sectors.[818]

The enactment of CML significantly expanded the CMA's regulatory authority,[819] empowering it to enforce disclosure requirements, protect minority shareholders, and investigate fraud and misconduct.[820] These reforms aligned Egypt's legal and regulatory structures with global standards, enhancing the country's attractiveness to foreign investors.[821]

Despite its achievements, the CMA faced challenges related to fragmented oversight, limited enforcement capacity, and inefficiencies caused by the overlapping roles of multiple regulatory bodies. These deficiencies ultimately led to the unification of the regulatory structure through the establishment of the EFSA in 2009.

4.2.2.1.2 The EFSA (*now* the FRA): 2009 – Present

In 2009, the Egyptian government introduced the EFSA to consolidate oversight of non-banking financial services under a single regulatory body.[822] Modeled after the UK's Financial Services Authority,[823] the EFSA is tasked with enhancing transparency, promoting

[816] Presidential Decree No 520 of 1979, issued on 27 December 1979, Establishing the Capital Market Authority, Egyptian Official Gazette Issue No 52

[817] Presidential Decree No 520 of 1979, issued on 27 December 1979, Establishing the Capital Market Authority, Egyptian Official Gazette Issue No 52, art 1; Capital Market Law No 95 of 1992, issued on 22 June 1992, published on 25 June 1992, Egyptian Official Gazette Issue No 25 (bis), art 42; World Bank, ' Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081

[818] Presidential Decree No 520 of 1979, issued on 27 December 1979, Establishing the Capital Market Authority, Egyptian Official Gazette Issue No 52, art 2

[819] Capital Market Law No 95 of 1992, issued on 22 June 1992, published on 25 June 1992 Egyptian Official Gazette Issue No 25 (bis) art 43

[820] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081

[821] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081

[822] Law No 10 of 2009 Regulating the Control of Non-Banking Financial Markets and Instruments, issued on 25 February 2009, published on 1 March 2009, Egyptian Official Gazette Issue No 9 (bis) art 2: The Authority shall supervise the Non-banking Financial Markets and Instruments including Capital Markets, Derivative markets on Financials and Commodities, Insurance activities, Mortgage Finance, Financial Leasing, Factoring and Securitisation.

[823] The EFSA's structure is similar to the FSA in London, with an exception of the supervision of the banking sector which remained under the authority of the Central Bank of Egypt.

competition, and ensuring financial stability across various sectors, including capital markets, insurance, leasing, and mortgages.[824]

The EFSA's establishment addressed many of the shortcomings of the CMA, introducing centralised oversight, risk-based regulations, and emphasising compliance enforcement.[825]

In 2009, Law No. 10 of 2009 was promulgated.[826] Pursuant to this Law, EFSA was renamed as the FRA.[827] The FRA has placed particular emphasis on strengthening CG practices, improving risk management frameworks, and adopting technology-driven solutions to modernise the financial sector.

4.2.2.1.3 The EGX

The EGX plays a pivotal role in Egypt's financial system, serving as a platform for capital formation, resource allocation, and investment facilitation. Its mandate is rooted in fostering a well-regulated, transparent, and efficient securities market that aligns with international standards while promoting investor confidence and economic growth.

The EGX operates under the supervision of the FRA, which oversees all non-banking financial markets and instruments in Egypt. As per the CML, the EGX is the market through which securities are listed and traded in Egypt.[828] It is particularly mandated, amongst other things, to register and deregister stocks,[829] receive periodic reports from listed companies, such as disclosures, change in management/shareholding structure reports, as well as copies of the company's budget and financial statements,[830] scrutiny of the market, and verify the continuous satisfaction of technical and financial standards and requirements for each member.[831]

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[824] Khalid Ikram, *The Egyptian Economy, 1952-2000: Performance, Policies, and Issues* (1st edn, Routledge 2006) 180

[825] Eric Girard and Mohammed Omran, 'On the relationship between trading volume and stock price volatility in CASE' (2009) 5(1) International Journal of Managerial Finance 110, 110-134 <https://doi.org/10.1108/17439130910932369> accessed 10 January 2025

[826] Law No 10 of 2009 Regulating the Control of Non-Banking Financial Markets and Instruments, issued on 25 February 2009, published on 1 March 2009, Egyptian Official Gazette Issue No 9 (bis)

[827] Law No 10 of 2009 Regulating the Control of Non-Banking Financial Markets and Instruments, issued on 25 February 2009, published on 1 March 2009, Egyptian Official Gazette Issue No 9 (bis) art 3

[828] Capital Market Law No 95 of 1992, issued on 22 June 1992, published on 25 June 1992 Egyptian Official Gazette Issue No 25 (bis) art 15

[829] Capital Market Law No 95 of 1992, issued on 22 June 1992, published on 25 June 1992 Egyptian Official Gazette Issue No 25 (bis) art 16

[830] Executive Regulations of Law No 95 of 1992 promulgated by Decree No 135 of 1993, issued on 8 April 1993, Egyptian Official Gazette Issue No 81 (bis) art 87

[831] Executive Regulations of Law No 95 of 1992 promulgated by Decree No 135 of 1993, issued on 8 April 1993, Egyptian Official Gazette Issue No 81 (bis) art 89 bis(c)

EGX is also entrusted with establishing regulations that ensure the safety of trading operations and the proper performance of the EGX's functions.[832] In doing so, a committee is formed to monitor daily trading operations, verify the application of laws and decisions, and resolve disputes that may arise from these operations.[833] EGX also provides the FRA with daily and annual reports on the trading of shares.[834]

On the other hand, recognising the interconnectedness of global financial markets, EGX has pursued strategic collaborations to modernise its operations, enhance investor confidence, and promote knowledge-sharing.[835] These collaborations are critical for fostering resilience, transparency, and alignment with international best practices.

Further, the EGX has been an active member in leading federations and associations dedicated to the development and regulation of stock exchanges, including the Arab Federation of Exchanges, the World Federation of Exchanges, the African Securities Exchanges Association, and the Federation of Euro-Asian Stock Exchanges.

Moreover, as a founding member of the UNSSEI, the EGX has demonstrated its commitment to sustainable finance practices. This UN-backed platform focuses on integrating ESG principles into stock market operations, promoting responsible investing, and addressing global challenges, including social inequality and climate change.[836]

The EGX's mandate and collaborative efforts underscore its dual role as a national economic pillar and a globally integrated exchange. By leveraging strategic alliances, fostering sustainability, and aligning with international best practices, the EGX aims to enhance its market resilience and competitiveness.

Additionally, the evolution of Egypt's regulatory bodies reflects the country's commitment to creating a dynamic and well-regulated capital market. The transition from the CMA to the FRA represents a progressive shift toward central oversight, risk-based regulation, and technological

[832] Executive Regulations of Law No 95 of 1992 promulgated by Decree No 135 of 1993, issued on 8 April 1993, Egyptian Official Gazette Issue No 81 (bis) art 94
[833] Executive Regulations of Law No 95 of 1992 promulgated by Decree No 135 of 1993, issued on 8 April 1993, Egyptian Official Gazette Issue No 81 (bis) art 94
[834] Executive Regulations of Law No 95 of 1992 promulgated by Decree No 135 of 1993, issued on 8 April 1993, Egyptian Official Gazette Issue No 81 (bis) art 101
[835] Eric Girard and Mohammed Omran, 'On the relationship between trading volume and stock price volatility in CASE' (2009) 5(1) International Journal of Managerial Finance 110, 110-134 <https://doi.org/10.1108/17439130910932369> accessed 10 January 2025
[836] United Nations Sustainable Stock Exchanges Initiative, 'Sustainable Stock Exchanges: Promoting Responsible Investment' (2021) < https://sseinitiative.org/about> accessed 10 January 2025

modernisation. These institutions thus constitute the backbone of Egypt's financial infrastructure, driving growth, fostering investor trust, and positioning the market for regional and global integration.

4.2.2.2 The EIoD: Background and Foundation

The establishment of the EIoD in 2003 marked a significant milestone in Egypt's endeavours to institutionalise CG. The EIoD was established in response to assessments by the World Bank, which identified deficiencies in CG practices and recommended reforms to enhance transparency and accountability.

As the first centre of its kind in the MENA region, the EIoD drew inspiration from the Institute of Directors in the UK, signifying Egypt's recognition of the critical function that CG offers in fostering market stability, reducing corruption, and encouraging long-term investments.

The EIoD's primary mandate is to enhance CG skills and competencies among board members, executives, and senior managers. Its focus extends beyond capacity-building and training to include issuing CG codes, conducting research, and offering advisory services to companies across various sectors.[837] These efforts align with global trends that encourage ethical standards and sustainable business practices. The EIoD has been instrumental in enhancing CG practices within listed companies, family-owned companies, and SOEs.

Initially affiliated with the Ministry of Trade, the EIoD was transferred to the Ministry of Investment in 2004, pursuant to Ministerial Decree No. 40.[838] Later that year, Ministerial Decree No. 40 of 2004 formalised its structure and clarified its mandate, providing a regulatory foundation for its CG initiatives.[839] This restructuring reflected Egypt's commitment to embedding CG at the core of its regulatory and investment agenda.[840] In 2011, the EIoD's affiliation was transferred to the EFSA, which was later rebranded as the FRA in 2020. This

[837] Minster of Foreign Trade's Decree No 675 of 2003 establishing the Egyptian Institute of Directors, issued on 20 November 2003, published on 23 November 2003, Egyptian Official Gazette Issue No 268; OECD, 'Corporate Governance in MENA: Building a Framework for Competitiveness and Growth' (OECD Publishing 2019) 68-69 <https://doi.org/10.1787/2a6992c2-en> accessed 10 January 2025

[838] Pursuant to the Presidential Decree No 231 of 2004 structuring the Ministry of Investment, issued on 28 July 2004, published on 29 July 2004, Egyptian Official Gazette Issue No 31 (bis)

[839] Minister of Investment Decree No 40 of 2004, issued on 25 August 2004, published on 17 November 2004, Egyptian Official Gazette No Issue 259 (bis)

[840] Center for International Private Enterprise (CIPE), 'Advancing Corporate Governance in the Middle East and North Africa: Stories and Solutions' (2011) <https://www.ifc.org/content/dam/ifc/doc/mgrt/mena-casestudies-web.pdf > accessed 11 January 2025

realignment aimed to centralise oversight and ensure consistency in regulatory enforcement across non-banking financial services, further strengthening CG frameworks.

The EIoD has undertaken various initiatives to promote good CG. These include the development of training programs and certification courses that address both foundational and advanced topics, equipping corporate leaders with the skills necessary to meet the expectations of stakeholders.[841] The EIoD has also maintained strategic partnerships with prominent institutions, including the IFC, the OECD, the United Nations Development Programme, and the Global CG Forum. Through these partnerships, the EIoD has remained informed about global trends, allowing it to implement best practices and share insights with peer institutions.

Notable initiatives launched by the EIoD include the Best Annual Report and Best Website Competitions, developed in collaboration with the IFC.[842] These initiatives incentivised listed companies to improve their disclosure practices, investor relations, and overall transparency.[843]

The EIoD also developed tailored advisory services for SOEs and family-owned companies, addressing specific challenges, such as succession planning, risk management, and internal controls.[844]

The EIoD's efforts have extended to sustainability and ESG principles, aligning with its collaboration with the UNSSEI. This focus on ESG underscores the EIoD's commitment to fostering responsible and sustainable business practices in Egypt.

Over the years, the EIoD has emerged as a regional model for CG reform, influencing CG standards across the MENA region. Its programs have significantly contributed to building CG capacity among corporate leaders and improving disclosure practices.

In conclusion, the establishment and evolution of the EIoD underscore Egypt's dedication to improving CG and aligning with global standards. By working closely with leading international institutions, the EIoD has played a transformative role in raising awareness, providing training, and promoting sustainable CG frameworks. Its transfer to the FRA further

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[841] OECD, 'Corporate Governance in MENA: Building a Framework for Competitiveness and Growth' (OECD Publishing 2019) 69 <https://doi.org/10.1787/2a6992c2-en> accessed 10 January 2025

[842]The competitions aim to improve the timeliness and quality of information disclosed by Egyptian companies to shareholders, creditors, employees, and other stakeholders. The winner of each competition will receive a trophy and serve as an example of best practice for other companies.

[843] IFC, 'Creating Opportunity: 2008 Annual Report' (2008) <ifc.org/content/dam/ifc/doc/mgrt/ar2008-english.pdf> accessed 10 January 2025; IFC, 'Corporate Governance Success Stories' (2015) <https://www.ifc.org/content/dam/ifc/doc/mgrt/cg-success-stories-mena062015.pdf> accessed 10 January 2025

[844] Samiha Fawzy, *Assessment of Corporate Governance in Egypt* (Egyptian Center for Economic Studies 2003) 14-16

reinforced its role as a cornerstone institution for CG reform, ensuring integrated oversight and consistency across the financial sector. As Egypt continues to modernise its financial market, the EIoD's efforts to enhance CG practices will remain crucial for continued capacity building and spreading awareness of best CG practices.

4.2.3 Concluding Remarks

The evolution of Egypt's capital market illustrates how a capital market can adapt to meet the demands of a globalised economy. Through continuous regulatory reforms, technological innovations, and a focus on sustainability, the EGX has demonstrated resilience and positioned itself as a model for regional economic development.[845] These reforms further reflect Egypt's strategic shift toward modernising its capital markets and building an investment-friendly environment.

4.3 Egypt CG Framework

This section presents the evolution of CG regulations in Egypt, with a focus on their application to companies listed on the EGX. To provide a comprehensive understanding, the discussion starts with an analysis of the evolution of CG regulations, followed by an explanation of Egypt's recent engagement with international institutions to develop its CG practices. It ends with an illustration of the CG codes issued in Egypt.

4.3.1 A Historical and Institutional Perspective

The concept of CG gained global attention following the 1997 Asian financial crisis and other corporate failures involving companies such as Enron and WorldCom in the early 2000s. These incidents highlighted critical shortcomings in accountability, transparency, and oversight, leading to a loss of investor confidence and significant financial instability. In response, policymakers and regulatory bodies worldwide intensified their efforts to establish robust CG frameworks to safeguard shareholder rights, enhance transparency, and mitigate fraud.[846]

In Egypt, CG was a relatively novel concept until the early 2000s. Its introduction was closely tied to the country's broader economic reform programs and efforts to revitalise the capital

[845] Ali F Darrat, Khaled Elkhal and Sam R Hakim, 'On the Integration of Emerging Stock Markets in the Middle East' (2000) 25(2) Journal of Economic Development, 119, 119-129
[846] Stijn Claessens and Po-Hung Joseph Fan, 'Corporate Governance in Asia: A Survey' (2002) 3(2) International Review of Finance 1, 1

market, particularly in the 1990s.[847] Egypt embarked on CG reforms to liberalise its economy, modernise its financial markets, and privatise SOEs.[848]

Egypt's CG reforms have reflected the CG's international frameworks, particularly the OECD Principles of CG, first introduced in 1999. These principles emphasised transparency, accountability, and shareholder protection, serving as a benchmark for CG structures worldwide.[849] In collaboration with the World Bank and the IFC in the late 1990s, Egypt endeavoured to align its legal and regulatory frameworks with global standards.[850]

Despite progress, Egypt faced notable challenges in adopting CG reforms. One significant obstacle was the lack of a direct Arabic term equivalent for "CG". The eventual adoption of the term "Hawkamat Al-Sharikat" in the early 2000s highlighted linguistic and cultural barriers to reform. Initial resistance stemmed from concerns about the term's accuracy and its alignment with local business practices, particularly among family-owned companies and SOEs.

Additionally, many businesses resisted CG reforms that required greater transparency, board accountability, and external oversight.[851]

To address these challenges, Egyptian authorities partnered with international institutions to develop capacity-building programs and CG frameworks tailored to local contexts. The establishment of the EIoD in 2003 and the introduction of voluntary CG codes starting in 2005 represented significant milestones in embedding CG principles within Egypt's regulatory landscape.

Furthermore, Egypt has adopted a shareholder-focused CG framework, drawing inspiration from Anglo-American systems. This approach prioritises safeguarding the interests of minority shareholders, ensuring board accountability, and enforcing stringent disclosure

[847] Samiha Fawzy, *Assessment of Corporate Governance in Egypt* (Egyptian Center for Economic Studies 2003) 8

[848] Samiha Fawzy, *Assessment of Corporate Governance in Egypt* (Egyptian Center for Economic Studies 2003) 7

[849] OECD, 'OECD Principles of Corporate Governance' (OECD Publishing 1999) <https://doi.org/10.1787/9789264173705-en> accessed 10 January 2025

[850] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081

[851] For a political analytical account of CG evolution in Egypt, see M Karim Sorour, 'CG Reform in Egypt: Achievements and Challenges Ahead' in Samuel O Idowu & Kiymet Tunca Çaliyurt (eds), *Corporate Governance Corporate Governance: An International Perspective* (Springer 2014) 143, 143-155

requirements.[852] It thus acknowledges the principal-agent dilemma, where managers may prioritise their own interests over maximising shareholder wealth.[853]

4.3.2 Engagement with International Assessment (ROSC)

Egypt demonstrated its commitment to modernising its CG framework through its voluntary participation in the ROSC initiative conducted by the World Bank. As the first nation in the Middle East to undergo this evaluation, Egypt signalled its dedication to aligning with global standards of transparency and compliance.

The ROSC assessments evaluated Egypt's CG framework against the OECD Principles of CG, focusing on shareholder rights, disclosure standards, board responsibilities, and enforcement mechanisms. These evaluations provided a comprehensive review of Egypt's CG landscape, identifying strengths, weaknesses, and targeted recommendations for reform.

Egypt has undergone three assessments in 2001, 2004, and 2009, respectively. The primary particularities and conclusions of these ROSC assessments are addressed below.

4.3.2.1 The 2001 ROSC Assessment

The 2001 ROSC assessment represented a significant milestone in the evaluation of Egypt's CG practices.[854] The report found that Egypt's framework complied with 81% of the OECD principles (39 out of 48 standards), highlighting substantial progress. However, it also identified critical gaps that need to be addressed to strengthen the CG standards.

A primary concern was the weak reporting on ownership structures and related-party transactions, which created information asymmetry and elevated risks for minority shareholder oppression. The report recommended the necessity to improve transparency and ensure equitable treatment for all investors.

Another issue was the inconsistency in financial and non-financial reporting standards. Although financial disclosures were mandated, enforcement was weak, and companies

[852] Rasha Abdalla Hanafi, 'An Exploration of Corporate Social and Environmental Disclosure in Egypt and the UK: A Comparative Study' (PhD Thesis, University of Glasgow 2006) 100 < https://theses.gla.ac.uk/1536/> accessed 10 January 2025
[853] Michael C Jensen and William H Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure' (1976) 3 Journal of Financial Economics 305, 305,360
[854] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081

neglected non-financial disclosures, such as corporate strategies and risk assessments. The report proposed adopting the IAS to enhance the reliability and quality of disclosures.

The limited awareness of CG principles among regulators, board members, and executives was also flagged as a significant barrier to reform. Many stakeholders lacked the expertise to implement CG rules effectively. As a result, the report emphasised the need for capacity-building programs to improve compliance across various sectors.

The effectiveness of shareholders' meetings was another area of concern. These meetings were procedural rather than platforms for meaningful dialogue. To enhance shareholder participation, the report recommended reforms, including proxy voting systems and cumulative voting mechanisms, primarily to safeguard minority shareholders.

Board practices were scrutinised, revealing a lack of independence and accountability. Boards were frequently dominated by controlling shareholders or family members, thereby creating more conflicts of interest. It was recommended that audit committees, remuneration committees, and risk management committees be formed to enhance oversight.

Furthermore, the professional conduct of auditors was questioned due to concerns about inadequate oversight and independence. The report advocated for the establishment of mechanisms to monitor auditor performance and ethical conduct.

Lastly, the 2001 ROSC assessment suggested leveraging EGX listing rules as enforcement tools and recommended the issuance of a CG Guide to standardise best practices. This has resulted in the adoption of the 2002 Rules.

4.3.2.2 Subsequent ROSC Assessments (2004–2009)

Following the 2001 assessment, Egypt underwent additional ROSC evaluations in 2004[855] and 2009[856] to monitor progress and refine its CG reforms. These assessments highlighted both achievements and areas requiring further improvement.

The 2004 ROSC report acknowledged the early successes of Egypt's CG reforms, including the adoption of new listing and delisting rules that mandated stricter CG requirements, i.e., the 2002 Rules. Improvements in disclosure standards and the formation of audit committees were

[855] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment - Egypt (March 2004) 35082

[856] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment for the Arab Republic of Egypt' (June 2009) 62542

noted as positive developments. However, challenges persisted, particularly in enforcement capacity and awareness-building.

The 2004 report emphasised the pivotal role of the EIoD in providing CG training and raising awareness among corporate leaders. While voluntary CG codes were introduced, the report stressed the need to make CG requirements mandatory for listed companies.

By 2004, Egypt's compliance with OECD principles had improved slightly to 82%, reflecting better disclosure practices and board accountability. However, gaps in minority shareholder protection, board independence, and regulatory enforcement continued to be significant challenges. The report recommended drafting a binding CG code and strengthening the regulatory capacity of the CMA, which later evolved into the FRA.

The 2009 ROSC report provided a comprehensive evaluation of Egypt's progress, recognising significant achievements, which primarily include the adoption of the 2005 CG Code, the implementation of the IFRS, and enhancements to trading systems. Despite this progress, enforcement mechanisms and informal CG practices continued to pose challenges. The report highlighted the persistence of implementation gaps, where formal laws and codes were not consistently enforced, resulting in partial compliance.

Cultural resistance was another key barrier. Family-owned companies and SOEs were particularly slow to adopt CG practices, relying on informal networks and personal relationships instead of formalised structures. Furthermore, regulatory fragmentation led to inconsistencies in enforcement, as overlapping mandates among various authorities hindered progress.

Therefore, the ROSC assessments provided Egypt with a clear roadmap for reform, driving significant improvements in disclosure standards, corporate accountability, and shareholder protections. They highlighted the importance of creating robust enforcement mechanisms, building institutional capacity, and addressing cultural resistance to CG reforms. Key recommendations, such as adopting the IFRS, mandating CG practices for listed companies, and improving board independence, have shaped the trajectory of Egypt's CG framework. These assessments further underscore Egypt's commitment to aligning with global standards and modernising its CG practices.

4.3.3 The CG Codes

The early 21st century marked a pivotal period for CG reform in Egypt, driven by recommendations from international institutions, i.e., the World Bank, the IMF, and USAID.[857] Efforts to strengthen CG were closely tied to Egypt's broader economic reform agenda, particularly the privatisation of SOEs and the modernisation of the financial sector.

Egypt's CG model reflects a hybrid legal structure influenced by both French civil law traditions and Anglo-American legal principles.[858] The legal foundation for Egypt's CG is based on key legislation, including the Companies Code No. 159 of 1981, the CML, and the Securities Central Depository Law No. 93 of 2000.[859] These laws encompass key CG principles, including disclosure requirements, minority shareholder protection, and independent oversight.[860]

Despite its progress, Egypt's CG rules have historically been fragmented across multiple laws and regulations. Broadly, these regulations fall into two categories, i.e., those governing corporate formation and those regulating the operations of publicly listed companies on the EGX. Recognising the challenges posed by this fragmented system, Egypt gradually introduced CG Codes to provide unified frameworks that promote accountability, transparency, and investor protection. These codes not only supplement statutory laws but also serve as best-practice guidelines for companies seeking to adopt higher CG standards.

This section thus outlines below the various CG codes issued by Egypt.

4.3.3.1 The 2005 ECCG

In response to the 2004 ROSC recommendations, Egypt's Ministry of Investment introduced the first CG Code in October 2005.[861] Unlike statutory laws, the 2005 ECCG functioned as a

[857] Privatization Coordination Support Unit (PCSU), *Privatization in Egypt: Quarterly Review* (provided to the USAID, CARANA Corporation, 2002)
[858] Samiha Fawzy, *Assessment of Corporate Governance in Egypt* (Egyptian Center for Economic Studies 2003)1, 4; World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081
[859] Law No 93 of 2000, issued on 18 May 2000, published on 18 May 2000, Egyptian Official Gazette Issue No 20
[860] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment: Arab Republic of Egypt' (September 2001) 35081
[861] The 2005 ECCG was prepared by the Chairman of the Egyptian General Authority for Investment and Free Zones and the Chairman of the Cairo and Alexandria Stock Exchange. In its preparation, an opinion survey was conducted by the Center for International Private Enterprise. The ECCG was drafted in light of the CG Principles and Standards set out by the Organization for Economic Cooperation and Development, as well as codes issued in selected countries, including South Africa, Malaysia, and the Philippines. See Egyptian Institute of Directors

voluntary framework,[862] offering guidelines rather than mandatory obligations for companies listed on the EGX.[863]

The 2005 ECCG addressed several aspects of CG, including the composition of general meetings,[864] the accountability of boards,[865] the formation of audit committees,[866] and adherence to financial reporting standards.[867] It encouraged independent auditing practices and required external auditors to assess internal control systems to enhance transparency and risk management.

The 2005 ECCG targeted both listed joint-stock companies, banks, insurance companies, and brokerage companies.[868] Additionally, it encouraged non-listed companies, such as family-owned companies and limited liability companies, to adopt CG principles voluntarily, thereby enhancing accountability and attracting investments.[869]

4.3.3.2 The 2006 CG Code for SOEs

Egypt was resistant to the need to adopt robust CG standards.[870] Building on the 2005 ECCG, Egypt introduced the 2006 CG Code for SOEs.[871]

(EloD), 'Egypt Code of Corporate Governance' (Third Release, August 2016) <https://eiod.org/wp-content/uploads/2023/05/The-Egyptian-CG-Code-Third-Release.pdf> accessed 10 January 2025

[862] E.g., the Corporate Law No. 159 for the year 1981, the Capital Market Law No. 95 for the year 1992, and the 2002 Rules.

[863] Mohamed Moustafa Soliman, 'Firm Characteristics and the Extent of Voluntary Disclosure: The Case of Egypt' (2013) 4(17) Research Journal of Finance and Accounting 71, 77

[864] Code of Corporate Governance for Egyptian Companies (ECCG) (2005), art 2.1 <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://iefpedia.com/arab/wp-content/uploads/2011/07/Aug-05_Egypt_Code_of_CG_a.pdf> accessed 18 January 2025

[865] Code of Corporate Governance for Egyptian Companies (ECCG) (2005), arts 3.1, 3.3. 3.4, 3.6, 3.13, 3.26 <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://iefpedia.com/arab/wp-content/uploads/2011/07/Aug-05_Egypt_Code_of_CG_a.pdf> accessed 18 January 2025

[866] Code of Corporate Governance for Egyptian Companies (ECCG) (2005), arts 6.1, 6.2 <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://iefpedia.com/arab/wp-content/uploads/2011/07/Aug-05_Egypt_Code_of_CG_a.pdf> accessed 18 January 2025

[867] Code of Corporate Governance for Egyptian Companies (ECCG) (2005), arts 7.1, 7.2 <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://iefpedia.com/arab/wp-content/uploads/2011/07/Aug-05_Egypt_Code_of_CG_a.pdf> accessed 18 January 2025

[868] Code of Corporate Governance for Egyptian Companies (ECCG) (2005), art 1 <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://iefpedia.com/arab/wp-content/uploads/2011/07/Aug-05_Egypt_Code_of_CG_a.pdf> accessed 18 January 2025

[869] Code of Corporate Governance for Egyptian Companies (ECCG) (2005), arts Articles 1.2, 1.3, 9 <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://iefpedia.com/arab/wp-content/uploads/2011/07/Aug-05_Egypt_Code_of_CG_a.pdf> accessed 18 January 2025

[870] Jennifer Bremer and Nabil Elias, 'Corporate Governance in Developing Economies: The Case of Egypt' (2007) 3(4) Journal of Economic and Administrative Sciences 1, 1-10

[871] EloD, 'Egypt Code of Corporate Governance' (Third Release, August 2016) <https://eiod.org/wp-content/uploads/2023/05/The-Egyptian-CG-Code-Third-Release.pdf> accessed 10 January 2025

4.3.3.3 The 2011 ECCG

In March 2011, the EIoD issued a Revised CG Code, reflecting evolving international standards and OECD principles.[872] While the 2011 ECCG retained its voluntary status, it incorporated several new principles to address gaps identified in earlier evaluations.[873]

Key features of the 2011 code included the emphasis on board independence and defining roles for executive, non-executive, and independent directors. It also enhanced minority shareholder protections by introducing cumulative voting systems to improve minority representation on corporate boards. Moreover, the 2011 ECCG introduced disclosure requirements for social responsibility policies and mechanisms for managing conflicts of interest.[874]

A notable addition was the "comply or explain" rule, which allowed companies to either comply with CG regulations or justify deviations. This principle balanced flexibility with accountability, enabling companies to tailor CG practices to their specific contexts while maintaining transparency and investor confidence.

4.3.3.4 The 2016 ECCG

To further align with international best practices, Egypt introduced a more comprehensive CG Code in 2016, incorporating the latest OECD guidelines and emphasising sustainability and ESG principles.[875]

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[872] *See*, *e.g.*, Nermeen F Shehata and Khaled Dahawy, '2013 Review of the Implementation Status of Corporate Governance Disclosures: Egypt' (2014) 11(2) Corporate Ownership and Control 591: Paper presented to the United Nations Conference on Trade and Development Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting 30th Session, 6-8 November 2013, Palais des Nations, Geneva; Nermeen Shehata, *Guide to Corporate Governance Regulations and Standards in Egypt* (2011), an unofficial translation published in February 2016 (original Arabic version) 5, 5-36 <https://www.ecgi.global/sites/default/files/codes/documents/code_egypt_2011_englishtranslation2016.pdf> accessed 20 January 2025

[873] Bassam Farah, Rida Elias, Ruth Aguilera, and Ellie Abi Saad, *Corporate Governance in the Middle East and North Africa: A systematic review of current trends and opportunities for future research*, (CGIR 2021) 1, 38

[874] Nermeen Shehata, *Guide to Corporate Governance Regulations and Standards in Egypt* (2011), an unofficial translation published in February 2016 (original Arabic version) 5, 5-36

[875] Egyptian Institute of Directors (EloD), 'Egypt Code of Corporate Governance' (Third Release, August 2016) <https://eiod.org/wp-content/uploads/2023/05/The-Egyptian-CG-Code-Third-Release.pdf> accessed 10 January 2025

4.4 CG Reforms through the Listing and Delisting Rules of the EGX

CG reforms represent an ongoing process aimed at aligning theoretical ideals with practical realities. In this context, CG reforms in Egypt aim to address information asymmetry, managerial opportunism, and conflicts of interest, which are central concerns in CG failures.[876]

In response to the recommendations of the 2001 ROSC, which revealed structural weaknesses in CG practices, particularly relating to managerial accountability and protection of minority shareholders, and highlighted that only 62% of the companies adhered to CG practices,[877] Egypt decided to integrate CG principles into the listing and delisting rules of the EGX, thereby rendering compliance with these principles mandatory for listed companies.

4.4.1 The 2002 Rules: A Regulatory Turning Point

The introduction of the 2002 Rules, through CMA Decision No. 30/2002, marked a significant regulatory milestone in Egypt's CG reforms. These rules established mandatory CG obligations for listed companies on the EGX, making compliance with disclosure requirements, audit committee formation, and board independence prerequisites for maintaining a listing status.[878] It is worth noting that 1,147 companies were listed on the EGX at that time.

A primary focus of the 2002 rules was to enhance transparency and information access through disclosure requirements aligned with IAS. Companies were required to prepare and publish audited financial statements, ensuring investors had access to reliable and timely information. These measures aimed to address information asymmetry and help stakeholders make informed decisions based on accurate financial data.[879] These reforms also required companies to disclose financial information, ownership structures, and related-party transactions, aligning with OECD principles.[880]

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[876] Stijn Claessens and Burcin Yurtoglu, 'Corporate Governance in Emerging Markets' (2013) 15 EMs Review 1, 1-2

[877] Mohammed Omran, 'Privatization, State Ownership, and Bank Performance in Egypt' (2007) 35 World Development 714, 714-733

[878] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment—Egypt' (March 2004) 35082

[879] Organization for Economic Cooperation and Development (OECD), 'Principles of Corporate Governance' (OECD 2004) <https://www.ecgi.global/sites/default/files/codes/documents/principles_en_final.pdf> accessed 10 January 2025

[880] Organization for Economic Cooperation and Development (OECD), 'Principles of Corporate Governance' (OECD 2004) <https://www.ecgi.global/sites/default/files/codes/documents/principles_en_final.pdf> accessed 10 January 2025

Additionally, the rules mandated the establishment of audit committees to monitor financial reporting and governance-related controls. External auditors were also required to report any violations of CG rules directly, thereby reinforcing accountability mechanisms.[881]

The enforcement of CG standards was achieved through penalties for non-compliance, ranging from suspension of trading activities to mandatory delisting.

However, while the 2002 rules represented a significant step toward institutionalising CG principles, their implementation faced challenges. In practice, many companies formally adopted CG structures but failed to ensure their effectiveness. For instance, audit committees were formed without meeting the independence criteria, thereby undermining their ability to monitor effectively.[882] Moreover, family-owned companies and SOEs dominated Egypt's corporate landscape, favouring informal networks and centralised decision-making that conflicted with CG standards of board independence and minority protection.[883]

It is worth noting that, at the same time, a survey conducted by McKinsey Consulting involving 200 institutional global investors highlighted the critical role of CG in influencing investment decisions. The findings showed that 80% of the participants were ready to pay a premium for shares in a company that has good CG practices. This indicates investors' willingness to invest in well-governed and more transparent companies.

Interestingly, the survey noted that the premiums investors were willing to pay varied across countries, depending on the perceived quality of CG frameworks and institutional environments. In the case of Egypt, the premium could be as high as 40%, the highest among surveyed nations.[884] This remarkable finding, among other things, underscores the perceived CG risks in EMs like Egypt and the potential for value creation through improved CG standards.

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[881] Organization for Economic Cooperation and Development (OECD), 'Annual Report 2005' (OECD 2005). <https://www.oecd.org/content/dam/oecd/en/publications/reports/2005/04/oecd-annual-report-2005_g1gh4cc3/annrep-2005-en.pdf> accessed 10 January 2025

[882] Mohammed Omran, 'Post-privatization Corporate Governance and Firm Performance: The Role of Private Ownership Concentration, Identity and Board Composition' (2009) 37 Journal of Comparative Economics 658, 658-660

[883] Mohamed Moustafa Soliman, 'Firm Characteristics and the Extent of Voluntary Disclosure: The Case of Egypt' (2013) 4(17) Research Journal of Finance and Accounting 71, 71-72

[884] McKinsey & Company, 'McKinsey on Finance: Perspectives on Corporate Finance and Strategy' (No 3, 2002): This survey was conducted in April/May 2002, in cooperation with the Global Corporate Governance Forum, by using a questionnaire- based survey. It was addressed to key investment decision-makers (CEO, CFO, Fund Manager) in 31 countries covering Asia, Europe, Latin America, Middle East, Africa and North America. McKinesy Consulting had received responses from 201 institutional investors having an estimated USD 9 trillion assets under their management.

The results of this survey highlight the strategic importance of CG reforms in attracting foreign investment and boosting market valuations. For Egypt, this survey served as a wake-up call, encouraging policymakers to strengthen CG frameworks to leverage investor confidence and enhance capital market competitiveness.

4.4.2 Post the 2002 Rules

Egypt's endeavours to enhance CG practices have continued. In 2003, the EIoD was established, and tasked with training corporate boards and promoting awareness of CG principles.[885]

By 2004, the 2004 ROSC revealed that compliance with CG principles among Egyptian companies had risen to 82%, reflecting progress in shareholder rights and board practices.[886] However, persistent gaps remained in stakeholder engagement and regulatory enforcement.

In response, Egypt introduced its first ECCG in 2005,[887] emphasising key CG principles, such as board composition, audit committee formation, and financial reporting standards. The 2005 ECCG aimed to improve investor confidence and market efficiency. However, its voluntary nature meant that enforcement remained a challenge, particularly among SOEs and family-owned companies.

In addition, in 2006, the Ministry of Investment adopted a CG Code for SOEs based on the OECD report on SOE privatisation and CG, as well as the findings of the 2004 ECCG.[888] The code aimed to establish transparent organisational and legal structures within CG of SOEs, by outlining the duality of the state's role as both a regulatory body and a shareholder.

The 2006 code established guidelines of fairness and equity in the treatment of every shareholder, including the state. It addressed disclosure requirements and transparency standards. Additionally, it emphasised the responsibilities of boards of directors in ensuring efficient oversight and accountable leadership.

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[885] IFC, 'Creating Opportunity: 2008 Annual Report' (2008) <ifc.org/content/dam/ifc/doc/mgrt/ar2008-english.pdf> accessed 10 January 2025; IFC, 'Corporate Governance Success Stories' (2015) <https://www.ifc.org/content/dam/ifc/doc/mgrt/cg-success-stories-mena062015.pdf> accessed 10 January 2025

[886] Organization for Economic Cooperation and Development (OECD), 'Principles of Corporate Governance' (OECD 2004) <https://www.ecgi.global/sites/default/files/codes/documents/principles_en_final.pdf> accessed 10 January 2025

[887] Mohamed Moustafa Soliman, 'Firm Characteristics and the Extent of Voluntary Disclosure: The Case of Egypt' (2013) 4(17) Research Journal of Finance and Accounting 71, 71-73

[888] Mohamed Moustafa Soliman, 'Firm Characteristics and the Extent of Voluntary Disclosure: The Case of Egypt' (2013) 4(17) Research Journal of Finance and Accounting 71, 71-73

Studies have assessed the progress and challenges of implementing CG reforms in Egypt at that time. They concluded that while Egyptian companies were beginning to recognise the importance of good CG, practical implementation remained inconsistent.[889] Nevertheless, the findings indicated a positive shift toward CG reform as the markets began to appreciate the value of CG principles in improving performance and attracting investment. The Egyptian government took further steps to enhance its regulatory framework and reinforce CG practices, including the introduction of stricter insider trading regulations and the strengthening of disclosure requirements.[890]

A pivotal institutional change occurred when the CMA established a special CG department to monitor and enforce compliance with CG rules.[891] At the same time, the EGX began to rigorously enforce listing regulations, which resulted in delistings as companies that failed to comply with CG standards were removed from the market.[892]

However, despite these advancements, the 2009 ROSC highlighted persistent gaps between legal requirements and actual CG practices, particularly among companies outside the EGX30 index.[893] While companies listed in the EGX30, i.e., the index representing blue-chip companies, generally adhered to CG rules, other companies continued to lag in practical implementation.[894] The 2009 ROSC further highlighted enforcement challenges and cultural resistance that slowed the adoption of CG principles in practice. For instance, family-owned companies struggled to adapt to modern CG structures, preferring informal decision-making processes over formal CG mechanisms, such as board independence and audit committees.

Subsequent regulations and amendments introduced by the FRA, including the 2014 Rules, reinforced the mandatory adoption of CG standards, focusing on board accountability and

[889] Jennifer Bremer and Nabil Elias, 'Corporate Governance in Developing Economies: The Case of Egypt' (2007) 3(4) Journal of Economic and Administrative Sciences 1, 19
[890] UNCTAD, 'Corporate Governance in the Wake of Financial Crisis' (2010) UNCTAD/DIAE/ED/2010/2, 1, 85-86
[891] EGX Committees, 'Listing Committee' <https://www.egx.com.eg/en/Committees.aspx> accessed 10 January 2025
[892] EGX, 'Annual Report 2009' (Egyptian Exchange 2009) <https://www.egx.com.eg/get_pdf.aspx?ID=724&Lang=ENG> accessed 10 January 2025
[893] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment for the Arab Republic of Egypt' (June 2009) 62542
[894] World Bank, 'Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment for the Arab Republic of Egypt' (June 2009) 62542

diversity, disclosure transparency aligned with IFRS, minority shareholder protection through cumulative voting systems, and sustainability practices and ESG compliance.[895]

These reforms collectively signified Egypt's commitment to stabilising its capital market, increasing transparency, and attracting foreign and domestic investments. Hence, the following section will address the effects of CG on companies' performance.

4.5 CG and Companies Performance in Egypt

The link between CG regulations and companies' performance in Egypt has become a subject of growing academic interest, yet the research conducted so far remains limited and somewhat fragmented.[896] Most studies focused on specific aspects of CG mechanisms, such as board characteristics, disclosure practices, and the function of audit committees, and their impact on companies' performance. While these studies have yielded insightful findings, the results remain diverse, reflecting the complexities of CG implementation within EMs, such as Egypt.

Research examining corporate disclosure practices among listed Egyptian companies has highlighted low levels of transparency, with inadequate awareness about the benefits of CG and the significance of disclosure standards as a major contributor to non-compliance.[897] It has also been suggested that limited training and capacity-building programs may have prevented companies from recognising the value of transparency in attracting investors and enhancing accountability.

Studies benchmarking disclosure standards against international frameworks, i.e., the UNCTAD ISAR rules, revealed that top-listed companies fell below 50% compliance with these standards.[898] This highlighted a significant gap between local practices and global expectations, particularly in the disclosure of non-financial information, which encompasses risk management strategies, corporate social responsibility, and sustainability reporting.

[895] FRA Decree No 107 of 2016, issued on 25 September 2016, published on 12 October 2016, Egyptian Official Gazette Issue No 228 (bis); FRA Decree No 59 of 2018, issued on 26 April 2018, published on 6 June 2018, Egyptian Official Gazette Issue No 130

[896] Mohammed Omran, 'Post-privatization Corporate Governance and Firm Performance: The Role of Private Ownership Concentration, Identity and Board Composition' (2009) 37 Journal of Comparative Economics 658, 658-662

[897] Khaled Dahawy and Teresa Conover, 'Accounting disclosure in companies listed on the Egyptian Stock Exchange' [2007] Middle Eastern Finance and Economics 5, 5-7

[898] Nermeen F Shehata and Khaled Dahawy, '2013 Review of the Implementation Status of Corporate Governance Disclosures: Egypt' (2014) 11(2) Corporate Ownership and Control 2, 5

Additionally, disclosure practices among Egyptian companies remain uneven, with small companies facing significant challenges in adhering to compliance requirements.[899] These companies fail to provide timely updates, audited reports, and detailed disclosures.[900]

Furthermore, many Egyptian companies view disclosure requirements as a regulatory obligation rather than a strategic tool for enhancing transparency and improving investor relations.[901] Consequently, disclosures are incomplete, delayed, or non-compliant with IFRS standards, leading to information asymmetry and eroding investor confidence. This issue is particularly pronounced in companies that are family-owned or state-controlled, where informal decision-making processes overshadow formal CG structures.[902]

Studies on board structures have identified CEO duality, where the CEO serves as both the chairperson of the board and the company's chief executive, as affecting the performance of companies. CEO duality is found to degrade board independence and the effectiveness of board monitoring, thereby adversely affecting performance.[903]

Additional investigations on board independence and the availability of audit committees have indicated positive relationships with corporate disclosure practices. Independent board members, serving as objective monitors, have been found to reduce information asymmetry and enhance compliance with CG frameworks.[904] Audit committees have also been found to lead to better disclosure practices, playing a crucial role in financing oversight and ensuring regulatory compliance.[905]

The implications of ownership structures on firm performance have also been studied, specifically in the case of non-financial publicly traded companies in the EGX. Ownership concentration has been found to have either a minimal or even insignificant

[899] Mohamed Moustafa Soliman, 'Firm Characteristics and the Extent of Voluntary Disclosure: The Case of Egypt' (2013) 4(17) Research Journal of Finance and Accounting 71, 71-77
[900] Jennifer Bremer and Nabil Elias, 'Corporate Governance in Developing Economies: The Case of Egypt' (2007) 3(4) Journal of Economic and Administrative Sciences 1, 5
[901] Jennifer Bremer and Nabil Elias, 'Corporate Governance in Developing Economies: The Case of Egypt' (2007) 3(4) Journal of Economic and Administrative Sciences 1, 7-12
[902] Mohamed Moustafa Soliman, 'Firm Characteristics and the Extent of Voluntary Disclosure: The Case of Egypt' (2013) 4(17) Research Journal of Finance and Accounting 71, 71-77
[903] Ahmed OR Kholief, 'CEO Duality and Accounting-Based Performance in Egyptian Listed Companies: A Re-examination of Agency Theory Predictions' Working Paper No 08/07 (2008) 2, 5
[904] K Samaha, 'Do Board Independence and Audit Committees Motivate Disclosure on Different Corporate Governance Information Categories in the Annual Reports in Developing Countries?' (2010) 57 International Research Journal of Finance and Economics 206, 206-225
[905] K Samaha, 'Do Board Independence and Audit Committees Motivate Disclosure on Different Corporate Governance Information Categories in the Annual Reports in Developing Countries?' (2010) 57 International Research Journal of Finance and Economics 206, 206-225

influence on performance.[906] Board independence, on the other hand, has been found to have a positive relationship with market performance, whereas CEO duality has been shown to harm book value-based performance.[907]

However, assessments of CG quality among listed companies have indicated persistent weaknesses, with insufficient evidence of a robust positive connection between CG reforms and financial performance. While CG practices have improved over time, their direct impact on company valuation has remained statistically insignificant, reflecting gaps in practical implementation and compliance consistency.

Recent studies assessing CG practices between 2015 and 2018 have investigated their impact on valuation metrics, such as the market-to-book ratio and Tobin's Q.[908] These findings demonstrate a positive relationship between CG indices and valuation metrics, although the impact was not statistically significant. This highlights the fact that while CG reforms have been achieving incremental progress, their ability to drive company valuation and attract investment remains limited in the short term.

Studies thus indicate that Egypt's CG reforms have yielded mixed results, with several persistent challenges undermining their effectiveness. Weak enforcement mechanisms have been a significant obstacle, as regulatory overlaps and limited enforcement capacity have diluted the impact of reforms, resulting in inconsistent compliance, especially among privatised companies. Cultural resistance further complicates the implementation, with family-owned companies and SOEs persistently unwelcoming strict CG structures in favour of informal decision-making practices.[909]

Although minority investor protections, through, among other things, cumulative voting rights and proxy voting systems introduced in 2016, have improved, enforcement remains inadequate. Retail investors, in particular, face barriers in accessing legal remedies, which limit

[906] Ehab K A Mohamed, Mohamed A Basuony, and Ahmed A Badawi, 'The Impact of Corporate Governance on Firm Performance in Egyptian Listed Companies' (2013) 11(1) Corporate Ownership and Control 691, 693
[907] Tamer M Shahwan, 'The effects of Corporate Governance on financial performance and financial distress: evidence from Egypt' (2015) 15(5) Corporate Governance 641, 643-644
[908] Elsayed M Elhennawy, 'The Impact of Corporate Governance on the Value of the Company in the Egyptian Stock Market' (2019) 3(4) Business Ethics and Leadership 81, 81-85
[909] Mohamed Moustafa Soliman, 'Firm Characteristics and the Extent of Voluntary Disclosure: The Case of Egypt' (2013) 4(17) Research Journal of Finance and Accounting 71, 73

the practical benefits of these protections.[910] Additionally, high compliance costs have posed significant challenges for SMEs,[911] potentially forcing many to delist voluntarily.

4.6 Conclusion

Egypt's path towards CG reforms illustrates the complex interplay of linguistic, cultural, and institutional forces in adopting international CG principles. The introduction of the term "Hawkamat Al-Sharikat" was a symbolic milestone, reflecting Egypt's efforts to overcome cultural barriers to CG adoption. However, these linguistic advancements were complemented by sustained institutional efforts to build capacity, enforce compliance, and promote accountability.

The country's CG reforms represent a transformative journey aimed at modernising its capital market. Through a series of legal and institutional reforms, Egypt has institutionalised principles of accountability, improved investor protection, and strengthened disclosure practices.

A defining feature of Egypt's reforms was the integration of CG principles into the listing and delisting rules of the EGX. Beginning with the CML, the groundwork for CG was established. However, recognising the limitations of this initial framework, Egypt introduced stricter regulations under the 2002 Rules, which mandated disclosure requirements, board independence, and the formation of audit committees. These rules provided clear compliance standards and enforced CG principles by imposing delisting as a sanction against non-compliance.

Subsequent refinements to the regulatory framework, such as the adoption of the 2014 Rules, have advanced CG reforms. These amendments focused on defining board independence and enhancing enforcement mechanisms, reflecting Egypt's approach to staying aligned with international best practices.

Studies have documented Egypt's progress in CG reforms, highlighting their positive impact on company performance, particularly among privatised companies.[912] Studies suggest that

[910] IFC, 'Creating Opportunity: 2008 Annual Report' (2008) <ifc.org/content/dam/ifc/doc/mgrt/ar2008-english.pdf> accessed 10 January 2025; IFC, 'Corporate Governance Success Stories' (2015) <https://www.ifc.org/content/dam/ifc/doc/mgrt/cg-success-stories-mena062015.pdf> accessed 10 January 2025

[911] Jennifer Bremer and Nabil Elias, 'Corporate Governance in Developing Economies: The Case of Egypt' (2007) 3(4) Journal of Economic and Administrative Sciences 1, 15

[912] Mohammed Omran, 'Post-privatization Corporate Governance and Firm Performance: The Role of Private Ownership Concentration, Identity and Board Composition' (2009) 37 Journal of Comparative Economics 658, 666

companies implementing CG standards have better market valuations and enhanced financial stability. Meanwhile, CG practices, including board independence, audit committees, and practices of disclosure, are associated with increased investor confidence and accountability.

Despite these advancements, challenges persist. Implementation and enforcement gaps remain a significant concern, particularly among small companies. Many companies still perceive CG disclosures as a compliance obligation rather than a strategic tool for transparency and investor engagement. Additionally, weak enforcement mechanisms, cultural resistance, and high compliance costs might have driven delistings, reducing market depth and liquidity.

While Egypt's CG reforms have successfully bolstered market integrity and investor confidence, they appear to have also resulted in unintended consequences. The wave of delistings among SMEs and family-owned companies underscores the tension between tightening regulatory requirements and maintaining a diverse and inclusive market.

This Chapter thus has provided a historical and institutional context for Egypt's capital market and CG reforms, setting the stage for a more in-depth analysis of the potential influence of these reforms and delisting trends observed in the EGX in the subsequent chapters.

Chapter 5: Research Methodology

5.1 Introduction

As explained earlier, this study aims to investigate the potential impact of the CG reforms on the delisting of numerous listed companies from the EGX since the implementation of the 2002 Rules until 2021.

In essence, this thesis posits that the implementation of the CG regulations within the EGX's listing rules has contributed to a surge in delistings from the EGX. This delisting trend has not been counterbalanced by a proportional increase in new listings so far. While acknowledging the variety of factors that may have contributed to the low number of listed companies on the EGX, this thesis specifically examines the likely influence of CG reforms on this trend.

This Chapter is thus dedicated to explaining the research methodology adopted by the researcher to address the problem highlighted above. From a structural perspective, this Chapter begins by identifying the selected research design and its merits for the present thesis **(Section 5.2)**. It then explains the data sources and collection for both the descriptive quantitative analysis and the semi-structured interviews **(Section 5.3)**.

Subsequently, the Chapter outlines the analytical approach employed by the researcher to explore the likely connection between CG reforms and delisting trends in the EGX **(Section 5.4)**, allowing the researcher to reach valid and reliable conclusions. Following this, the Chapter describes the validity and reliability of the results derived from the adopted methodologies **(Section 5.5)**. The ethical considerations observed by the researcher throughout the collection and analysis of the data are then identified **(Section 5.6)**, followed by a conclusion **(Section 5.7)**.

5.2 Research Design

Research is "*characterized as methodical investigations into a subject or problem*",[913] which entails "*understanding and explanation*" that "*rest heavily upon the conduct of the investigation*" to ensure "*the credibility of its outcomes*".[914]

[913] Tim May and Malcolm Williams, *An Introduction To The Philosophy Of Social Research* (1st edn, Taylor and Francis 2002)7-9
[914] Ibid.

Social science research is primarily centred on two main methodological frameworks: qualitative and quantitative methods.[915] These frameworks inform how researchers select and gather relevant data, as well as the strategies used to analyse it to answer research questions effectively.

Recently, the mixed research approach has gained worldwide recognition as a significant third methodological paradigm.[916] Instead of perceiving quantitative and qualitative methods as oppositional, they are now regarded as complementary methods, thereby providing a better understanding of research issues and complex matters, rather than adopting either one alone.[917] The mixed research method thus integrates elements of the qualitative and quantitative research methods.[918] Nevertheless, unlike the growing adoption of the mixed research approach in other disciplines,[919] the mixed research approach is underrepresented in the social sciences, despite its potential to offer depth and constructive insights.[920]

The mixed research approach offers two primary advantages.[921] The first one is complementary strengths, whereby this approach leverages the strengths of one research method to offset the

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[915] Matt Henn, Mark Weinstein and Nick Foard, *A Short Introduction to Social Research* (SAGE Publications 2005) 116

[916] Catharine Biddle and Kai A Schafft, 'Axiology and Anomaly in the Practice of Mixed Methods Work: Pragmatism, Valuation, and the Transformative Paradigm' (2015) 9(4) Journal of Mixed Methods Research 320, 320; Roslyn Cameron and Omar Bentahar, 'Design and Implementation of A Mixed Method Research Study in Project Management' (2015) 13(1) Electronic Journal of Business Research Methods 3, 3; Ralph Frederick Hall, 'Mixed Methods: In Search of a Paradigm' in Thao Le and Quynh Le (eds), *Conducting Research in a Changing and Challenging World* (Nova Science Publishers 2013) 2; Jose F Molina-Azorin, 'Mixed Methods Research: An Opportunity to Improve Our Studies and Our Research Skills' (2016) 25(2) European Journal of Management and Business Economics 37, 37; John W Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (3rd edn, SAGE 2008) 17

[917] Jose F Molina-Azorin, 'Mixed Methods Research: An Opportunity to Improve Our Studies and Our Research Skills' (2016) 25(2) European Journal of Management and Business Economics 37, 37; John W Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (3rd edn, SAGE 2014)132

[918] John W Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (3rd edn, SAGE 2008) 22; R Burke Johnson and Anthony J Onwuegbuzie, 'Mixed Methods Research: A Research Paradigm Whose Time Has Come' (2004) 33(7) Educational Researcher 14, 15, Ralph Frederick Hall, 'Mixed Methods: In Search of a Paradigm' in Thao Le and Quynh Le (eds), *Conducting Research in a Changing and Challenging World* (Nova Science Publishers 2013) 2; Roslyn Cameron and Omar Bentahar, 'Design and Implementation of A Mixed Method Research Study in Project Management' (2015) 13(1) Electronic Journal of Business Research Methods 3, 5; Jose F Molina-Azorin, 'Mixed Methods Research: An Opportunity to Improve Our Studies and Our Research Skills' (2016) 25(2) European Journal of Management and Business Economics 37, 37

[919] For example, business research, psychology, sociology Jose F Molina-Azorin, 'Mixed Methods Research: An Opportunity to Improve Our Studies and Our Research Skills' (2016) 25(2) European Journal of Management and Business Economics 37, 37; Göran Goldkuhl, 'Pragmatism vs interpretivism in qualitative information systems research' (2012) 21 European Journal of Information Systems 135, 137

[920] Brendon R Barnes, 'Transformative Mixed Methods Research in South Africa: Contributions to Social Justice' in S Laher, A Fynn and S Kramer (eds), *Transforming Research Methods in the Social Sciences* (Wits University Press 2019) 1,4

[921] Joanna E M Sale, Lynne H Lohfeld, and Kevin Brazil, 'Revisiting the Quantitative-Qualitative Debate: Implications for Mixed-Methods Research' (2002) 36(1) Qual Quant 1, 5

weaknesses of another. Mixed-methods scholars argue that relying solely on either quantitative or qualitative methods can be restrictive and insufficient for addressing complex research problems. By combining both approaches, researchers can capitalise on their respective strengths while minimising overlapping weaknesses, ultimately improving the overall quality of the research.[922]

The second advantage is triangulation, which aims to enhance and strengthen research findings by employing diverse methods for data collection and analysis within a single study.[923] Triangulation enables researchers to cross-validate findings by comparing results derived from different methods, thereby enhancing the reliability and depth of the analysis.[924]

On the other hand, implementing the mixed research approach poses two significant challenges. The first one is the increased demand for resources, as this approach requires more time, effort, and funding due to its inclusion of at least two phases of research.[925] The second challenge is the requirement for expanded skill sets, necessitating that researchers acquire expertise in both quantitative and qualitative methods.[926]

Furthermore, the mixed research approach is characterised by three primary research designs. First is the convergent parallel mixed method, where quantitative and qualitative data are collected simultaneously and integrated to analyse the research problem comprehensively.[927] Second, the explanatory sequential mixed method, which involves conducting quantitative research first, followed by qualitative research. The qualitative phase is used to interpret further

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[922] Joanna E M Sale, Lynne H Lohfeld, and Kevin Brazil, 'Revisiting the Quantitative-Qualitative Debate: Implications for Mixed-Methods Research' (2002) 36(1) Qual Quant 1, 8

[923] John W Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (3rd edn, SAGE 2008) 185

[924] Margaret Glogowska, 'Paradigms, pragmatism and possibilities: mixed-methods research in speech and language therapy' (2011) 46(3) INT J LANG COMMUN DISORD 251, 254 Jose F Molina-Azorin, 'Mixed Methods Research: An Opportunity to Improve Our Studies and Our Research Skills' (2016) 25(2) European Journal of Management and Business Economics 37, 37-38; Joanna E M Sale, Lynne H Lohfeld, and Kevin Brazil, 'Revisiting the Quantitative-Qualitative Debate: Implications for Mixed-Methods Research' (2002) 36(1) Qual Quant 1, 5

[925] Jose F Molina-Azorin, 'Mixed Methods Research: An Opportunity to Improve Our Studies and Our Research Skills' (2016) 25(2) European Journal of Management and Business Economics 37, 37-38

[926] Michael D Fetters and José F Molina-Azorín, 'The Journal of Mixed Methods Research Starts a New Decade: Perspectives of Past Editors on the Current State of the Field and Future Directions' (2017) 11(4) Journal of Mixed Methods Research 423, 426-427; Jose F Molina-Azorin, 'Mixed Methods Research: An Opportunity to Improve Our Studies and Our Research Skills' (2016) 25(2) European Journal of Management and Business Economics 37, 38

[927] Brendon R Barnes, 'Transformative Mixed Methods Research in South Africa: Contributions to Social Justice' in S Laher, A Fynn and S Kramer (eds), *Transforming Research Methods in the Social Sciences* (Wits University Press 2019) 12; John W Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (4th edn, SAGE 2014) 194-195

or explain the results obtained during the quantitative phase.[928] Third, the exploratory sequential mixed method, where the researcher begins with qualitative research and then goes on to quantitative research. The data from the qualitative phase may inform the development of new instruments, the selection of existing tools, or the identification of variables for the subsequent quantitative phase.[929]

Based on the understanding outlined above, this study employs an explanatory sequential mixed-methods approach. This design integrates quantitative and qualitative research methods to provide both breadth and depth in addressing the research objectives. It is anticipated that this approach will be effective in exploring the potential correlation between CG reforms and delisting from the EGX, where numerical data can establish trends and qualitative data can provide context and depth.[930] In other words, this approach ensures that the outcome of the secondary data's descriptive quantitative analysis is enriched and brought into context through qualitative data, thereby offering a comprehensive understanding of delisting trends and their possible determinants.

The quantitative component employs a descriptive analysis of historical trends in listings and delistings on the EGX over the past two decades. The relevant data is obtained from the EGX, and other secondary sources. This quantitative analysis provides a "bird's eye view" of the market dynamics,[931] capturing broad trends and statistical correlations. This descriptive analysis serves the purpose of this study by exploring broader patterns and any temporal linkages between the introduction of CG reforms and the observed delisting events on the EGX. It thoroughly aligns with the research's exploratory objective, aiming to understand the observed phenomena, rather than drawing inferential results.[932] In particular, it allows for the visualisation of listing and delisting patterns over time, enabling the researcher to uncover any broader correlations between CG reforms and the market's reaction. This approach is deeply relevant to policy recommendations, as understanding trends in delisting provides actionable

[928] Brendon R Barnes, 'Transformative Mixed Methods Research in South Africa: Contributions to Social Justice' in S Laher, A Fynn and S Kramer (eds), *Transforming Research Methods in the Social Sciences* (Wits University Press 2019) 12-13

[929] John W Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (4th edn, SAGE 2014) 137

[930] Brendon R Barnes, 'Transformative Mixed Methods Research in South Africa: Contributions to Social Justice' in S Laher, A Fynn and S Kramer (eds), *Transforming Research Methods in the Social Sciences* (Wits University Press 2019) 12-15

[931] Catherine Hakim, *Research Design: Successful Designs for Social and Economic Research* (2nd edn, Routledge 2000), 36

[932] John W Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (3rd edn, SAGE 2008) 130-131

insights into the implications of CG reforms, which would help policymakers refine regulations. Visual presentations through charts and tables make complex data accessible to a broader audience, including policymakers and stakeholders, which is the target of the present study. To conclude, descriptive approaches are helpful for exploratory studies that aim to provide a structured overview of phenomena without delving into causal relationships.[933]

Additionally, this approach is widely used in CG studies.[934] For example, the majority of research conducted in the CG field employs a combination of descriptive statistics, correlation, or regression analysis to analyse the relationships between ownership structure, corporate boards, and company performance.[935] This approach is also used when analysing the connection between good CG and a company's value.[936] The findings of this analysis are presented in Chapter (6).

However, recognising the limitations of purely descriptive quantitative analysis, this study integrates qualitative insights to complement and deepen the analysis. Semi-structured interviews are conducted with key stakeholders, including policymakers, market participants, corporate executives, and market experts. This provides the researcher with valuable information about the stakeholders' perceptions and experiences concerning CG reforms,[937] particularly regarding the delisting events. In essence, it provides contextual depth by identifying the experiences and opinions of stakeholders involved in the listing and delisting processes. It further helps uncover factors not evident in numerical data, such as the influence of institutional pressures, regulatory challenges, and strategic decisions. Additionally, semi-

[933] Mark Saunders, Philip Lewis, and Adrian Thornhil, *Research methods for Business Students* (4th edn, Prentice Hall 2007) 356

[934] Esther Wanjugu Gitundu, Symon Kibet Kiprop, Lawrence Kangogo Kibet, and Sifunjo E Kisaka, 'Corporate Governance and Financial Performance: A Literature Review of Measurements and Econometric Methods of Data Analysis in Research' (2016) 7(14) Research Journal of Finance and Accounting 116, 116

[935] Esther Wanjugu Gitundu, Symon Kibet Kiprop, Lawrence Kangogo Kibet, and Sifunjo E Kisaka, 'Corporate Governance and Financial Performance: A Literature Review of Measurements and Econometric Methods of Data Analysis in Research' (2016) 7(14) Research Journal of Finance and Accounting 116, 116

[936] Julia Farah Debby, Mukhtaruddin, Emylia Yuniarti, Dewa Saputra, and Abukosim, 'Good Corporate Governance, Company' s Characteristics and Firm' s Value: Empirical Study of Listed Banking on Indonesian Stock Exchange' (2014) 3(4) GSTF Journal on Business Review 81, 84

[937] Aashish Srivastava and S Bruce Thomson, 'Framework Analysis: A Qualitative Methodology for Applied Research Note Policy Research' (2009) 4(2) JOAAG 72, 73; Ruslin Saepudin Mashuri, Muhammad Sarib Abdul Rasak, Firdiansyah Alhabsyi, and Hijrah Syam, 'Semi-structured Interview: A Methodological Reflection on the Development of a Qualitative Research Instrument in Educational Studies' (2022) 12(1) IOSR Journal of Research & Method in Education 22, 24; Barbara DiCicco-Bloom and Benjamin F Crabtree, ' Making Sense of Qualitative Research: The Qualitative Research Interview' (2006) 40(4) Medical Education 314, 315

structured interviews are particularly valuable for investigating complex, context-specific issues.[938]

The semi-structured interviews are preferred since they provide a balance between maintaining a standardised structure for the questions and allowing participants the flexibility to discuss and introduce new topics, as needed.[939] Moreover, semi-structured interviews have the potential to generate detailed insights and diverse perspectives on the subject being studied.[940] It thus offers more than just data collection; it serves as a valuable method for achieving a comprehensive understanding of the research problem. By facilitating dialogue, it seeks to explore the participants' experiences through interactive questioning and conversation.[941]

These criteria are absent in fully structured interviews, which lack the flexibility to adapt to emerging topics or insights.[942] It is essential to highlight that in semi-structured interviews, the interviewer actively constructs knowledge through the participants' responses. This approach allows for the introduction of new topics that may not have been explicitly anticipated, thereby fostering a more dynamic and exploratory interaction.[943]

By offering a "worm's eye view"[944], the qualitative analysis captures the lived experiences and practical perspectives of stakeholders,[945] which would provide more credible research findings.[946]

Accordingly, the mixed-methods design is deemed suitable for this study, as it allows for a holistic understanding of both the quantitative and qualitative dimensions of the research problem by outlining quantifiable metrics (i.e., listing and delisting trends) and subjective

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[938] Emma Bell and Alan Bryman, 'The Ethics of Management Research: An Exploratory Content Analysis' (2007) 18 British Journal of Management 63, 71

[939] Uwe Flick, Ernst von Kardorff, and Ines Steinke (eds), *A Companion to Qualitative Research* (SAGE 2004) 253

[940] Jennifer Baumbusch, 'Semi-Structured Interviewing in Practice-Close Research' (2010) 15(3) JSPN 255, 255

[941] Gary Husband, 'Ethical Data Collection and Recognizing the Impact of Semi-Structured Interviews on Research Respondents' (2020) 10 Educ Sci 1, 6-7; Michael David Myers and Michael Newman, 'The Qualitative Interview in IS Research: Examining the Craft' (2007) 17 Information and Organization 2, 5,17

[942] Steinar Kvale, 'Ten Standard Objections to Qualitative Research Interviews' (1994) 25 *Journal of Phenomenological Psychology* 147, 159; Barbara DiCicco-Bloom and Benjamin F Crabtree, 'Making Sense of Qualitative Research: The Qualitative Research Interview' (2006) 40(4) Medical Education 314, 315

[943] Gary Husband, 'Ethical Data Collection and Recognizing the Impact of Semi-Structured Interviews on Research Respondents' (2020) 10 Educ Sci 1, 2

[944] Catherine Hakim, *Research Design: Successful Designs for Social and Economic Research* (2nd edn, Routledge 2000) 36

[945] Juliet Corbin and Anselm Strauss, *Basics of Qualitative Research: Grounded Theory Procedures and Techniques* (Newbury Park, SAGE Publications 1990) 17

[946] Robert Yin, *Case Study Research: Design and Methods* (5th edn, SAGE 2003) 3-14; Jane Ritchie and Liz Spencer, 'Qualitative Data Analysis for Applied Policy Research' (2002) 573 The Qualitative Researcher' s Companion 173, 176

factors (i.e., perceptions of regulatory challenges). By triangulating diverse data sources, this study is expected to offer a more valid explanation and findings about the interplay between CG reforms and market behaviour.[947]

5.3 Data Sources and Collection

5.3.1 Secondary Data (A Descriptive Quantitative Component)

This thesis explores the potential influence of CG reforms on the delisting of companies from the EGX. In doing so, the thesis predominantly relies on secondary data officially obtained from the EGX, providing insights into historical trends in listings and delistings at the EGX. As an authoritative source, the selection of the EGX as a data provider ensures the reliability, credibility, and authority of the data obtained.[948]

To obtain these data in light of the length of the period under investigation, and the lack of available public records on the companies' listings and delistings from the EGX for the entire period, the researcher first approached the EGX with a formal request outlining the needed data and information from the EGX, summarised as follows:[949] (a) a list of all companies listed in the EGX with an identification of their respective capital, activity, shareholders structure, and the ownership ratio of the Egyptians and foreigners; (b) a list of all companies that were delisted with an identification of their respective delisting dates; (c) an identification of the reasons that led to the delisting of these companies, and whether this delisting was voluntarily or involuntary; (d) copies of the decisions issued by the EGX to delist companies and an identification of the reasons that influenced the EGX to delist these companies involuntarily; and (e) copies of the extraordinary general assembly meetings of the listed companies that decided to delist itself voluntarily or any other available records showing the actual causes for their delistings.

After exchanging communications with the EGX and fulfilling specific formal requirements, the EGX provided the researcher with an Excel sheet containing some selected information for 1,407 companies.[950] The Excel sheet was structured with the following headings: (a) the

[947] Alan Bryman, *Social Research Methods* (4th edn, Oxford University Press 2012) 383; John W Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (SAGE Publications 2003) 74
[948] Mark Saunders, Philip Lewis, and Adrian Thornhill, *Research Methods for Business Students* (4th edn, Prentice Hall 2007) 254-255; Rahul Ramachandran, Manil Maskey, Christopher Lynnes, Aruni John and Tathagata Mukherjee, 'Investigating Different Data-Traceability Approaches to Prevent Data Swamps' (2022), 10(3) EE Geoscience and Remote Sensing Magazine 332, 332; Melissa P Johnston, 'Secondary Data Analysis: A Method of which the Time Has Come' (2014) 3 Qualitative and Quantitative Methods in Libraries 619, 620-621
[949] *See* the EGX application in Arabic in Appendix (C).
[950] *See* the original Excel sheet received from the EGX in Appendix (D).

company's name in Arabic and English; (b) the company's code in the EGX; (c) the listing date; (d) the authorised capital; (e) the number of shares; (f) the delisting date; (g) the delisting type; and (h) the delisting cause (when available). Thus, the researcher did not receive all the sought data and information highlighted above from the EGX.

Accordingly, this Excel sheet has been considered the foundational and primary data source for the underlying analysis. In this context, a description of each piece of information, along with its validity and importance for this study, is provided in the next section.

The dataset was then extensively reviewed and cross-checked against other publicly available reports, including those accessible on the EGX's website at https://www.egx.com.eg/en/homepage.aspx. Additionally, the researcher made his best efforts to complete the missing information on the Excel sheet, including details for the delisting date, type and cause. In this respect, some data were obtained from websites that closely monitor listed and delisted companies in the EGX, such as Mubasher. Moreover, supplementary data were obtained from renowned platforms and global reports prepared by prominent institutions, such as the World Bank, regarding Egypt. For example, the ROSC reports were utilised to supplement, verify, and ensure the accuracy of some information on the dataset received from the EGX, when available. However, while the researcher was able to complete all the missing delisting dates for the companies delisted from the EGX, obtaining the delisting cause for all of them was not attainable.

Furthermore, the researcher obtained the names of listed companies that have been included in the EGX 30 Index since its inception in 2002 from the EGX. The EGX 30 Index comprises the top 30 companies listed on the EGX, based on liquidity and trading activity.[951] For a company to be eligible for inclusion in the EGX 30 Index, it must meet specific requirements.[952] One of these requirements entails having a minimum free float of 15%. Alternatively, if its adjusted market capitalisation exceeds the median of adjusted market capitalisation for all traded companies during the review period, provided its free float aligns with the listing rules.[953] These requirements are designed to ensure that the constituents of the index accurately reflect actively traded companies, thereby establishing the index as a reliable indicator of the market.

[951] EGX, 'EGX 30 Index' <https://www.egx.com.eg/en/OverviewEGX30.aspx?Nav=1> accessed 11 January 2025
[952] EGX, 'EGX 30 Index' <https://www.egx.com.eg/en/OverviewEGX30.aspx?Nav=1> accessed 11 January 2025
[953] EGX, 'EGX 30 Index' <https://www.egx.com.eg/en/OverviewEGX30.aspx?Nav=1> accessed 11 January 2025

This data thus helps identify the financial performance and capabilities of companies listed in the EGX, particularly if any of these companies were later delisted.

Ultimately, the compilation and analysis of this dataset in this thesis represent a significant contribution to the field of CG studies. To the best of the researcher's knowledge, this dataset is novel and has not been previously compiled, analysed or studied for any research purposes. This thesis thus uncovers new insights into the potential linkage between CG reforms and the patterns of delistings in EMs, such as Egypt. The information included in the EGX Dataset is explained in the preceding subsection.

5.3.1.1 Data Description and Selection Criteria

The dataset obtained from the EGX includes nearly five decades of data on companies that have been listed and delisted on the EGX. It compiles valuable, yet incomplete, information, including the companies' names in Arabic and English, their respective listing codes, dates of listing and delisting on the EGX, and the type and cause of each delisting. This information is beneficial for this study for the following considerations:

First, having the companies' names in dual languages ensures the accuracy of their identification and the possibility of tracking them across different data sources. This is further supported by the provision of the companies' codes in the EGX, which facilitates searching for more information about the respective companies.

Second, the companies' listing dates would help identify the commencement date of the public trading of their respective shares and determine the duration of their presence on the EGX.

Third, the authorised capital, which refers to the amount of capital the company is authorised to raise, provides more insights into the company's size and financial capability at the time of listing.

Fourth, the delisting date, which refers to the date when the respective company is removed from the EGX, will be crucial in examining the potential linkage between the delisting and the implementation of the CG reforms for the specified period. It will also provide information on the listing duration of the companies on the EGX. In simple terms, having the entry (listing) data and the exit (delisting) data of each company in the EGX Dataset would assist in tracing the companies' lifecycle on the EGX and establishing correlations with the timeline of CG reforms.

Fifth, the distinction between voluntary and involuntary delistings would provide helpful information regarding the initiator of each delisting incident, facilitating a nuanced analysis of the delisting phenomenon in the EGX.

Finally, the delisting cause would explain the specific reasons that led to the delisting, offering valuable insights into whether this delisting was a response to the CG reforms or was triggered by other unrelated reasons. It will thus provide the diverse factors that could have likely affected the companies' tenure in the EGX and led to their delisting.

In this context, the dataset encompasses data for 1,407 companies spanning approximately 50 years, from 1970 to 2021.[954] Notably, 10 companies within this dataset were listed on the EGX in January 1970, marking the very earliest listings. The dataset's listing data then concludes with the listings of two companies, one in March and the other in July 2012. Concerning the delisting data, the dataset documents the delisting of nine companies in 2002 and extends to cover the delisting events up to 2021.

In this respect, since the dataset only includes information on listing patterns up to 2012 and delistings until 2018, this study has sourced additional data from public reports issued by the EGX and historical market data available on the EGX's website as of 2004. This supplementary data has been utilised to complete the missing information for companies listed and delisted on the EGX up to 2021 and to verify the data included in the EGX dataset, where possible. This resulted in a dataset of 1,431 companies.

Moreover, upon receiving the initial dataset from the EGX, the researcher thoroughly reviewed and organised the data to ensure its reliability and integrity for the analysis. This process was vital for preparing the dataset for rigorous examination and analysis, where the initial reviewing step aimed to understand the dataset and assess its completeness and reliability.[955] Understanding and evaluating data is crucial for another reason, which is eliminating data that is not useful or unsuitable.[956] Absent the reliability check, inaccurate analysis and inappropriate research findings might occur.[957]

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[954] The dataset also includes one company that was listed in 1958, which is considered as listed in 1970 for the purpose of this analysis.

[955] Mark Saunders, Philip Lewis, and Adrian Thornhill, *Research Methods for Business Students* (4th edn, Prentice Hall 2007) 263

[956] Mark Saunders, Philip Lewis, and Adrian Thornhill, *Research Methods for Business Students* (4th edn, Prentice Hall 2007) 263

[957] Segun Oluwaseun Olabode, Olawale Ibrahim Olateju, and Akeem Abayomi Bakare, 'An Assessment of the Reliability of Secondary Data in Management Science Research' (2019) 7(3) International Journal of Business and Management Review 27, 28

Furthermore, in light of this thesis's specific scope and focus, specific selection criteria have been adopted to ensure that the dataset aligns with the study's underlying objectives. As previously discussed, this study aims to investigate the potential impact of CG reforms on EGX-listed companies, given the high delisting rate witnessed on the EGX, which has not been offset by a comparable rate of new listings to date.

Remarkably, these CG reforms started in 2002 and have been ongoing since then. As explained earlier, the EGX introduced two major CG reforms in 2002 and 2014, respectively. The introduction of CG regulations within the new listing and delisting rules issued by the CMA in 2002 represented a pivotal shift in the regulatory framework governing listed companies. These regulations aimed to enhance the transparency and accountability of listed companies to strengthen investor confidence and market stability. By starting the analysis with the year 2002, this study aligns itself with the timeline of the onset of these significant regulatory reforms, allowing for an investigation into their impact on delisting patterns. Consequently, the year 2002 has been selected as the starting point for analysing the delisting phenomenon on the EGX.

Moreover, to provide a comprehensive and timely analysis of the likely influence of CG reforms on companies listed on the EGX, this thesis extends its examination of delisting incidents up to 2021. Hence, this study provides an analysis of delisting events spanning approximately two decades, from 2002 to 2021, thereby exploring the immediate and long-term impacts of CG reforms. This selected timeframe thus acknowledges the lag effect of CG reforms on companies' behaviour, including the delisting decisions.[958] This is because adjustments to CG rules tend to occur over time, with their effects being more discernible in the long or medium term.[959]

Additionally, concluding this analysis at the end of 2021 captures the possible impact of certain major economic and political events in Egypt, including the 2008 global financial crisis, the 2011 and 2013 revolutions, and the aftermath of the COVID-19 pandemic. Consequently, this temporal approach ensures that the effects of significant regulatory milestones, as well as certain domestic and international events, are taken into account in the underlying analysis.

[958]Arch G Woodside and Mann Zhang, 'Lagged Impacts of Reforms of Government Regulations of Business On Nations' Gross Domestic Product' (2013) 9(2) Corporate Board: Role, Duties and Composition 40, 43; Bernard S Black and Vikramaditya Khanna, 'Can Corporate Governance Reforms Increase Firm Market Values? Event Study Evidence from India' [2007] University of Michigan Law & Economics Working Papers Archive: 2003-2009 1, 13

[959] Ibid

Concerning the listing data, companies listed on the EGX at any point in time up to 2021 have been included in this analysis. This will help identify the companies delisted over the specified period of this analysis, including their tenure in the EGX, as well as the attractiveness of the EGX for new listings following the changes in the CG rules. As explained previously, delistings do not pose significant concerns, provided that the stock market remains attractive to new listings. Thus, analysing the pattern of listings on the EGX is vital for investigating the likely influence of CG reforms on the EGX's activity.

On the other hand, concerning the selection criteria for the delisting data, the following parameters were adopted to ensure that the data is relevant to the examination of the effects of CG reforms on delisting from the EGX:

First, the analysis starts with companies delisted from 2002 onwards. This starting point coincided with the introduction of the first CG reforms in the EGX. The endpoint was set at the end of 2021, thus providing an analysis of data spanning two decades. It is also worth noting that no delisting data was available before the year 2002. Hence, having 2002 as the starting date for this analysis is also concurrent with the onset of the delisting phenomenon on the EGX.

Second, companies included in this analysis must have complete records of their respective names, listing dates, delisting dates and types. This criterion is crucial for demonstrating any temporal linkage between the occurrence of delistings and the implementation of the CG reforms. If any of this information is missing or unavailable from other reliable data sources, the respective company will be excluded from the analysis.

Third, this analysis only includes companies that were officially listed and subsequently delisted from the EGX. Therefore, companies that announce their delisting plans without completing the delisting process are excluded from this analysis. The objective is to ensure that the dataset reflects the actual market data prevailing at the time of introducing CG reforms.

Fourth, the dataset includes companies from a wide range of sectors. The sectoral composition of companies listed and then delisted from the EGX over the specified period will enable the identification of whether the effects of CG reforms varied by sector or not. In this respect, all sectors are represented and included in this analysis, except for banks and non-banking financial companies. This is because they are subject to distinct regulatory frameworks, including the applicable CG rules, which fall outside the purview of this thesis. Thus, they are excluded from the present analysis.

Fifth, this analysis is confined to companies listed and subsequently delisted from the main trading platform of the EGX. Thus, data on SMEs listed and/or delisted on the NILEX trading platform[960] are excluded from the analysis. The same exclusion applies to companies listed on the Over-the-Counter (OTC) platform.

Consequently, based on the above, companies must satisfy the following criteria to be included in this analysis: (i) they must have been officially listed on the EGX's main market at any time up until 2021; (ii) they must have been officially delisted between 2002 and 2021; (iii) details concerning their respective names, delisting date, and type must be available; (iv) they should not be part of the banking and non-banking financial sectors; (v) they were not listed on or delisted from the NILEX or the OTC markets.

Upon applying the above criteria to the dataset, the remaining companies totalled 1,353, including 158 companies from the banking and non-banking financial sectors, rendering the sample 1,195 companies. This resulting dataset will be referred to in this thesis as the "**EGX Dataset**".

5.3.2 Primary Data (A Qualitative Component - Semi-Structured Interviews)

Semi-structured interviews are conducted with key stakeholders to complement the information included in the EGX Dataset. This section thus addresses the following aspects: (a) the selection of participants and the adopted sampling techniques, (b) the preparation and design of the interview questions, (c) the pilot interviews, and (d) the interview process.

5.3.2.1 Selection of Participants

To obtain valuable insights into the underlying determinants of the delisting pattern observed on the EGX and its possible linkage with the CG reforms, a purposive sampling technique[961] is employed to ensure relevance and selective engagement with key stakeholders. Those stakeholders were directly involved in or affected by the promulgation, implementation, and adherence to CG regulations or engaged in the listing and delisting actions at the EGX. This

[960] The NILEX Stock Exchange was established in June 2010 with the objective of providing SMEs with access to capital. 19 companies are currently listed on the NILEX, as shown on the EGX' s official website, EGX, 'Today' s Market Watch' <https://www.egx.com.eg/en/NILEX.aspx> accessed 11 January 2025

[961] Mark Saunders, Philip Lewis, and Adrian Thornhill, *Research Methods for Business Students* (4th edn, Prentice Hall 2007) 232-233, 611; Ma Dolores C Tongco, 'Purposive Sampling as a Tool for Informant Selection' (2007) 5 Ethnobotany Research and Applications 147, 147

targeted approach would ensure the inclusion of a wide range of perspectives from those who pass knowledge and experience on the matters under investigation.

The process of identifying the participants for this semi-structured interview was challenging and lengthy. Since the matters under consideration in this study relate to regulatory reforms adopted by governmental entities and authorities, reaching out to participants willing to participate in this interview was challenging. In addition, the recent COVID-19 pandemic, which occurred during the period scheduled for conducting these interviews, resulted in delays and a notable extension of the overall process.

In this respect, the researcher started this process by preparing an invitation letter to be sent to all potential interviewees.[962] This invitation letter explains the objective of the interview and how the outcome would help the researcher in the present study. It further describes the details of the interview and respectfully invites the recipients to participate and inquire about any needed information or clarification. The researcher first utilised his connections to contact potential participants and those who would likely know people willing to participate.

Additionally, the researcher was able to reach some participants by adopting the snowball sampling technique,[963] whereby some of the initially identified participants introduced the researcher to other potential participants who possess knowledge and expertise relevant to the research questions and might be willing to participate in the interviews.

Upon identifying the potential participants within the three groups mentioned above, a total of 64 individuals were initially identified and contacted by the researcher. These communications were primarily made through personal messages on professional platforms, i.e., LinkedIn, as well as other social media platforms, including WhatsApp. In some instances, the invitation letter was also delivered by hand. Following the service of the invitation letter and upon receiving a response from the potential interviewees, the researcher responded to their questions (if any) and agreed on the time and place of the interview with those who expressed their willingness and approval to participate.

In this respect, while contacting 64 individuals, the researcher ultimately obtained the approvals of 34 participants. The other potential participants either apologised for unidentified

[962] *See* the Invitation Letter in Appendix (E).
[963] This means that the researcher contacts one or two persons and invites them to identify additional persons; *See, e.g.*, Mark Saunders, Philip Lewis, and Adrian Thornhill, *Research Methods for Business Students* (4th edn, Prentice Hall 2007) 232-233, 611

reasons or disregarded the invitation to participate. However, this number does not affect the reliability of the conclusions drawn from the interviews.

In interviews, small sample sizes are sufficient to provide comprehensive and accurate information, provided that participants possess a high level of expertise on the substantive issue under discussion.[964] Empirical studies reveal that theoretical saturation is reached within six to twelve interviews.[965] Others opined that five to twenty-five interviews achieve saturation depending on the context and objectives of the study.[966] Under the quantitative approach, a minimum of 30 participants will realistically provide sufficient data for statistical analysis and yield reliable findings.[967]

The sample pool in the present study consists of 34 participants, which exceeds the limit provided for achieving theoretical saturation, thereby enhancing the credibility of the analysis. Those participants represent three distinct groups.

The first group of interviewees includes current and former governmental officials, i.e., regulators and policymakers, who have been responsible for or involved in drafting, implementing, and revising CG regulations, as well as the rules governing the listing and delisting of companies on the EGX. This group is expected to provide valuable information on the regulatory framework, CG reforms, and the implications of these reforms on companies listed on the EGX. Moreover, since the *de facto* implementation of these rules is essential, those individuals should be able to explain the enforcement approach followed by the EGX, as they are responsible for monitoring companies' adherence to the CG rules and penalising non-compliance, such as through involuntary delisting. This group thus includes current and/or former senior members and employees at the FRA, EGX, MCDR, Ministry of Investment, and the EIoD at any point in time over the last two decades. For structural purposes and ease of reference, this group is named the "**Regulators and Policymakers Group**" and will be referred to hereinafter as the "**Regulators**".

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[964] Kimball Romney, Susan C Weller, and William H Batchelder, 'Culture as Consensus: A Theory of Informant Accuracy' (1986) 88(2) American Anthropologist 88(2) 313, 314

[965] G Guest, A Bunce and L Johnson, 'How Many Interviews Are Enough? An Experiment with Data Saturation and Variability' (2006) 18 Field Methods 59, 59-62; The definition of theoretical saturation: "*Theoretical saturation occurs when all of the main variations of the phenomenon have been identified and incorporated into the emerging theory*".

[966] AJ Kuzel, 'Sampling in Qualitative Inquiry' in BF Crabtree and WL Miller (eds), *Doing Qualitative Research* (Sage Publications 1992) 31-44

[967] Ali Delice, 'The Sampling Issues in Quantitative Research' (2010) 10(4) Educational Sciences Theory & Practice 2001 1, 8

The second group of interviewees consists of shareholders, investors, senior corporate executives and managers from companies that (i) were listed and subsequently delisted from the EGX during the specified period; (ii) experienced the CG reforms and remained listed on the EGX; and (iii) are currently unlisted but meet the perquisites for listing. The perspective of this group is essential for understanding the rationale behind the internal corporate decisions in response to CG reforms adopted by the EGX, particularly since this group must comply with CG rules and listing requirements. It will shed further light on the pressing causes for delisting from the EGX, thereby exploring the influence of the CG reforms on this observed phenomenon. For structural purposes and ease of reference, this group is named the "**Corporate Executives**" and will be referred to hereinafter as the "**Executives**".

Finally, the third group of interviewees comprises market consultants, professionals, scholars, and experts who specialise in CG regulations and the regulatory framework of companies listed on the EGX. These participants provide advisory services to companies and policymakers regarding CG regulations that cover the listing and delisting of companies on the EGX. In light of their advisory roles and professional capacity, these participants will likely provide valuable insights into the impacts of the CG reforms on companies listed on the EGX and their decisions regarding whether to remain listed or pursue delisting. They should also have more knowledge and information about the cost-benefit analysis and trade-offs considered by companies in response to the implementation of CG reforms. Their perspectives are thus essential for understanding the implications of the regulatory reforms and the latter's influence on the behaviour of companies listed and subsequently delisted, those that remain listed, or those considering listing on the EGX. For structural purposes and ease of reference, this group is named the "**Market Experts**" and will be referred to hereinafter as the "**Consultants**".

Therefore, the three groups collectively constitute a representing sample of the stakeholders who (i) promulgate and enforce the CG rules, (ii) are addressed by and required to observe and comply with CG rules, and (iii) advise and support companies concerning listing and delisting decisions, and compliance with the CG rules. The participants are thus diversified and hold various perspectives, which will likely enable the researcher to provide a complete picture and understanding of the matters under investigation in this study.

The 34 participants in this study are thus diverse and sufficient for addressing the matter under investigation, comprising (a) 8 participants representing the Regulators, (b) 14 participants representing the Executives, and (c) 12 participants representing the Consultants. While an

equal number of participants across the three groups might provide balanced perspectives, the variation in numbers is justified by the thesis's objective and the nature of the interview questions.

The primary aim of this thesis is to investigate any potential influence between CG reforms and the massive delistings that occurred on the EGX. Upon analysing the EGX Dataset, it was found that the causes of voluntary delisting for most companies are not available. Thus, to determine these primary causes, more input and insights are needed from the Executives who were directly involved in the delisting decisions or were aware of the rationale behind them. Consultants, being the ones who advise companies on these decisions, are also crucial in providing valuable information in this regard. Therefore, having more significant numbers in the groups of Executives and Consultants, compared to the group of Regulators, would enhance the findings of this thesis.

Additionally, accessing and securing interviews with the Regulators posed practical challenges, which constituted a constraint in increasing their representation. Nevertheless, the number of Regulators included in the interviews is adequate to achieve theoretical saturation, ensuring that no new or contradictory perspectives are required to enrich the analysis. Therefore, this distribution reflects the study's objectives while addressing practical considerations and maintaining methodological rigour.

Furthermore, most participants who agreed to be interviewed requested confidentiality regarding their names and identities in this study, except for two participants who consented to disclose their names and affiliations. Therefore, the researcher cannot provide detailed information about participants to maintain confidentiality. This is in addition to the fact that it would be easy to identify the respective individuals if their qualifications or experiences were highlighted on a per-person basis, as few people work in this field in Egypt.

To facilitate the reporting of the interviews, and since the interview participants were not prepared to disclose their identities, except for two participants, the researcher has adopted a specific coding system to identify each interview participant separately. First, the interview participants are categorised by their group as follows: Regulators and Policymakers ("**RP**"), Corporate Executives ("**CE**"), and Market Experts ("**ME**").

Therefore, the selection of these groups and participants would allow the researcher to gain meaningful insights and draw valuable conclusions about the potential events and reasons that

may have led to the delisting decisions from EGX and the reduction in listed companies over the past twenty years.

5.3.2.2 Designing the Interview Questions

The interview questions are carefully designed to elicit in-depth insights from participants into the dynamics of the listing and delisting of companies on the EGX, as well as the impact of CG reforms on these dynamics. The questions are primarily framed around themes identified in the literature,[968] focusing on the drivers of delisting decisions, perceptions about CG reforms and their potential impact on listing and delisting decisions, and the challenges faced by companies in adopting CG requirements.

Consequently, the questions are prepared to reflect the research questions and study objectives based on existing studies that have explored the economics of regulations and the determinants of delisting in other jurisdictions, including the plausible link between GC reforms and delisting. The conclusions drawn from the analysis of the EGX Dataset are also considered. This approach would most likely enable the researcher to obtain relevant explanations regarding the various views on this issue and discover broader aspects that numerical data alone cannot reveal.

In the process of forming questions for the semi-structured interview, an identical set of interview questions was prepared for all participants across the three groups. In this way, the researcher will likely obtain a consistent dataset from the three groups, which would, therefore, make it easier to analyse and compare the answers received for the same questions. It further warrants that all the participants equally cover matters relevant to this study.

To this effect, the interview questions reflect three primary themes.[969] The first theme is related to the formulation and implementation of CG rules for companies listed on the EGX. This aspect is vital in understanding how CG rules have been designed, reviewed, and implemented on companies listed on the EGX and whether such rules consider the peculiar characteristics of the prevailing business setting, which is an emerging market.

The second theme concerns the delisting from the EGX, which is the core point of the thesis. It includes questions that investigate the delisting phenomenon and the probable impact of CG

[968] e.g., Ruth V Aguilera, Igor Filatotchev, Howard Gospel, and Gregory Jackson, 'An Organizational Approach to Comparative Corporate Governance: Costs, Contingencies, and Complementarities' (2008) Organization Science 19(3) 1, 1-34

[969] *See* the Interview Questions at Appendix (H).

reforms on the delisting decisions. An understanding of the motivations that may have induced companies to pursue delisting or be subject to involuntary delisting is also covered. It also examines the cost and benefit considerations of companies resulting from CG reforms. This theme also considers the potential challenges that companies may have faced in responding to new CG rules.

The third theme of the interview questions relates to the effects that specific rules would have on listing and delisting decisions, as well as the possible changes to the CG framework that might incentivise companies to be listed on the EGX. This is followed by some questions that would help the researcher conclude the thesis with appropriate policy recommendations.

Moreover, the interview questions are open-ended to enable participants to freely share their insights, information, and knowledge with the researcher. The interview questions are also formulated in simple language, without unnecessary technical terms or leading questions, to ensure the clarity of the questions and mitigate any potential bias or varying understanding of the questions by the participants.[970]

Finally, it is also important to note that the interviews were generally conducted in Arabic, as it is the native language of the participants. In this respect, and to make sure that the questions and their respective translations are reliable and consistent, the following steps have been followed:

(1) The interview questions were initially prepared in the English language;
(2) Translation of the questions into the Arabic language;
(3) To ensure the translations were valid and accurate, especially in terms of the identical meaning of questions in the dual languages, the English and Arabic versions of questions were screened and reviewed by some professionals who are fluent in both languages and knowledgeable and experienced in the matters under investigation in this study; and
(4) After obtaining comments on these questions along with their Arabic translations, some edits and revisions were made to address potential issues related to coherence, readability, and harmonisation of the questions.

[970] Mark Saunders, Philip Lewis, and Adrian Thornhill, *Research Methods for Business Students* (4th edn, Prentice Hall 2007) 318, 321, 324

5.3.2.3 Pilot Interviews

The first set of interview questions was pre-tested with four individuals who have knowledge and experience in CG and EGX operations. Nonetheless, those persons were not among the participants in this interview. To familiarise the participants with the interview questions and ensure they fully understand the issues being investigated, the researcher provided them with the introductory chapter of this thesis and both the English and Arabic versions of the interview questions.

Pilot interviews are essential for exploring suitability and ensuring the clarity and consistency of the interview questions.[971] They also allow the researcher to rehearse before conducting the actual interviews, ensuring that participants understand the interview questions and are aware of the appropriate time frame for the interviews. The researcher used the feedback received from the pilot interviews to refine the interview questions, making them as appropriate and relevant to the study's aims as possible, and to enhance the flow of the questions.

5.3.2.4 The Interviewing Process

This subsection outlines the steps taken by the researcher to conduct the semi-structured interviews.

First, upon identifying potential interviewees, the researcher sent them an invitation letter that outlined all preliminary information and details about the researcher, his affiliation, and the purpose of the interview. This invitation letter also provided a brief description of the study's objective, the research question and the general themes that would be addressed during the interview.[972]

Second, the interview questions were also provided to some potential participants who requested their revision before expressing their approval or rejection to participate.

Third, for those who responded positively, a follow-up communication was made to agree on the related arrangements, including the timing and place of the interview. In this respect, most interviews were conducted in person at locations chosen by the interviewees. A few interviews were held virtually. The duration of each interview ranged from 45 to 70 minutes, and the interviews were conducted between June 2021 and December 2022.

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[971] Mark Saunders, Philip Lewis, and Adrian Thornhill, *Research Methods for Business Students* (4th edn, Prentice Hall 2007) 386

[972] *See* the Invitation Letter in Appendix (F).

Fourth, at the beginning of any interview session, the researcher began the interview with the following welcoming opening statements:

"Thanks for accepting my invitation and for taking the time to speak with me today. As mentioned in the invitation letter I sent to you earlier, this interview is conducted for the purpose of my PhD dissertation, which is registered at the Faculty of Law, University of Hamburg, Germany. The thesis's primary objective is to explore the likely impact of CG reforms on the attractiveness of the EGX, specifically whether these changes have contributed to a decrease in the number of listed companies through delistings. Your insightful and rich knowledge about the matters under investigation would help me address them more profoundly and identify the most appropriate policy recommendations in that respect. Thank you."

Fifth, before directing any questions to the respective interviewees, the researcher invited them to review, complete, and sign the consent form for participating in the interview.[973] The researcher further informed the participants of their right to withdraw or decline to answer questions.

Sixth, upon completing the consent form, the researcher asked the interviewees for specific information regarding their qualifications, professional expertise, and current profession.

Seventh, during the interviews, the researcher was permitted to take notes, recording the participants' responses to the questions. Furthermore, to quote certain information or opinions from the participants, the researcher verified the handwritten notes with them at the end of the interview or a few days later.

Eighth, the names of participants were coded to ensure the confidentiality and non-disclosure of any personal data or information about the participants.

Ninth, after concluding each interview, the researcher translated the relevant parts of the interview transcript into English for quotation and reference in the thesis.

Finally, the interviews and data analysis were performed under strict confidentiality. The data were also anonymised during the analysis process, following best research practices,[974] and with full respect for the privacy requests expressed by the participants.

[973] *See* the Consent Form of Interviewees in Appendix (G).
[974] Mark Saunders, Philip Lewis, and Adrian Thornhill, *Research Methods for Business Students* (4th edn, Prentice Hall 2007) 176, 181

5.4 Analytical Framework

This subsection presents the analytical frameworks employed by the researcher to analyse the EGX Dataset and the insights gained during the interviews.

5.4.1 Analysis of EGX Dataset

This section describes the analytical approach used to analyse the EGX Dataset. The primary aim of the analysis is to systematically review listing and delisting patterns on the EGX over time, and, more significantly, to determine whether such patterns are linked to the CG reforms implemented by the EGX. This will be achieved by identifying the observable trends and correlations within the dataset, which contains variables such as delisting data, type, and cause.

In brief, and as outlined above, companies included in the EGX Dataset were required to have been listed on the EGX at any time before 2002, with a particular focus on companies listed during the period from 1992, i.e., the time when the new CML was promulgated, until 2002, i.e., until the adoption of the 2002 Rules. Companies listed and delisted between 2002 and 2021 are also considered and included in this study.

Therefore, prior to delving into the analytical approach and techniques that the researcher follows, it is worth noting the preliminary steps that the researcher has conducted to facilitate comprehensive data analysis, including the following:

First, a data review was conducted to assess the accuracy and completeness of the EGX Datset. This step was essential for identifying any inconsistencies, missing data, or any other irregularities within the dataset. In this step, a particular focus was directed towards the companies' delisting data, mainly their delisting date, type, and cause. While the researcher was able to complete all the missing data for the delisting date and type, the delisting cause was unavailable for 388 companies out of 1,140 companies delisted during the study period.

Second, to prepare for the data analysis, the subsequent step involved categorising the dataset according to key variables, including the listing date, delisting date, delisting types, and delisting causes. The researcher primarily used Excel to organise and sort the dataset in a manner that facilitates a clear and structured presentation of the data. Additionally, both Excel and Tableau programs were used to visualise the data into charts and graphs.

Third, after organising the dataset, the researcher conducted a further thorough review of the data to identify gaps and inconsistencies for the purpose of data cleaning.[975] This step involved completing any missing data, adding the relevant industrial sectors for each company, standardising the format of dates and sectors, and removing duplicate causes.

Fourth, a preliminary analysis of the dataset was conducted to identify broad trends and patterns. This exploratory analysis helped highlight certain aspects of the dataset, including the distribution of listings and delistings over time, the frequency of delistings and their underlying causes, and the potential link between CG reforms and delisting trends. Therefore, this preliminary analysis lays the groundwork for a detailed examination of the EGX Dataset.

Concerning the analytical approach, the researcher adopts a descriptive quantitative analysis, which aligns with the exploratory nature of the matter under investigation. Therefore, graphical and tabular formats will be used to present and discuss the frequency analysis of the listing and delisting trends in the EGX over time.[976] This will help detect general patterns and fluctuations over time. In this regard, the analysis presents the number of listed and delisted events over time and across various industries. It will also reveal the rate of voluntary and involuntary delistings within the dataset. This approach will thus provide a comprehensive overview of delisting patterns and highlight any notable variations associated with CG reforms.

Additionally, a time-series analysis of the listing and delisting events is employed. This temporal analysis involves highlighting critical periods of increased or decreased listing and delisting activities and aligning them with the timeline of major CG reforms. Hence, it will visually identify any correlation between these reforms and the observed delisting patterns. It will further identify any immediate or delayed effects of major CG reforms. By mapping CG reforms against listing and delisting trends, the study will explore whether the CG reforms may have contributed to unintended consequences, such as companies exiting the EGX, as has been observed in other markets.[977]

Furthermore, an industry-specific analysis is conducted to highlight sectors that were more affected by delisting. Prior studies have suggested that CG reforms have uneven impacts across

[975] Mark Saunders, Philip Lewis, and Adrian Thornhill, *Research Methods for Business Students* (4th edn, Prentice Hall 2007) 476
[976] Andy Field, *Discovering Statistics Using IBM SPSS Statistics* (SAGE 2013) 335
[977] John C Coffee Jr, 'Privatization and Corporate Governance: The Lessons from Securities Market Failure' (1999) 25 J Corp L 1, 7-11

industries due to variations in regulatory burdens and market conditions.[978] It is thus helpful to investigate which sectors were more prone to delisting. For this purpose, the researcher has added each company's industrial sector to the EGX dataset, covering 19 industries.

The EGX Dataset includes companies from a wide range of industries. These industries cover the following eighteen sectors:[979] Contracting and Construction Engineering; Education Services; Banks; Travel and Leisure; Real Estate; Trade and Distribution; Shipping and Transportation Services; Non-Banking Financial Services; Healthcare and Pharmaceutical; Food, Beverages and Tobacco; Energy and Support Services; Textiles and Durables; Industrial Goods, Services and Automobiles; IT, Media and Communications Services; Paper and Packaging; Basic Resources; Building Materials; and Utilities.

Furthermore, a content analysis is conducted. The categorisation of the delisting types, i.e., voluntary and involuntary, would provide nuanced perspectives into the drivers behind companies exiting the EGX. Voluntary delistings are associated with strategic decisions, such as mergers, acquisitions, or privatisations. Studies suggest that companies may delist voluntarily to escape perceived excessive regulatory oversight, avoid disclosure requirements, or pursue private capital alternatives.[980] This analysis explores whether these factors are prevalent among EGX-listed companies.

On the other hand, involuntary delistings occur due to regulatory enforcement or failure to meet listing requirements. These delistings are tied to CG deficiencies, financial distress, or insufficient market activity.[981] This analysis will thus help investigate whether the CG reforms have tightened compliance thresholds, thereby contributing to an increase in involuntary delistings from the EGX.

[978] Ruth V Aguilera and Alvaro Cuervo-Cazurra, 'Codes of Good Governance' (2009) 17(3) Corporate Governance: An International Review 376, 376-377

[979] This sectoral division follows the current classification followed by the EGX.

[980] Hadiye Aslan and Praveen Kumar, 'Strategic Ownership Structure and the Cost of Debt' (2012) 25(7) The Review of Financial Studies 2257, 2260

[981] Craig Doidge, G Andrew Karolyi, and René M Stulz, 'The US Listing Gap' (2017) 123 Journal of Financial Economics 464, 464-466; Barbara Fidanza, Ottorino Morresi, and Alberto Pezzi, *The Decision to Delist from the Stock Market: Theory and Empirical Evidence of Going Private* (Palgrave Macmillan 2018) 148

5.4.2 Analysis of Semi-Structured Interviews

The interview process employs purposive sampling,[982] which provides for the selection of interviewees who have knowledge and expertise in the underlying subjects, e.g., the EGX, delisting, and CG reforms. Additionally, snowball sampling is used, where initial participants recommend further interviewees with relevant expertise.[983] This dual-sample approach enhances the diversity and validity of the qualitative data.

The semi-structured interview method of data collection generates substantial amounts of textual data, which can be time-consuming to analyse, particularly for researchers with limited prior experience in handling and interpreting such data.[984]

Therefore, thematic analysis is employed to interpret the interview data,[985] identifying common themes, concerns, and divergent perspectives.[986] This thematic analytical framework is considered a valuable method for "identifying, examining, recording themes within data, with these themes being defined as patterns explaining certain phenomena",[987] which would then be analysed and processed using "coding".[988]

Moreover, the iterative nature of thematic analysis enables researchers to thoroughly explore the data on emerging themes in order to enhance the credibility and reliability of the findings.[989]

Accordingly, this study followed the six-step process recommended by John Creswell to guide the thematic analysis of the interview data.[990] Creswell's framework consists of six distinct stages, which are designed to allow researchers to move iteratively, permitting a back-and-

[982] C Teddlie and F Yu, 'Mixed methods sampling: A typology with examples' (2007) Journal of Mixed Methods Research 1(1) 77, 77–100; N K Denzin and Y S Lincoln (eds), *The Sage Handbook of Qualitative Research* (3rd edn, Thousand Oaks: Sage Publications 2005) 100
[983] Mark Saunders, Philip Lewis, and Adrian Thornhill, *Research Methods for Business Students* (4th edn, Prentice Hall 2007) 232-233, 611
[984] Emma Bell and Alan Bryman, 'The Ethics of Management Research: An Exploratory Content Analysis' (2007) 18 British Journal of Management 63, 63-70
[985] Interview data is analysed thematically, as described by Virginia Braun and Victoria Clarke, 'Using Thematic Analysis in Psychology' (2006) 3(2) Qualitative Research in Psychology 1, 4-5
[986] Noel Pearse, 'An Illustration of Deductive Analysis in Qualitative Research' in *Proceedings of the European Conference on Research Methods in Business and Management Studies* (Academic Conferences Ltd 2019) 264-270
[987] Michael D Myers, *Qualitative Research in Business & Management* (3rd edn, SAGE 2020) 210
[988] Ibid
[989] Lorelli S Nowell, Jill M Norris, Deborah E White, and Nancy J Moules, ' Thematic Analysis: Striving to Meet the Trustworthiness Criteria' (2017) 16 International Journal of Qualitative Methods 1, 1-4, 11
[990] John W Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (SAGE 2003) 190-195

forth approach between these stages to ensure that data are thoroughly and adequately interpreted. These steps are as follows:

Step (1): Transcribing the interviews and organising associated notes to ensure the data is prepared and structured appropriately for analysis.

Step (2): Engaging deeply with the transcribed interview data and accompanying notes to build a thorough understanding of the data. This step also includes identifying latent meanings, underlying patterns, key themes, and initial insights that can inform the subsequent stages of analysis.

Step (3): A comprehensive analysis of the data is undertaken. This involves grouping or categorising sentences and paragraphs based on similarities in meaning and then assigning a specific code to each category. Codes are defined as concise words or phrases used to describe or summarise a segment of text, such as a sentence, a paragraph, or even an entire interview.[991] This coding will help shrink the size of the textual data and organise the data for a meaningful analysis by systematically categorising materials included in the texts and subsequently counting the occurrences of these categories.[992] This process helps to organise the data systematically and lays the groundwork for identifying emerging themes.

Step (4): The codes assigned in the previous stage are then consolidated to create a smaller number of overarching themes, typically around 5-7, which serve as the main headings in the findings section of the report. This step facilitates the organisation of the data into coherent and meaningful categories for presentation and analysis.

Step (5): The themes generated through the coding process are subsequently presented and discussed in a narrative format to convey the findings derived from the data. These themes are further substantiated with direct quotations from respondents' statements, providing contextual evidence and enhancing the credibility of the analysis. This step further aligns the emergent themes with the research questions by linking the qualitative findings with the secondary quantitative data explained in the previous chapter.

Step (6): Interpretation of the results to either validate or challenge prior research, which would improve the understanding of the existing knowledge or contribute to the development of new

[991] Michael D Myers, *Qualitative Research in Business & Management* (3rd edn, SAGE 2020) 208
[992] Matthew B Miles and A Michael Hubermann, *Qualitative Data Analysis* (2nd edn, SAGE 1994) 56

theories. This process helps deepen the understanding of the phenomenon being studied and positions the study within the broader scholarly context.

This analytical framework would provide a clear understanding of the impact of CG reforms on delisting trends at the EGX.

5.5 Research Validity and Reliability

This section describes the measures taken to enhance the validity and reliability of the data analysis to draw reliable conclusions. Validity refers to the degree to which research tools accurately measure what they are intended to measure, thereby providing accurate results for the study.[993] On the other hand, reliability is related to the consistency and replicability of the findings in order to ensure that the results obtained are stable upon repetition of the study under similar conditions.[994]

Accordingly, the validity and reliability of both the descriptive quantitative analysis and the qualitative analysis are addressed, in turn, below:

5.5.1 Quantitative Descriptive Analysis

The descriptive quantitative analysis is validated by initially securing the secondary data used for this analysis from the EGX, an authoritative and verified source.[995] In this respect, the data of listing and delisting events are matched with accurate and updated information, as included in the EGX's records. The presentation of the data, without introducing spurious correlations or causal interferences, further ensures the integrity of the study's findings.

Furthermore, to enhance the reliability of the study, the secondary data retrieved from the EGX are systematically reviewed for consistency, competence, and accuracy, with any discrepancies resolved through cross-verification with reliable supplementary sources.

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[993] J Ruane, *Introducing Social Research Methods* (1st edn, Wiley-Blackwell 2015) 85-89; Lydia Repke, Lukas Birkenmaier, and Clemens M Lechner, *Validity in Survey Research - From Research Design to Measurement Instruments* (GESIS – Leibniz-Institute for the Social Sciences 2024) 1

[994] Daniel Danner, *Reliability – The Precision of a Measurement* (GESIS – Leibniz-Institute for the Social Sciences 2016) 1-2; Fiona Middleton, *The 4 Types of Reliability in Research | Definitions & Examples* (Scribbr, 22 June 2023) 2 <https://www.scribbr.com/methodology/types-of-reliability/> accessed 11 January 2025

[995] Mark Saunders, Philip Lewis, and Adrian Thornhill, *Research Methods for Business Students* (4th edn, Prentice Hall 2007) 254-255; Rahul Ramachandran, Manil Maskey, Christopher Lynnes, Aruni John and Tathagata Mukherjee, 'Investigating Different Data-Traceability Approaches to Prevent Data Swamps' (2022) 10(3) IEEE Geoscience and Remote Sensing Magazine 332, 332; Melissa P Johnston, 'Secondary Data Analysis: A Method of which the Time Has Come' (2014) 3 Qualitative and Quantitative Methods in Libraries 619, 620-621

5.5.2 Qualitative Analysis

The validity of the interview data is first materialised from the construction of a semi-structured interview guide based on an analysis of scholarly studies concerning the economics of regulations and the delisting phenomenon in other jurisdictions. Consequently, the interview questions are contextually relevant and align with the broader discourse in this field. They were also piloted with experts in law and finance to confirm clarity, relevance, and appropriateness in achieving their objectives.

To enhance reliability, interviews are conducted using a standardised protocol to minimise interviewer bias. The same questions are posed consistently in a similar manner,[996] while allowing for flexibility in follow-up questions to capture more profound insights. Also, thematic coding of interview responses is conducted to ensure consistency in interpreting qualitative data. Furthermore, efforts are made to minimise potential biases, including selection bias, i.e., by ensuring a diverse sample of interview participants, and confirmation bias, i.e., by maintaining a neutral stance during data interpretation. The raw data used in both quantitative and qualitative analyses is also securely stored and available for verification.

Finally, the triangulation adopted in this study, which involves data from multiple sources, strengthens the credibility of the findings.[997]

5.6 Ethical Considerations

This research adhered to standard ethical guidelines throughout its execution, including interactions with interview participants and the analysis of data.[998] It aimed to ensure professionalism and ethical integrity throughout the research process.

First, concerning the secondary data obtained from the EGX, although the collection itself was made legitimately, due consideration was given to acknowledge the source of the data accurately and to ensure that it is used only within the purview of this study. An effort has further been made to ensure, to the extent possible, that the data presented in the study is accurate to avoid misrepresentation. Additionally, the data were aggregated to prevent conclusions at an individual level that might accidentally lead to any damage.

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[996] David A Erlandson, Edward L Harris, Barbara L Skipper, Steve D Allen, *Doing Naturalistic Inquiry A Guide to Methods* (SAGE Publications1993) 11

[997] U Flick, *An Introduction to Qualitative Research* (7th edn, SAGE 2022) 173

[998] S Easterby-Smith and J Bartunek, 'Research Methods for Organizational Learning: The Transatlantic Gap' (2009) 40(4) Management Learning 439, 439-446

Second, for the semi-structured interviews, the researcher has been guided by the recommended ethical considerations of Easterby-Smith et al.[999] In particular, the researcher ensured that all participants had provided written informed consent prior to the start of the interview. They were also provided with an information sheet outlining the study's objectives, the voluntary nature of their participation, their right to withdraw at any time, and the procedures for data usage, storage, and protection. This approach ensures transparency regarding the study's objective and subject matter, as well as the researcher's affiliations, which were disclosed to all participants prior to the interviews.

Additionally, to protect the participants' identities and ensure that no harm is caused to any of them, the interview responses are anonymised and stored securely. No identifying information is included in the study's analysis and results, as requested by the participants, save for two participants who provided consent to the disclosure of their identities. Accordingly, to maintain transparency, the analysis process is documented, and data sources are cited. However, raw data from interviews are kept confidential to respect the commitment to participants' privacy.

Furthermore, the researcher was keen on establishing a neutral and respectful environment during interviews to ensure participants felt comfortable sharing their insights. The interview questions were also carefully designed to be neutral, avoiding leading or loaded language that could influence participants' responses. Finally, no misleading or false information about this study was given to anyone.

By adhering to these ethical principles, the study ensures that the research is conducted responsibly, respects the rights of all stakeholders, and produces credible, reliable, and ethically sound results.

5.7 Conclusion

This Chapter outlined the research process used to investigate the potential link between CG reforms and delisting patterns on the EGX. Combining descriptive analysis of secondary data and thematic understanding derived from semi-structured interviews, the study aims to gain an integrative understanding of the possible interrelationship between CG reforms and market response. The following chapters will present findings based on the application of the methodological framework described in this Chapter.

[999] S Easterby-Smith and J Bartunek, 'Research Methods for Organizational Learning: The Transatlantic Gap' (2009) 40(4) Management Learning 439, 439-446

Chapter 6: Influence of CG Reforms on Delisting Trends in the EGX

6.1 Introduction

The preceding chapters established the primary foundations for exploring the potential influence of CG reforms on the delisting trend observed in the EGX. Chapter 2 discussed the leading determinants of delisting globally and in EMs, along with their connection to CG regulations. Chapter 3 then provided the theoretical framework of this thesis by highlighting the rationale behind the government's intervention in the market through regulation and the key aspects necessary for such regulation to achieve its intended objectives. Subsequently, Chapter 4 traced the evolutionary path of the EGX and CG regulations in Egypt. In addressing the thesis question, Chapter 5 explained the methodological approach employed in this study, mainly a mixed research methodology consisting of a descriptive quantitative analysis of the EGX Dataset, followed by semi-structured interviews.

This Chapter is thus dedicated to the descriptive quantitative analysis of the EGX Datase. The objective of this analysis is to examine the potential impact of CG reforms on the delisting trends observed on the EGX from 2002 to 2021.

As explained earlier in Chapter 5, the data were formally obtained from the EGX, with some modifications and additions made by the researcher to address missing values and include further variables for the analysis, resulting in the EGX Dataset. It contains information about the companies listed and delisted from the EGX, totalling 1,353 companies, during the specified period of this study. This information primarily encompasses the companies' respective names, listing codes, authorised capital, industrial sectors, listing dates, delisting dates, delisting types, and delisting causes, when available.

This Chapter is organised as follows. **Section (6.2)** explores the listing and delisting patterns observed between 1970 and 2021. This is followed by **Section (6.3)**, which examines the underlying particularities of delistings from the EGX since September 2002, i.e., the date of the first reported delisting incident until December 2021. This section investigates the delisting ratio, types, determinants, and patterns across different sectors. Finally, **Section (6.4)** summarises the findings and concludes the analysis.

6.2 The Listings and Delistings Pattern in the EGX

This section examines the patterns of listings and delistings in the EGX from 1970 until 2021.[1000] Presenting and analysing the aggregate numbers of active listed companies, newly listed companies, and those delisted over this period is likely to reveal valuable insights into the appeal of the EGX. It will also highlight the periods of elevated listings and/or delistings.

The timing of the listings and delistings on the EGX is likely to shed light on the presence of any correlation between these activities and CG reforms adopted by the EGX starting in 2002. This is because, as this thesis posits, the delistings from the EGX, coupled with a low number of new listings, are potentially linked to the regulatory changes imposed on companies listed on the EGX, which may have undermined the EGX's appeal as a venue for raising capital. This hypothesis is supported by some existing studies that highlight the potential for GC reforms to produce inadvertent or unintended consequences.

Therefore, analysing the general trends in listings and delistings can indicate the likelihood of a positive or negative influence of CG reforms on EGX's size, measured by the number of listed companies. More importantly, since the EGX Dataset includes listing data dating back to 1970, i.e., almost 32 years before the implementation of CG reforms in 2002, it is plausible to assume that changes in listing activity and the aggregate number of companies listed on the EGX after 2002 could be interrelated to these reforms, assuming all other factors affecting the listing activity remain constant. In other words, the EGX Dataset will help compare the listing and delisting patterns before and after the regulatory reforms, thereby making it feasible to identify any potential impact of these reforms.

In this respect, since the duration being analysed is long and varied regulations have been implemented on EGX-listed companies during this time, the pattern analysis of delistings and listings shall be segmented into periods corresponding to substantive regulatory changes at the time. Each period, therefore, shall be analysed against the regulatory environment applicable to the listed companies at the time.

As described in Chapter 4, EGX has implemented significant regulatory changes over the past two decades to enhance CG practices among listed companies, aiming to improve shareholder protections and enhance market credibility. The foremost milestone in forming the regulatory

[1000] The dataset also includes one company that was listed in 1958, which is considered as listed in 1970 for the purpose of this analysis.

framework governing companies listed in the EGX was the promulgation of the CML. This was followed by the issuance of the 1994 Rules, which were the first listing and delisting rules applicable to companies listed on the EGX, by the then CMA.[1001]

Afterwards, on 18 June 2002, the then CMA, currently the FRA, overhauled the 1994 Rules with the issuance of the 2002 Rules, aiming to strengthen disclosure obligations on companies listed on the EGX in alignment with the best international practices at that time.[1002] The promulgation of the 2002 Rules was part of the regulatory reforms adopted by Egypt within the context of its economic reform program with the IMF to make the EGX more appealing to foreign investors.

Since then, the 2002 Rules have remained applicable, with some ongoing amendments, until 2014, when the FRA issued the 2014 Rules on 22 January 2014, with an effective date of 1 February 2014. However, the 2014 Rules have been applicable with some continuous amendments to date.

As shown in Figure (3) below, concurrent with these regulatory changes, a significant fluctuation in the number of companies listed on the EGX was observed, mainly due to a notable number of companies leaving the EGX, with no offset by new listings.

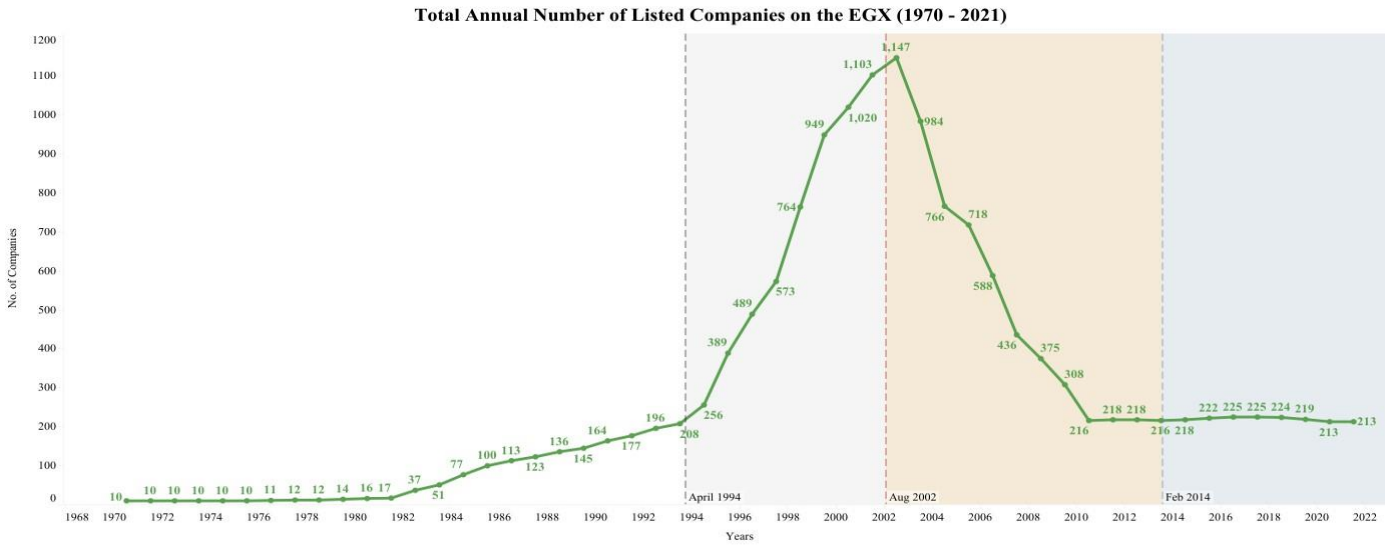

Figure 3: The Total Annual Number of Listed Companies on the EGX from 1970 to 2021 With an Intersection of the 1994 Rules, 2002 Rules, and 2014 Rules.

[1001] The 1994 Rules were issued by virtue of the CMA Decree No 3 for the year 1994. The 1994 Rules became effective as of 1 April 1994.

[1002] The 2002 Rules entered into force for new listings on 1 August 2002, according to Article (6) of the Issuing Provisions of the 2002 Rules.

This figure shows a steady increase in the number of companies listed on the EGX following the promulgation of the CML and the issuance of the 1994 Rules, reaching a peak with 1,147 listed companies in August 2002. However, this rise in the number of listed companies was not sustained. A sharp decline was observed in the period after the adoption of the 2002 Rules, implying a possible contribution to this decline. Additionally, no material fluctuation in the number of listed companies was observed after the introduction of the 2014 Rules. This may suggest that market participants may not have fully embraced the 2014 Rules.

In light of these observations, the incorporation of CG regulations into the 2002 Rules highlighted a critical phase, after which a noticeable decrease in the total number of listed companies occurred. However, to determine whether this substantial decline is related to the adoption of the 2002 Rules, an analysis of the listing pattern before the 2002 Rules will be conducted first.

Accordingly, since the 2002 Rules are considered a turning point, this section will first examine the listing pattern from 1970 until 31 July 2002, followed by an analysis of both the listing and delisting patterns from 1 August 2002, i.e., the date of issuance of the 2002 Rules, to 31 December 2021.

6.2.1 The Listing Pattern from 1970 to 2002

This section analyses the pattern of listings on the EGX over the period from 1970, the first year for which listing data was available, until 31 July 2002, the last date preceding the issuance of the 2002 Rules.

As shown in Figure (4) below, the annual number of companies listed on the EGX surged significantly during this period, totalling 1,147 companies in August 2002.

Figure 4: The Number of Annual Listed Companies on the EGX from 1970 to 2002

This figure demonstrates a continuous increase in the aggregate number of companies listed on the EGX from 1970 until 31 July 2002. It also shows that the number was relatively low in the initial years but gradually increased from the mid-1980s onward. As explained in Chapter 4, the EGX was stagnant during this period due to the nationalisation policies adopted by Egypt, which is why the EGX had a low number of listed companies at that time.

On the other hand, a significant increase in the number of listed companies occurred in the 1990s, reaching its peak in the early 2000s, with a total of 1,147 companies listed on the EGX.

In this regard, in addition to presenting the annual numbers of listed companies, it is helpful to identify EGX's growth and appeal in terms of the newly listed companies each year. This would highlight the total number of annual listings on the EGX. Therefore, Figure (5) below shows the number of new listings over these years, indicating the high and low years of listing activity.

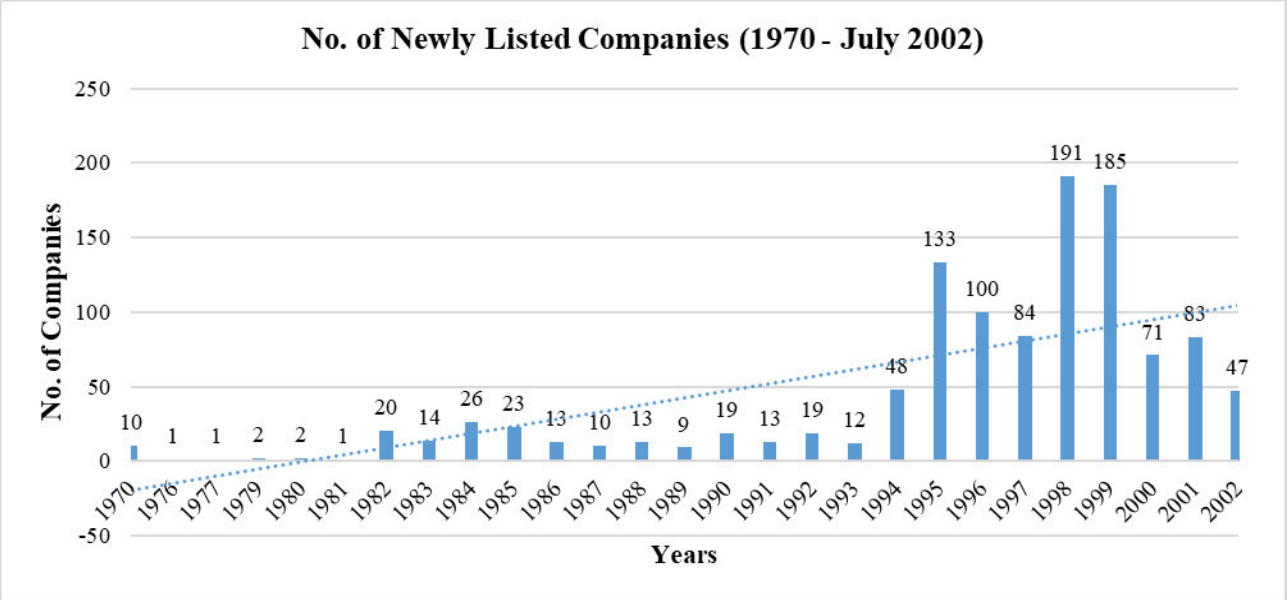

Figure 5: The Number of Newly Listed Companies from 1970 to July 2002

The above figure shows a general upward trend in the number of newly listed companies over the period from 1970 to July 2002. This is supported by the positive slope shown by the dotted trend line. Nevertheless, there have been significant fluctuations in the number of newly listed companies, with several years experiencing sharp increases or declines.

Hence, since different regulations applied to the companies listed on the EGX over these 30 years, the listing activity and pattern during this period is better analysed when divided into two intervals, as follows: (a) from 1970 to May 1992, being the period before the promulgation of the CML in June 1992; and (b) from June 1992 to July 2002, being the period after the promulgation of the CML, including the adoption of the 1994 Rules, and before the implementation of the 2002 Rules. This distinction will likely highlight any positive or negative correlation between the promulgation of the CML, along with the 1994 Rules, and the listing activity on the EGX, considering that delisting data were not available for this period.

6.2.1.1 From 1970 to May 1992: Pre-the Promulgation of the CML

From a regulatory perspective, during this period, CASE operations, including listing requirements and obligations, were governed by specific laws and regulations dating back to 1909, when a Khedive Edict was promulgated, establishing the first regulations for the exchange, known as the "*Bourse*", on 8 November 1909. This Edict was subject to subsequent amendments until the issuance of the CML in June 1992. In this respect, and for the sake of

completeness, Appendix (A) provides a chronological list of the laws and regulations governing EGX operations prior to the enactment of the CML.

Nevertheless, before the promulgation of the CML, the listing requirements and obligations of companies listed from 1970 until May 1992 were primarily regulated by Law No. 161 of 1957 concerning the General Regulations of Stock Exchanges (the "**1957 Law**"),[1003] as amended by Law No. 121 of 1981 (the "**1981 Law**").[1004] Consequently, all newly listed companies during this period were subject to the listing requirements and obligations enshrined in the 1957 Law, as amended by the 1981 Law.

However, before analysing the listing activity during these periods, it is essential to explain the primary legal regulations applicable to listed companies under these laws to identify the regulatory framework relevant to the period under investigation. Understanding changes in legal rules over the years may provide insights into the linkage between these changes and the fluctuations in the number of listed companies on the EGX. In this regard, since the 1957 Law replaced the first Royal Law promulgated in 1933 governing the operations of the EGX (the "**1933 Decree**"),[1005] it is helpful to draw a comparison between these three legal frameworks to explore their potential influence on listing activity.

Therefore, Table (1) below presents the primary listing and delisting requirements embedded in those laws, as follows:

[1003] Law No 161 of 1957 Concerning the General Regulations of Stock Exchanges, issued on 13 July 1957, published on 13 July 1957 Egyptian Official Gazette
[1004] Law No 121 of 1981 amending Law No 161 of 1957, issued on 21 July 1981, published on 22 July 1981, Egyptian Offiicial Gazette Issue No 29(bis)
[1005] Decree of 1933 Concerning the General Regulations of Stock Exchanges, issued on 31 December 1933, published on 1 January 1934, Egyptian Official Gazette Issue 2

Items	The 1933 Decree	The 1957 Law	The 1981 Law
Listing Application	The Listing application for security in the official price schedule must be submitted in writing by the concerned company to the Chairman of the Stock Exchange Committee.	The listing application for securities issued by any joint-stock company must be submitted to all stock exchanges in Egypt for inclusion in their price schedules within one year at the latest from the date of issuance if they were offered for public subscription and within three months following the publication of the third-year balance sheet if they were not offered for public subscription. Companies must provide the committees with all necessary documents for listing and pay the subscription fees and other amounts specified in the internal regulations.	The application for the listing of securities issued by any joint-stock company must be submitted to all stock exchanges in Egypt for inclusion in their price schedules within one year at the latest from the date of closing the subscription if they were offered for public subscription, and within three months following the publication of the third-year balance sheet if they were not offered for public subscription (Amended Art. 55). [Remained Effective and Applicable]

	The following documents must accompany the listing application: 1. A copy of the company's incorporation contract and its bylaws, including any amendments to them, as well as a copy of the decree authorising the incorporation of the company, if available. 2. The prospectus of the securities, signed by the responsible individuals, if they were offered in a public subscription. 3. The financial statements of previous years. 4. A sample of shares or bonds. 5. All other official documents that help establish the company's status (Art. 8).	The following documents must accompany the listing application: 1. A copy of the company's incorporation contract, its bylaws, any amendments to them, and a copy of the decree, decision, or official document related to the incorporation of the company. 2. The prospectus of the securities, signed by the responsible individuals, if they were offered in a public subscription. 3. The financial statements of previous years. 4. A sample of the shares and bonds. 5. All other official documents requested by the Stock Exchange Committee to recognise the status of the company. 6. All other commitments, documents, and guarantees that are deemed	[Remained Effective and Applicable]

		necessary by the Stock Exchange Committee (Art. 55).	
Eligibility Criteria	No securities shall be accepted in the price schedule, regardless of the nationality of the concerned company, under the following conditions (Art. 61): 1. Securities of a company with a paid-up capital of less than EGP 750,000 for the spot contracts market and EGP 150,000 for the futures contracts market. 2. Shares of companies that have not undergone a public subscription unless the company has previously published satisfactory accounts for at least five consecutive years. 3. Bonds of companies whose shares are not listed in the official schedules of the Egyptian stock exchanges or the stock exchanges of the countries to which these companies are subject.	To be accepted in the price schedules, securities must satisfy the following conditions (Art. 57): 1. The company's paid-up capital must be at least 50,000 pounds. 2. The shares must be in certificates of one share or multiples of five shares, not exceeding twenty-five shares in one certificate. 3. The shares must have been offered in a public subscription unless the company has published satisfactory accounts for at least three consecutive years. Companies established by the Economic Institutions were exempted from this condition.	To be accepted in the price schedules, securities must satisfy the following conditions (Amended Art. 57): 1. [Remained Effective and Applicable] 2. The shares must be in certificates of one share or multiples of five shares, not exceeding 1,000 shares in a single certificate. 3. [Remained Effective and Applicable]

	4. Securities for which the paid-up amount of the nominal value does not comply with specific requirements enshrined in this law.	4. The bonds must be issued by companies whose shares are listed in the official schedules of Egyptian stock exchanges. If they belong to a foreign company, they are subject to other special conditions. 5. The nominal value of the securities must be fully paid. If the value exceeds one pound, at least half of it must be paid, with a minimum of one pound.	4. [Remained Effective and Applicable, with some changes to the requirements for the securities of foreign companies] 5. The company's shares must be fully subscribed, and if the share value is paid in instalments, at least a quarter of the value must be paid. The shares are to be listed in the temporary price schedule until the total value is paid.
Listed Companies' Obligations	A company whose securities are listed on the stock exchange must take the necessary measures to ensure the payment of its coupons and dividends in every city where the stock exchange accepts those securities. Listed companies must send to the Stock Exchange Committee, at the end of each	A company whose securities are listed on the stock exchange must (Art. 62): 1. Take the necessary measures to ensure the payment of its interest and dividends in the city where the stock exchange is located.	A company whose securities are listed on the stock exchange must (Amended Art. 62): 1. [Remained Effective and Applicable]

	financial year, the official documents related to the company's status, such as the annual accounts, profit and loss statements, annual reports submitted by the board of directors and auditors, as well as all documents related to any amendments in the company's incorporation contract or bylaws (Art. 68).	2. At the end of each financial year, the official documents related to the company's status, such as the balance sheet, profit and loss statements, and reports from the board of directors and auditors, are sent to the Stock Exchange Committee. 3. Send to the Stock Exchange Committee all documents related to amendments made to the articles of incorporation or the company's bylaws. 4. Immediately upon approval, notify the Stock Exchange Committee of the board of directors' decisions regarding	2. At the end of each financial year, the official documents related to the company's status, such as the balance sheet, profit and loss statements, and reports from the board of directors and auditors, are sent to the Stock Exchange Committee. These documents must be sent at least fifteen days before the date of the shareholders' general assembly meeting, and the company is not exempt from this obligation even if it publishes these documents in the newspapers. 3. [Remained Effective and Applicable] 4. [Remained Effective and Applicable

		the determination of the coupon value and the payment date. 5. Provide the Stock Exchange Committee with any requested data and information related to the company's status, provided that such requests do not conflict with the company's own interests.	5. [Remained Effective and Applicable]
Delisting of Securities	The Stock Exchange Committee shall delist from the official price schedule (Art. 69): 1. Securities that no longer meet the required conditions for listing. 2. Securities of companies that are in a state of bankruptcy. 3. Securities for which the companies fail to meet the obligations stipulated in Article 68 after being notified by the	The Stock Exchange Committee shall delist from the official schedule by a two-thirds majority of its members (Art. 63): 1. Securities that no longer meet the stipulated conditions for their listing. 2. Securities of companies that have been declared bankrupt or whose invalidity has been definitively ruled.	[Remained Effective and Applicable]

	Committee and given the time frame granted by it. 4. Securities of companies for which a final judgment has been issued by the competent courts declaring their invalidity and non-existence legally.	Delisting a company's securities does not confer any rights to the company, its shareholders, or others against the Stock Exchange Committee or its members.	

TABLE 1: A Brief Explanation of the Primary Listing and Delisting Requirements and Obligations Enshrined under the 1933 Decree, the 1957 Law, and the 1981 Law.

The table above illustrates the evolution of listing and delisting rules in Egypt, including those related to shareholder protection, by comparing listing application requirements, eligibility criteria, ongoing listing obligations, and delisting events across the 1933 Decree, the 1957 Law, and the 1981 Law. The 1933 Decree outlined the primary conditions for listing securities, requiring companies to submit essential documents, including incorporation contracts, bylaws, prospectuses, and financial statements for previous years. These requirements remained in the 1957 Law and the 1981 Law, with some additional provisions. These additions were the payment of the listing fees and any other applicable amounts, thereby introducing a financial burden on companies willing to list their shares. They also imposed another obligation on the companies, requiring the submission of any documents, commitments, and guarantees that the stock exchange might deem necessary. This could be viewed as adding a layer of protection for shareholders by listing only appropriate companies.

Concerning the eligibility criteria for listing, the 1933 Decree provided a negative list, excluding companies with certain features, including financial, numerical, and other, from listing. The 1957 Law and 1981 Law did not follow the same suit. They have provided a positive list detailing the conditions that must be met for a company's shares to be listed. Unlike the 1933 Decree, the conditions in the 1957 Law and the 1981 Law were more lenient. For example, they required the submission of published financial statements for three consecutive years preceding the listing application, while the 1933 Decree required five consecutive years. Additionally, companies with a paid-up capital of less than EGP 750,000 were not eligible for listing under the 1933 Decree. This amount was significantly reduced to EGP 50,000 under both the 1957 Law and the 1980 Law, which implied a willingness to encourage more companies to trade their securities publicly at that time.

However, while the 1957 Law and the 1981 Law appeared to be less restrictive than the 1933 Decree, they imposed stricter ongoing obligations on listed companies, aiming to offer more protection to shareholders. For example, they required companies to inform the exchange immediately of the board of directors' decisions regarding the determination of coupon value and payment dates. Additionally, the 1981 Law imposed another obligation on companies, requiring them to send the financial statements, balance sheets, loss and profit statements, and reports of the board of directors and auditors to shareholders 15 days prior to the date of the shareholders' general meetings, granting shareholders the time to evaluate the company's performance before the general meeting.

An interesting addition in the 1957 Law and the 1981 Law was the exception granted to listed companies from submitting any additional documents and information to the exchange when these documents or information would constitute a conflict of interest with the company's interest.

However, the focus remained largely procedural. The eligibility criteria centred on capital thresholds and the public subscription of shares, reflecting the need to establish a basic level of trust and accountability in the market.

Furthermore, the three regulatory frameworks encompassed provisions for involuntary delisting only. The underlying events for delisting are almost identical, providing for the delisting of companies if they fail to meet the required listing conditions, are bankrupt, or are declared invalid by a court order. However, the 1933 Decree was more rigorous, adding another delisting event, which was the failure to pay dividends on time.

Furthermore, to stimulate the listing activity during this period, companies listed on the EGX were granted, starting in 1981, a tax exemption equivalent to a percentage of the paid-up capital, provided that this exemption does not exceed the interest rate adopted by the Central Bank of Egypt on bank deposits for the relevant accounting year.[1006]

Consequently, and in light of these regulatory frameworks, the number of newly listed companies from 1970 until May 1992 is shown in Figure (6) below:

[1006] The Tax Income Law No 157 of 1981, issued on 7 September 1981, published on 10 September 1981, Egyptian Official Gazzette Issue No 37(bis), art 120. This exemption was cancelled by virtue of the Tax Income Law No 91 of 2005 issued on 9 June 2005, and effective from 10 June 2005, Official Gazzette 23(bis).

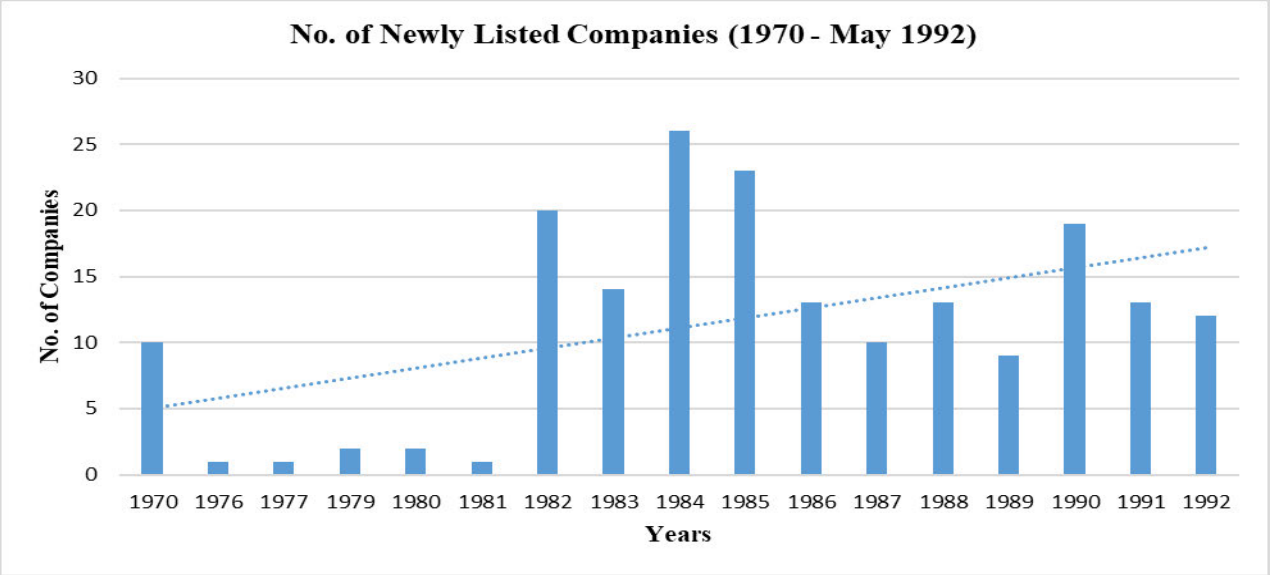

Figure 6: The Number of Newly Listed Companies from 1970 to May 1992.

In terms of numbers, this figure reveals that, before the promulgation of the CML, the aggregate number of listed companies on the EGX was increasing, reaching 189 companies in May 1992. It also illustrates that the number of newly listed companies per year in the 1970s was insignificant, with a total of 17 companies listed until 1981. The year 1970 witnessed the listing of 10 companies, while the rest of the decade featured a very low number of new listings, with almost five years having no new listings and many other years having only 1 or 2 newly listed companies.

The absence of listing activity from 1970 to 1976 can be attributed to the disruptions caused by prevailing circumstances at that time, particularly the 1973 war, which likely contributed to stagnation in new listings on the EGX during this period.

On the other hand, the number of listed companies significantly increased in the early 1980s. A total of 172 companies were listed from 1982 to May 1992. The year 1982 marked a notable increase with 20 new listings, just a few months after the promulgation of a tax exemption for the companies listed on the EGX. The peak occurred in 1984 with 26 new listings, representing the highest number of new listings in this decade. Additionally, 23 new lists were added in 1985. This surge in the number of listed companies could likely be attributed, in part, to the tax exemption granted to companies listed on the EGX starting in 1981, which was considered an incentive to encourage companies to go public and list their shares on the EGX.

However, the mid-to-late 1980s maintained a moderate number of new listings, fluctuating between 9 and 13 new listed companies per year. Additionally, a notable increase in the number

of newly listed companies was observed in the early 1990s, with 19 new listings in 1990. Generally, the 1980s and 1990s periods continued to observe a higher number of new lists than the 1970s, indicating a trend of more frequent new listings.

This trend may be related to the economic conditions, regulatory frameworks, and market sentiment prevailing during this period. Since the focus of this thesis is on the regulatory context, the positive listing trend since 1982 suggests that the applicable regulations during this period have made listing on the EGX more appealing for companies.

Nevertheless, while the surge in listing activity could likely be partially attributed to the tax exemption granted to listed companies, this likely positive influence was short-lived. As shown in the figure above, the number of newly listed companies on the EGX began to decline in 1991 and fluctuated between 1986 and 1989. However, in all cases, the influence of this tax exemption could still be evaluated in light of the listing and delisting trends within the prevailing circumstances and regulatory frameworks in the following years.

To conclude, Figure 6 above shows a growing increase in the number of listed companies from 1970 to May 1992, despite the notable fluctuations observed during some years in this period. The early 1980s and 1990s were periods of remarkable boosts, with 1984 being a standout year for new listings, with 26 companies listed.

6.2.1.2 From June 1992 to July 2002: Post-Promulgation of the CML

As demonstrated above, the legal and regulatory frameworks applicable to companies listed on the EGX have undergone continuous changes. This subsection presents the listing pattern since the promulgation of the CML in June 1992.

In brief, the CML requires companies to fulfil specific numerical criteria and some ongoing disclosure requirements to be and remain listed on the EGX.[1007] For example, companies must disclose their financial statements, budgets, and reports from their board of directors annually. Additionally, companies are required to submit a semi-annual disclosure about their activities and operations, ensuring that shareholders remain well-informed about their performance. Furthermore, another immediate disclosure is necessary for material events that would affect the company's business activity and financial position.

[1007] *See* an explanation of the primary obligations imposed on listed companies under the CML is made in Chapter 6, and a more detailed explanation of these rules is provided in Appendix (B).

In consideration of the newly imposed requirements on companies listed on the EGX, the CML included some further tax advantages for these companies. The listed companies were exempt from stamp duties,[1008] both at the time of issuance and annually, as well as the general income tax on the dividends received from these shares.[1009] Subsequently, the stamp duty tax on securities was entirely abolished as of 1 January 1996 to facilitate securities trading and stimulate listing activity.[1010]

Thus, in addition to the tax exemption available for listed companies since 1981 granting a tax exemption equivalent to a deposit rate of three months paid by the Central Bank of Egypt on paid-up capital, listed securities were exempted from the stamp duties tax, and dividends received from these securities are also exempted from the income tax. Hence, it is worth noting that the tax exemption on paid-up capital was removed in June 2005.

Furthermore, although the CML did not regulate delistings, it provided for the transfer of listed securities from the official schedule to the unofficial schedule if one of the numerical conditions for remaining listed on the official schedule was met.

Moreover, following the promulgation of the CML, the CMA issued the 1994 Rules.[1011] In brief, the 1994 Rule introduced new requirements and obligations for listed companies, marking a distinction for the first time between the requirements for official and unofficial listing schedules. For example, under the 1994 Rules, a listed company on the official schedule would only be permitted to retain any net profits as a reserve if a reasoned report was prepared and executed by the chairperson of its board of directors and approved by the financial auditor.

Additionally, for the official schedule, the disclosure requirements of the CML remained applicable, whereas companies listed on the unofficial schedule had no equivalent disclosure obligations. Furthermore, the 1994 Rules introduced specific new requirements and rules regulating the delisting of securities. The delisting would be imposed by the EGX if (i) there was no trading for one year (trading between related parties and insiders was allowed to satisfy this condition); (i) the listing was based on incorrect information; (ii) the shareholders' rights became less than the paid-up capital for two consecutive financial years; or (iv) the companies

[1008] It should be noted that securities were subject to stamp duties according to the Stamp Duties Law No 44 of 1939, as amended by Law No 224 of 1951 and replaced by Law 111 of 1980.
[1009] Article 11 of the CML. It further provides that "In case shares are sold at a price higher than that of purchase, Capital gains shall be subject to a two percent tax, to be paid by the seller." This part pertaining to the Capital gains was cancelled by virtue of Law No 89 of 1996.
[1010] The stamp duties tax was cancelled by virtue of Law No 11 of 1995.
[1011] *See* an explanation of the primary obligations imposed on listed companies under the 1994 Rules is made in Chapter 6, and a more detailed explanation of these rules is provided in Appendix (B).

failed to comply with the disclosure obligations after receiving a three-month notice to rectify its violations.

In addition, the listed securities would be delisted from the official schedule and moved to the unofficial schedule if the number of shareholders remained less than 100 for three consecutive months or three separate months within one financial year. In all cases, although the CML did not regulate the delisting of securities from the EGX, the 1994 Rules regulated only involuntarily delisted securities, and no provisions regulated voluntary delisting. Moreover, the 1994 Rules did not specify the procedural mechanism by which the EGX would decide on delisting.

However, in terms of numbers, the 1994 Rules appear to have stimulated IPO activity on the EGX, as there was a significantly increasing number of companies that went public after their passage. Thus, to analyse the numbers, the CML governed the listing activity from June 1992 to 31 March 1994, and starting on 1 April 1994, both the CML and the 1994 Rules regulated the listing of companies on the EGX. Figure (7) below shows the trend of the listing activity during this period.

Figure 7: The Number of Newly Listed Companies from June 1992 to July 2002.

As shown in the figure above, the number of newly listed companies exhibited a strong upward trend from 1992 through the late 1990s, followed by a decline after 1999. Similar to the earlier analysis for the period from 1970 to May 2002, there were significant fluctuations with notable

peaks and drops over the period from June 2000 to July 2002. The period started with a relatively low number of listings, with 7 companies being listed in the second half of 1992 and 12 in 1993. Only 19 companies were listed during the period after the CML was promulgated and before the implementation of the 1994 Rules. The number of new listed companies started rising significantly following the implementation of the 1994 Rules, with 48 new listings in that year. Another 133 new lists occurred in 1995, marking the highest number during this period. Additionally, although a slight decline in numbers occurred in 1997, with 84 new lists, the numbers remained relatively high, with another notable increase in 1998, reaching 191 new lists, followed by 185 new lists in 1999.

Nevertheless, the number of new lists after 1999 showed a noticeable decline. In 2000, 71 new lists were recorded, followed by an increase to 83 in 2001. The first half of 2002 observed a decrease of 47 new lists.

In light of the above, the most significant listing peaks occurred in the 1990s. This might be related to the privatisation program adopted by Egypt as part of its economic reform program with the IMF at that time. Many SOEs were listed for privatisation purposes. Yet the aggregate number of newly listed companies over this period reached 961, which would underscore the appealing condition of the EGX as a source of capital at that time.

6.2.2 The Listing and Delisting Pattern from 2002 to 2021

In the previous subsection, the listing pattern on the EGX from 1970 to 2002 was demonstrated. This pattern would allow for establishing a baseline for comparison with subsequent trends that are covered in this subsection, which explores the trends in listings and delistings from 1 August 2002, i.e., from the effective date of the implementation of the 2002 Rules, up until the end of 2021.

As explained above, two pivotal regulatory reforms in the listing and delisting rules occurred during this period. The first reform occurred in June 2002, when the CML issued the 2002 Rules,[1012] which became effective as of 1 August 2002 for new listings, and as of 1 August 2003 for existing listed companies. The 2002 Rules considered a significant transformation in the regulatory framework of listed companies. The second reform occurred in 2014, when the

[1012] *See* an explanation of the primary obligations imposed on listed companies under the 2002 Rules is made in Chapter 6, and a more detailed explanation of these rules is provided in Appendix (B).

FRA issued the 2014 Rules,[1013] which have been in effect to date, albeit with some amendments.

Therefore, to identify the potential impact of each reform separately, this section first analyses the pattern of listings and delistings from the implementation of the 2002 Rules up until the effective date of the adoption of the 2014 Rules. It will then investigate the period after the implementation of the 2014 Rules up to 2021.

6.2.2.1 From August 2002 to January 2014: Post-implementation of the 2002 Rules

The 1994 Rules remained effective and applicable to listed companies and those seeking to list their securities on the EGX until 31 July 2002. Starting in August 2002, the 2002 Rules became effective for new listings on the EGX.[1014] Consequently, as of August 2002, companies wishing to list on the EGX were required to meet the new listing requirements outlined in the 2002 Rules. Additionally, the 2002 Rules granted the existing listed companies a one-year grace period for compliance with new listing requirements, i.e., until August 2003.[1015]Otherwise, the defaulted companies would be delisted or moved to another listing schedule that reflects their status.[1016]

Moreover, the 2002 Rules substantially tightened the listing requirements for companies listed on the EGX, among other things, by introducing mandatory CG regulations. These rules might have made it more challenging for companies to list and remain listed on the EGX, prompting them to consider exit options to avoid compliance with the new disclosure requirements and other listing obligations. Thus, we will analyse the number of companies listed on and delisted from the EGX since the implementation of the 2002 Rules to identify the extent to which these rigorous rules have influenced the trends in listings and delistings.

Under the 2002 Rules, listed companies became obliged to provide detailed disclosure about their shareholders, board members, managers, and any existing contracts and agreements

[1013] *See* an explanation of the primary obligations imposed on listed companies under the 2014 Rules is made in Chapter 6, and a more detailed explanation of these rules is provided in Appendix (B).
[1014] New Listing and Delisting Rules were enacted by the FRA (previously Capital Market Authority) on 18 June 2002 with an effective date as of 1 August 2002 for the new listings, <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025
[1015] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 6 Issuance Provisions <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025. This grace period has been extended until 31 December 2003, according to CMA's Board Decision No 45 of 2003.
[1016] Decree of the Capital Market Authority' s Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 5 Issuance Provisions <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025

involving these parties and the company. Companies were also mandated to establish an audit committee, [1017] and to immediately disclose any changes in the information mentioned in their listing application, annual board reports, or actions taken by competent governmental bodies against the company if any of these events could impact their activities and financial position.[1018]

Additionally, the 2002 Rules imposed new obligations, including the requirement for listed companies to conclude an undertaking obligating them to pay a penalty in the event of violating any of their disclosure obligations.

For instance, the applicant companies must disclose certain information and documents about their operations and activities, along with their listing application,[1019] as follows:

- Summary of the existing contracts or agreements concluded between the company or any of its affiliates with board members or managers.
- Summary of the significant contracts concluded by the company during the two years preceding its listing application, with a declaration of the amounts paid or received by the company or its affiliates.
- The company's capital structure and the names of the shareholders who own more than 5 % of the company's capital.
- The transactions made between the company or its affiliates with shareholders, altogether with a declaration that these transactions were performed in the same manner as dealing with the public.

[1017] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 7 <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025. They can be chosen from the non-executive board members or other qualified members if the board has no sufficient members. This committee should perform its activities separate from the management of the company. The company should apply the recommendation of this committee within 15 days. Otherwise, the committee chairman could report the company' s failure to the stock exchange and CMA.

[1018] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 18 <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025. These events included Any changes to the Articles of Associates, Changing the auditors, Change in the chairman of board of directors, any board members of main mangers, The capital structure including the shareholdings percentages that exceed 5%.

[1019] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 4 <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025

Additionally, the following disclosures must be made:

- Companies are committed to providing the FRA and the EGX with a summary of the decisions affecting the trading price of their securities, as well as the decisions of their board of directors and the ordinary and extraordinary general assemblies.[1020]
- Companies are committed to providing the FRA and the EGX with the minutes of their meetings as soon as they are approved.[1021]
- Periodical disclosure to the FRA and the EGX through a report clarifying the shareholder structure, the board of directors structure, and the amendments to them quarterly.[1022]
- Companies must publish their annual financial statements, any clarifications supplementing them, the auditors' report, and the FRA's observations thereon, provided that this publication includes the independent and consolidated financial statements of companies obliged to submit consolidated financial statements.[1023]
- The company must notify the EGX of its internal procedures, rules, or guidelines that ensure no insiders are allowed to deal in any securities issued by the company after the issuance or publication of any material data or information that may have a significant impact on the market price of the company's securities.[1024]
- Every company facing fundamental events that are not accessible to the public shareholders and that affect its activity, financial position, or trading of its shares on the EGX is obliged to disclose this immediately by notifying the EGX. Fundamental events include, by way of example, any proposed change in the ownership structure, any proposed new issuance of bonds and any guarantees or mortgages related thereto, any restrictions imposed on the number of borrowing available to the company, any fundamental change in investment

[1020] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 16 <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025.
[1021] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 16 <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025
[1022] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 18 <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025
[1023] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 22 <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025
[1024] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 19 <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025

policies, such as opening new branches or activities, liquidating existing branches or activities.[1025]

Concerning the delisting of listed companies on the EGX, the 2002 Rules marked a significant change by addressing voluntary delisting for the first time, alongside involuntary delisting. According to these rules, companies were allowed to exit the EGX voluntarily if the following conditions were met:[1026]

a. An extraordinary general assembly meeting must take the delisting decision with a majority of at least 75%.

b. No objection is received from shareholders within a month of the decision date. In the event of an objection, dissenting shareholders can redeem their shares at the highest price traded during the month preceding the delisting date.

c. No objection is received from any party holding a mortgage over the shares as a security for the company's debt or any of its shareholders within a month of the decision date. If an objection exists, the shares are sold at a high price.

On the other hand, companies listed on the EGX could be involuntarily delisted if any of the following events occurred: (a) where the listing was made on the basis of false information; (b) when one of the listing conditions was not fulfilled; (c) when there was no activity on the company's shares for six consecutive months; or (d) when the company defaulted on paying the listing fees or violated any of its undertakings provided to the EGX. Additionally, a company may be delisted if it fails to promptly disclose any material event that could affect its operations or financial position.

The 2002 Rules have thus comprehensively addressed both involuntary and voluntary delisting, imposing some stringent conditions for voluntary delisting. The requirement that the delisting decision be approved by a 75% majority from an extraordinary general meeting, along with the absence of objections from shareholders or creditors, demonstrated a clear commitment to

[1025] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 24 <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025

[1026] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 35 <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025

safeguarding the rights of minority shareholders, as well as other stakeholders, including creditors.

In essence, the 2002 Rules were utterly changing the regulatory framework of the EGX and listed companies. The listing requirements included new obligations, such as providing an undertaking to pay a penalty in the event of violating any of the disclosure obligations. To be listed, the company must offer at least 30% of its nominal shares for public subscription, and the subscribers must be at least 150 persons, regardless of their nationality.[1027] In addition, certain other financial conditions should be met:[1028]

1- The company should have issued three financial statements before the listing application,

2- The issued capital should not be less than EGP 20 million and should be fully paid,

3- The net profit, before tax deductions, for the fiscal year preceding the date of the listing application must not be lower than 5% of the paid-up capital,

4- The shareholders' equity for the last fiscal year preceding the listing application is not less than the paid-up capital, and

5- The number of issued securities is at least 2 million shares.

Thus, to identify any possible influence of the 2002 Rules on the pattern of listings and delistings on the EGX, the analysis begins with an examination of the total number of listed companies on the EGX from 2002 to 2014, as depicted in Figure (8) below. This is because if there had been no significant changes in the total annual number of listed companies after the implementation of the 2002 Rules, the 2002 Rules would likely have had no material impact on listing activity. Conversely, significant changes in the total annual number of companies listed on the EGX could suggest that the 2002 Rules either directly impacted the listing activity or contributed to any patterns observed in that activity.

[1027] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 9(1) <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025

[1028] Decree of the Capital Market Authority's Board of Directors No 30, Securities Listing and De-listing Rules of Cairo and Alexandria Stock Exchange (18 June 2002), art 9(2) <https://www.egx.com.eg/pdf/Listing_Rules.pdf> accessed 14 January 2025

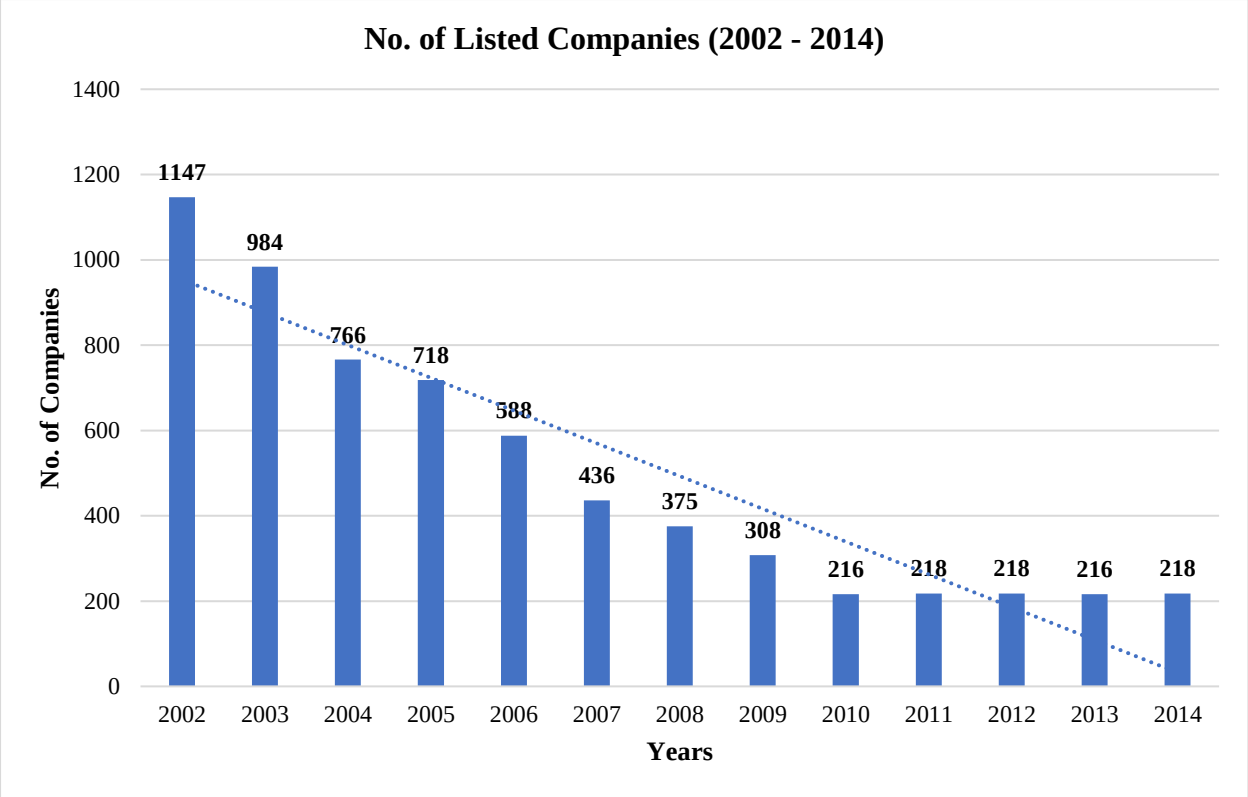

Figure 8: The Total Number of Listed Companies from 2002 to 2014

Figure (8) above shows a general downward trend, as indicated by the dotted trend line, in the total number of companies listed on the EGX starting in 2003, the year when the 2002 Rules became applicable to new listings and existing listed companies on the EGX. In other words, the early 2002s started with a remarkable number of listed companies on the EGX, i.e., 1,147 companies, which then decreased significantly over the subsequent years, with no relative boom. The number declined to 984 in 2003 and continued to decrease, reaching 216 listed companies by 2010. From 2010 onwards, the number of listed companies stabilised, remaining around 215 companies annually.

Additionally, it is essential to note that the tax exemptions afforded to listed companies were cancelled as of 10 June 2005.[1029] While the abolishment of the tax exemption may have likely impacted the stimulation of IPO activity on the EGX, this impact may not be significant, given the drastic reduction in the number of delisted and newly listed companies as of 2002. i.e., 3 years before the tax exemption cancellation.

[1029] Article 120 of the Tax Income Law No 157 of 1981 was canceled by virtue of Law No 91 of 2005 issued on 8 June 2005 with an applicable date as of 10 June 2005.

The apparent and extreme decline in the number of listed companies from 2002 to 2010 could be attributed to various factors, such as economic downturns, regulatory changes, or other external determinants, that influenced companies to delist from the EXG. On the other hand, the stabilisation of the number of listed companies at around 215 after 2010 could imply that the factors causing the sharp decrease had ceased to have an effect or that new stabilising measures had been introduced. In any event, while acknowledging the impact of other factors, this thesis primarily focuses on the potential influence of regulatory changes on the decline in the number of listed companies.

Nevertheless, in analysing the dynamics and appeal of the EGX over this period, including the likely reasons for the sharp drop in the total number of listed companies, both the number of newly listed companies and the number of delisted companies must be considered. Thus, Figure (9) below first presents the number of newly listed companies on the EGX from 1 August 2002, i.e., the date when the 2002 Rules became effective for new listings, until 31 January 2014, i.e., the last date preceding the effective date of the 2014 Rules.

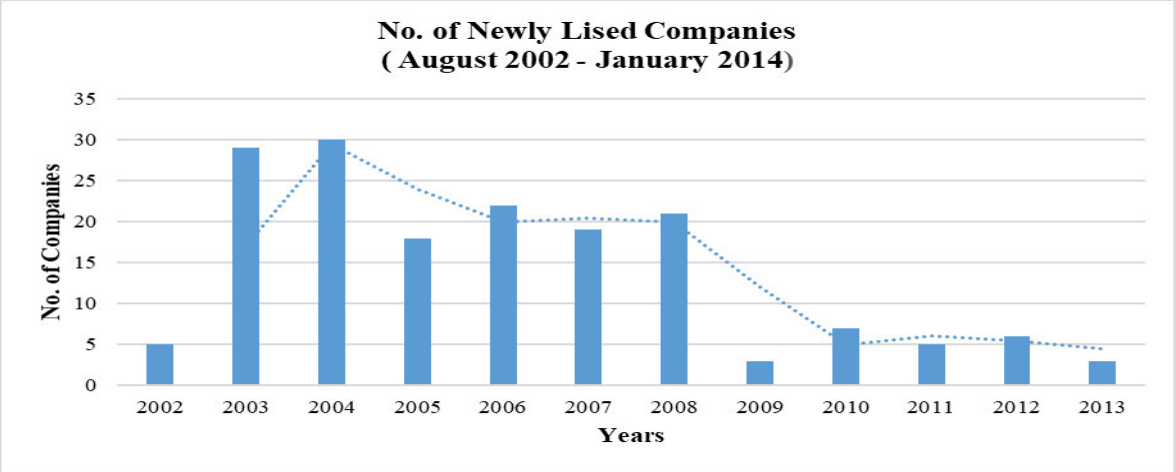

Figure 9: The Number of Newly Listed Companies from August 2002 to January 2024

This figure illustrates a general fluctuating increase in the number of newly listed companies from 2003 to 2008, with a peak of 30 companies in 2004. A severe drop occurred in 2009, with 3 companies being listed. This decline continued until the end of 2013. Analysing the number of newly listed companies alone suggests a period of growth starting in 2003, followed by a sharp decline that became apparent only as of 2009, which could be attributed to the 2007-2008 global financial crisis. In other words, the above figure may, at first glance, suggest high market growth in the period following the implementation of the 2002 Rules.

Therefore, to fully recognise any changes in the number of newly listed companies after the adoption of the 2002 Rules, it is vital to consider this period, i.e., from 1 August 2002 to January 2014, in the context of the overall listing activity on the EGX before August 2002. In other words, to determine any differences in listing activity after August 2002, it is necessary to explore the listing activity of the period preceding August 2002. Hence, Figure (10) below presents the number of newly listed companies from June 1992, i.e., the implementation date of the CML, until January 2014, i.e., the last date preceding the effective date of the 2014 Rules.

Figure 10: The Number of Newly Listed Companies from June 1992 to January 2014

Figure (10) reveals a significant peak in the late 1990s, with a sharp decline in the number of newly listed companies in the early 2000s, which continued until the numbers stabilised at low levels after 2008. Thus, this figure shows a decrease in the number of newly listed companies from 2002 onwards, with very few new listings since 2009. This entire picture of the listing trend from June 1992 to January 2014 indicates the presence of certain factors that have affected the attractiveness of the EGX starting in 2002, thereby causing a significant drop in the number of newly listed companies. As this thesis posits, one of these factors could likely be the implementation of the 2002 Rules.

Moreover, besides the observed low number of new lists, compared to the period preceding 2002, the EGX has experienced, for the first time, a significant rate of delistings, as depicted in Figure (11) below.

Figure 11: The Number of Delisted Companies from August 2002 to January 2014

This figure shows a high delisting rate from the EGX over this period. The significant delisting spike occurred in 2003 when 310 companies were delisted. The delisting wave continued in the following years, albeit with some fluctuations. Similar to the low number of new lists, the delisting trend in the EGX appeared following the implementation of the 2002 Rules. This does not negate the likely influence of the other potential factors on the observed decrease in the total number of listed companies. Nevertheless, according to figures (10) and (11), the low number of new lists and the high rate of delistings were witnessed following the adoption of the 2002 Rules.

Additionally, for a complete portrayal of the intersection between the number of newly listed companies and the number of delisted companies from the EGX over this period, Figure (12) below provides this illustration of these two trends.

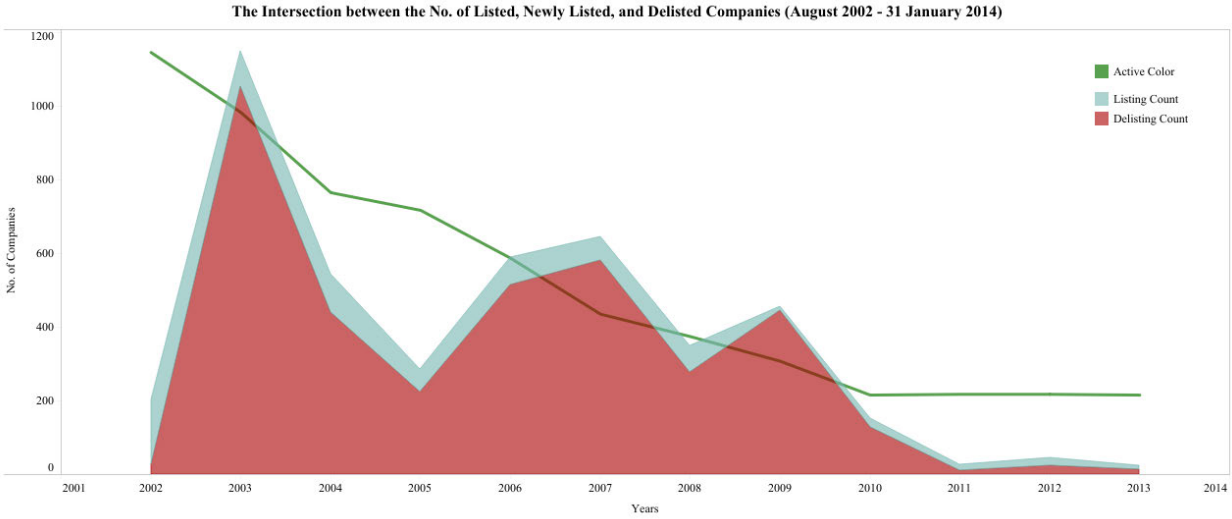

Figure 12: The Intersection between the Number of Listed, Newly Listed, and Delisted Companies from August 2002 to 31 January 2014 (1)

The above figure displays the three critical metrics over time: (a) the overall number of listed (active) companies (represented by a green line), (b) the number of newly listed companies (shaded in light green), and (c) the number of delisted companies (shaded in red). For further illustrations, the same intersection of these metrics, along with their numerical values, is also depicted in Figure (13) below.

Figure 13: The Intersection between the Number of Listed, Newly Listed, and Delisted Companies from August 2002 to 31 January 2014 (2)

The above two figures highlight a critical period for the EGX, marked by a significant decline in the total number of listed companies. This was driven by the high rate of delistings, coupled with the low number of new listings from 2003 to 2009. The year 2003 was notable, as 310 companies were delisted, compared to only 29 newly listed companies. However, the EGX witnessed relative stabilisation, with relatively low numbers of both newly listed and delisted companies from 2010 onwards, thus leading to a stable count of the aggregate number of listed companies on the EGX annually. A notable conclusion is the potential impact of the 2002 Rules on EGX's activity and size, as measured by the total number of listed companies on its trading platform, which declined substantially.

6.2.2.2 From 2014 to 2021: Post-Enactment of the 2014 Listing Rules

The 2002 Rules remained enforceable and applicable until 31 January 2014, when the FRA enacted the 2014 Rules.[1030]

The 2014 Rules introduced more rigorous and stringent requirements, aiming to enhance the EXG's integrity and offer investors a high level of protection.[1031] For the first time, the 2014 Rules require the conclusion of an agreement between EGX and companies willing to be listed to regulate their respective rights and obligations.[1032] The 2014 Rules further necessitate continuous compliance with specific ongoing listing conditions, including maintaining a minimum number of shareholders, a specific percentage of tradable securities, and a minimum number of listed securities.[1033] Otherwise, the defaulting company will be delisted.[1034]

Furthermore, the disclosure obligations became broader and more stringent. For example, listed companies are required to disclose any ongoing court proceedings and court decisions that may impact their operations. Additionally, shareholders and board members must disclose any sale or purchase of the company's shares.[1035] Moreover, the 2014 Rules encompassed a comprehensive list of events that require immediate disclosure.[1036] For instance, any contracts with more than 5% of the previous fiscal year's revenue must be disclosed.

Moreover, the 2014 Rules regulate both voluntary and involuntary delistings, outlining the events and procedures that trigger such actions.[1037] In terms of the attractiveness of the EGX following the adoption of the 2014 Rules, Figure (14) below shows the number of new lists on the EGX from 1 February 2014 until the end of 2021, as follows:

[1030] Financial Regulatory Authority Decision No 11 of 2014, Listing and Delisting Rules, issued on 22 January 2014, published on 28 January 2024, Egyptian Official Gazette Issue No 21bis(a)
[1031] *See* an explanation of the primary obligations imposed on listed companies under the 2014 Rules is made in Chapter 6, and a more detailed explanation of these rules is provided in Appendix (B).
[1032] Financial Regulatory Authority Decision No 11 of 2014, Listing and Delisting Rules, issued on 22 January 2014, published on 28 January 2024, Egyptian Official Gazette Issue No 21bis(a), art 6
[1033] Financial Regulatory Authority Decision No 11 of 2014, Listing and Delisting Rules, issued on 22 January 2014, published on 28 January 2024, Egyptian Official Gazette Issue No 21bis(a), art 10
[1034] Article 10 of the 2014 Rules was amended by the FRA Board Decision No 96 of 2017 Dated 25 July 2017.
[1035] Financial Regulatory Authority Decision No 11 of 2014, Listing and Delisting Rules, issued on 22 January 2014, published on 28 January 2024, Egyptian Official Gazette Issue No 21bis(a), art 29
[1036] Financial Regulatory Authority Decision No 11 of 2014, Listing and Delisting Rules, issued on 22 January 2014, published on 28 January 2024, Egyptian Official Gazette Issue No 21bis(a), art 34
[1037] *See* a more detailed explanation of these rules in Appendix (B).

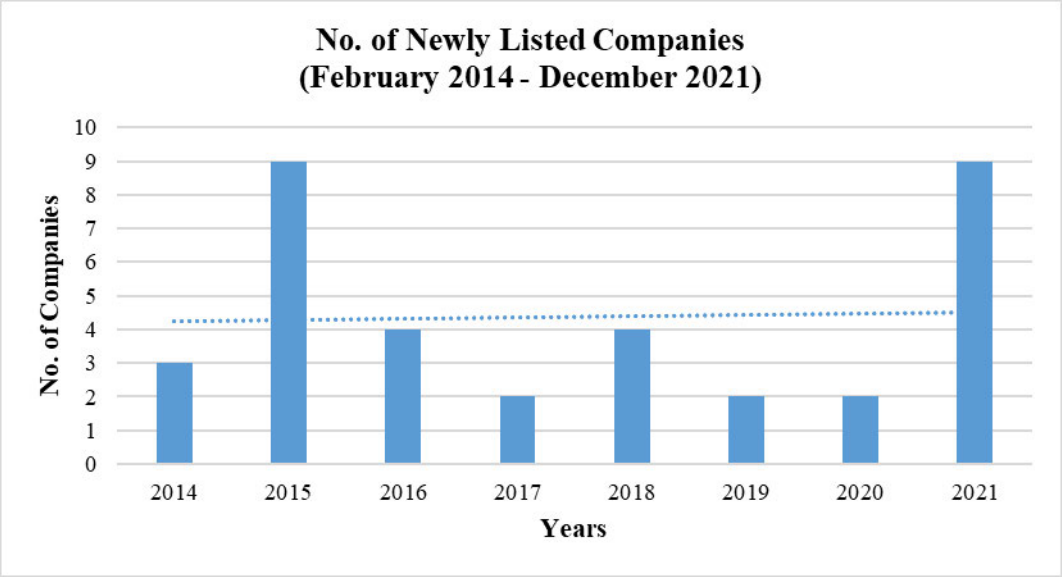

Figure 14: The Number of Newly Listed Companies from February 2014 to December 2021

This figure shows fluctuations in the number of newly listed companies from 1 February 2014 to 31 December 2021. There were two notable peaks in 2015 and 2021, with 9 newly listed companies in each of these two years. The decline in new listings from 2016 to 2020 may indicate less favourable market conditions, entry barriers due to regulations, or other economic and industry-specific factors that made it less attractive for companies to go public.

However, since the focus of this thesis is on delistings from the EGX, Figure (15) below illustrates the delisting pattern over this period.

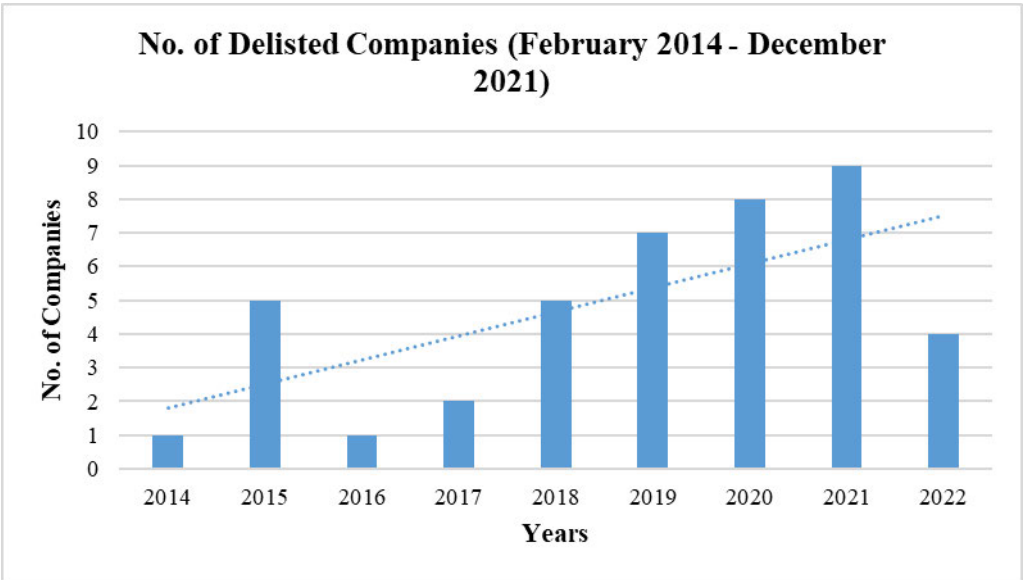

Figure 15: The Number of Delisted Companies from 1 February 2014 to 31 December 2021.

This figure shows that EGX has also been experiencing fluctuating delistings from its trading platform over this period, albeit with a lesser magnitude compared to the preceding period before 2014. According to Figure (14), the total number of companies that went public in the EGX from 2014 to June 2021 was 52 companies. However, on the other hand, 48 listed companies have left the EGX over the same period, as depicted in Figure (15). There has thus been no significant impact on the total number of listed companies on the EGX, as shown in Figures (16) and (17) below:

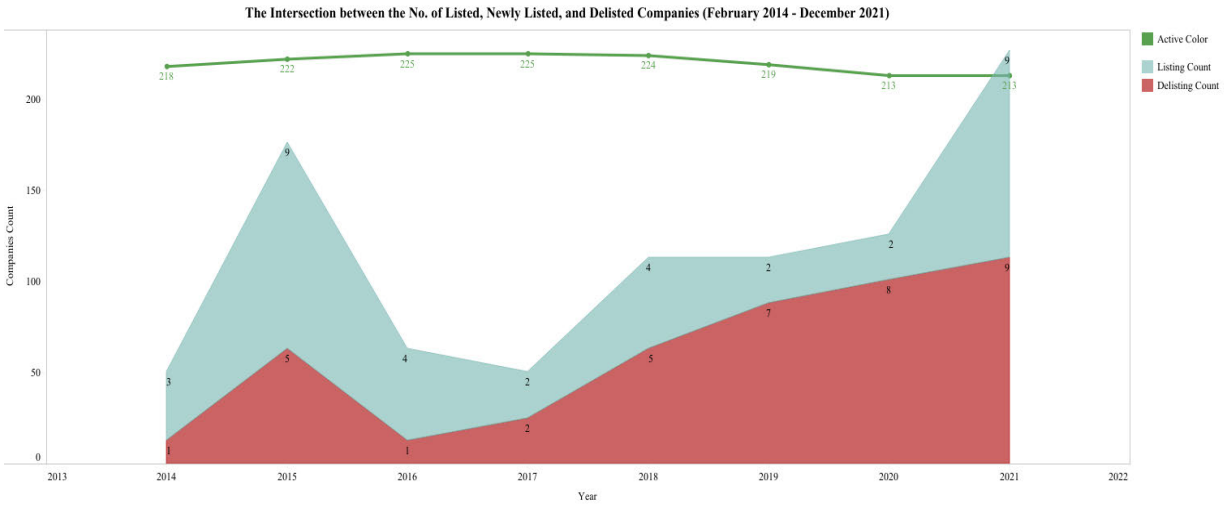

Figure 16: The Intersection between the Number of Listed, Newly Listed, and Delisted Companies from February 2014 to December 2021(1)

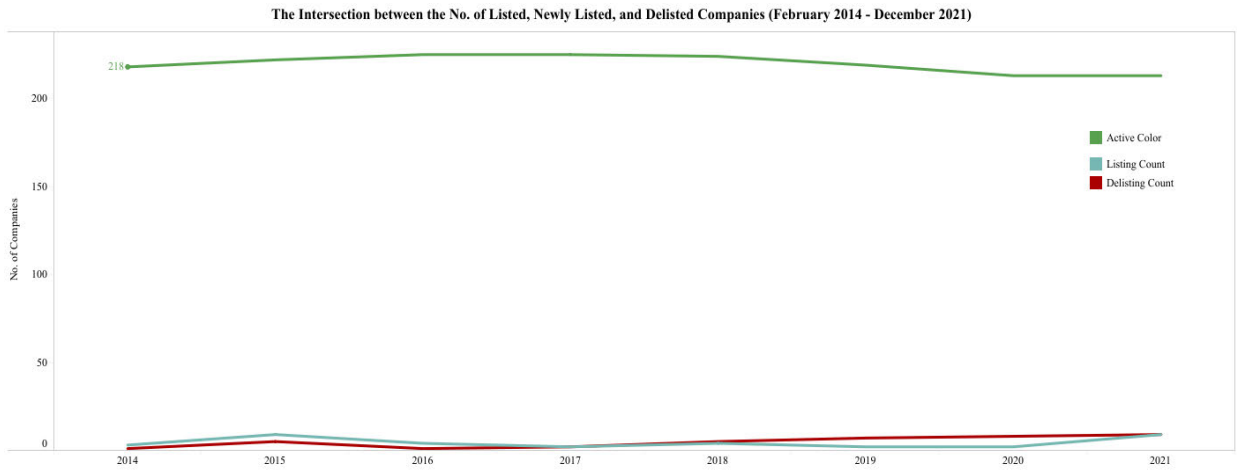

Figure 17: The Intersection between the Number of Listed, Newly Listed, and Delisted Companies from February 2014 to December 2021(1)

The observed fluctuations in the number of companies listed on and delisted from the EGX within the specified period suggest that the 2014 Rules have not resonated positively with the market participants, nor have they encouraged more companies to list or remain listed on the EGX.

6.2.3 Concluding Remarks

The above sections show critical trends and shifts in the listing and delisting patterns on the EGX between 1970 and 2021. Between 1970 and 2002, the number of listed companies experienced a significant increase, primarily due to policy shifts and tax incentives, particularly in the 1980s and 1990s. While the introduction of the CML in 1992, followed by the 1994 Rules, initially boosted listing activities, as was observed from the rise in the number of newly listed companies during this period, fluctuations in listing activity were also notable, which would be related to regulatory frameworks, or other external factors, including market conditions.

The period following the enactment of the 2002 Rules constitutes a critical juncture, as the number of listed companies plummeted dramatically. The adoption of strict CG regulations and more stringent disclosure requirements may have made the EGX unwelcoming to some companies, and, therefore, generated a wave of delisting incidents. It further indicates a dramatic decline in the number of newly listed companies, while the rate of delistings is rising, particularly in the early 2000s. This also coincided with the period when tax exemptions for

listed companies were removed, further undermining the attractiveness of the EGX as a capital-raising venue.

Therefore, the year 2002 marked a turning point in the development of the EGX, as a large number of listed companies opted for or were compelled to go private and delist their securities from the EGX. EGX has lost more than 80% of its listed companies.

The new 2014 Rules established a new threshold for listing and expanded the requirements for disclosure to increase market integrity and investor protection. However, these measures tend to have quite insignificant attractiveness to either new listings or existing listed companies. While the number of delistings has stabilised compared to the previous period, the relatively low number of newly listed companies indicates that the 2014 Rules may have created additional barriers to entry for companies seeking to go public.

In brief, the EGX listing and delisting trends reflect the interplay of changes in regulation, market conditions, and broader economic factors. The findings suggest that the regulatory reforms, intended to improve transparency and CG, may have had the unintended consequence of reducing the number of listings due to higher compliance costs. Such a puzzling development thus puts the EXG at risk and calls for a thorough investigation into the triggers of its stagnant condition, especially since the EGX remains unattractive to date.

To this end, the following section will examine the specific characteristics of delisting incidents from the EGX during the study period, aiming to identify the likely causes behind this notable trend.

6.3 Analysis of the Delisting Trend in the EGX

Like other major stock exchanges,[1038] the EGX has experienced fluctuations in the total number of listed companies over the last fifty years generally, and over the previous two decades specifically. However, the EGX's case is unique. This is because it has experienced a severe decline in the aggregate number of companies, with no substitutes. Additionally, the delisting events were more pronounced and notable on the EGX than on any other stock exchange. The number of delistings has outweighed the number of new listings, resulting in a "Listing Gap",

[1038] *See* Chapter 2, Section 2.3

a term used to describe the situation in US stock exchanges following the adoption of the SOX.[1039]

The previous section highlighted a significant decline in the total number of listed companies on the EGX, from 1,147 to approximately 213 companies. This decline was driven by a substantial number of delistings and a low number of new listings. This section is thus dedicated to exploring the underlying features of the delisted companies to uncover the actual triggers for their exit from the EGX.

Accordingly, this section will present and analyse the particularities of these delistings in terms of their ratio, types, determinants, and patterns across a wide range of industries.

6.3.1 Number of Delisted Companies

As shown in Figures (10) and (14) above, 1,140 companies were delisted from the EGX between 2002 and 2021, representing 82% of the total number of listed companies over this period. Out of this number, 1,080 companies were delisted between 2003 and 2010.

Thus, the number of delisted companies varied substantially throughout these years. Nevertheless, the EGX Dataset reveals a rollercoaster ride of delistings as of 2003, shortly after the 2002 Rules became effective. In 2003 alone, 310 companies left EGX.

6.3.2 Types of Delisting

As explained in Chapter 2, there are two types of delisting: voluntary and involuntary. The listed company itself initiates voluntary delisting, whereas stock market regulators typically initiate involuntary delisting against companies that fail to meet the ongoing listing requirements. Distinguishing between these two types of delisting is essential due to their inherent divergence in rationale and reasons. It is thus important to highlight how many companies left the EGX voluntarily and involuntarily, possibly paving the way for identifying the possible underlying causes for these delistings. Another interrelated benefit of this analysis would be exploring EGX's approach to enforcing the listing and delisting rules and whether its approach was aggressive or moderate.

Out of the total number of companies delisted from the EGX, i.e., 1,140 companies, 458 companies chose to delist voluntarily, and 682 were involuntarily delisted. In other words,

[1039] See, e.g., Craig Doidge, Andrew Karolyi, and René M Stulz, 'The U.S. Listing Gap' (2015) ECGI Finance Working Paper No 451/2015, 1 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2605873> accessed 16 January 2025

almost 40% of the companies delisted voluntarily, while around 60% of the companies delisted involuntarily.

Figures (18) and (19) below show the distribution of these delistings over the specified period, providing the fluctuation of both voluntary and involuntary delistings, as follows:

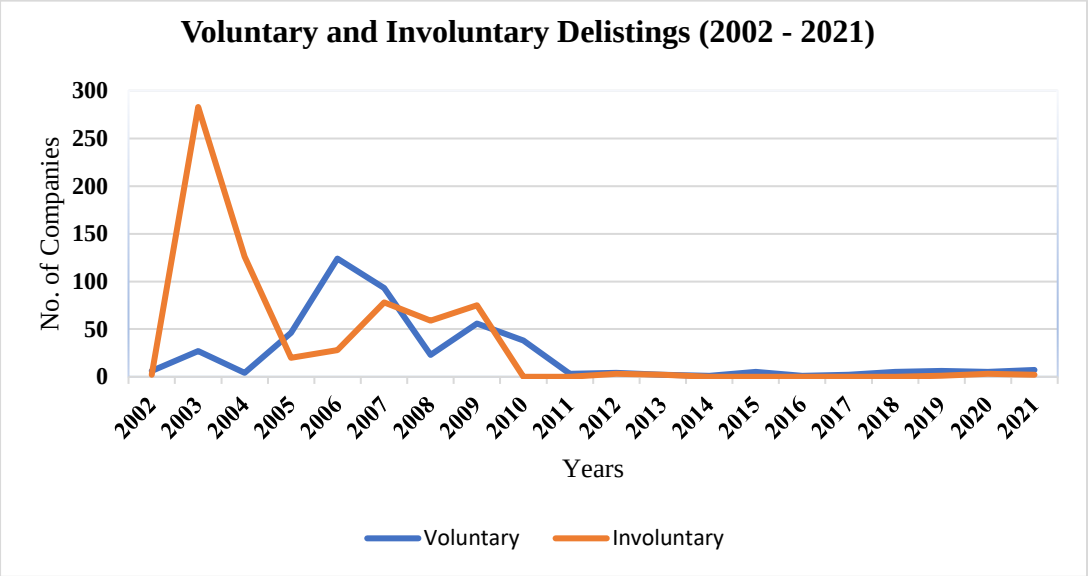

Figure 18: Voluntary and Involuntary Delistings from the EGX from 2002 to 2021

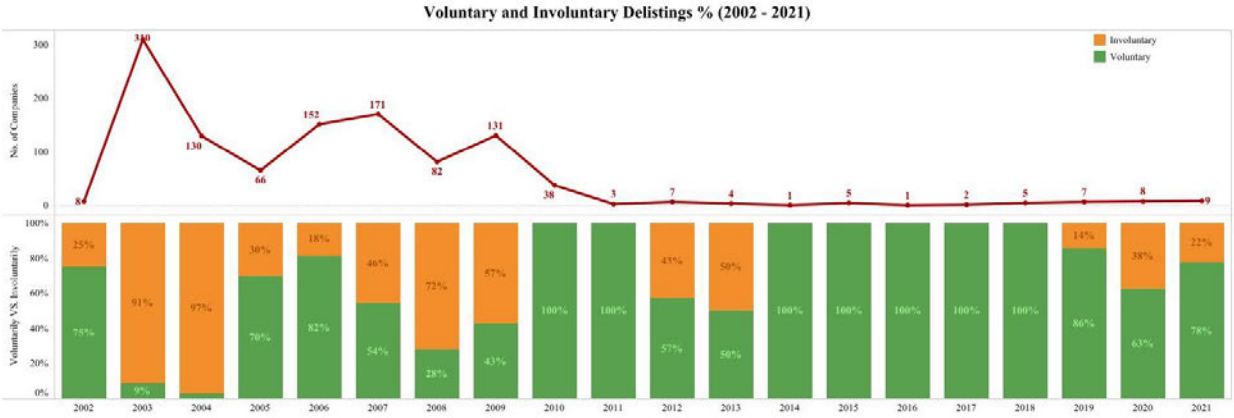

Figure 19: The % Ratio of Voluntary and Involuntary delistings from the EGX from 2002 to 2021

The above oscillation between voluntary and involuntary delistings in the EGX reveals the following:

First, upon the enactment of the 2002 Rules, 8 companies were delisted from the EGX within that year. Out of this number, 6 companies decided to delist voluntarily. The decision of 6 companies to exit the EGX voluntarily after the promulgation of the 2002 Rules implies that these companies found themselves unable to satisfy the new listing requirements and disclosure requirements enshrined in the 2002 Rules. Still, this is a small number of companies that could not make a significant impact on the total number of listed companies at the EGX at that time.

Second, in 2003, following the implementation of the 2002 Rules on existing listed companies, the number of delisted companies was significantly high, standing at 310 companies. This is the highest number of delisted companies compared to the delisting rates in the other years of this study. Remarkably, the number of companies involuntarily delisted was substantially higher than those delisted voluntarily, accounting for 283 and 27 companies, respectively. The same pattern was also observed in 2004, where 128 companies were involuntarily delisted, compared to only 4 companies delisted voluntarily. The high number of involuntarily delisted companies is reasonably linked to the implementation of the 2002 Rules and indicates a stringent enforcement approach by the EGX of the 2002 Rules as of September 2003,[1040] thereby leading to a massive wave of delistings.[1041]

Thus, EGX has actively delisted those companies that failed to comply with the new listing requirements provided in the 2002 Rules. Hence, these delistings could be considered an immediate effect of implementing the 2002 Rules. Similarly, the companies that chose to delist willingly could be interpreted as an immediate response to the implementation of the 2002 Rules. It is thus sensible to claim that the implementation of the 2002 Rules likely contributed to the delisting of 440 companies, whether voluntarily or involuntarily, from the EGX in 2003 and 2004. Still, out of this number, 409 companies were delisted by the EGX involuntarily.

Third, unlike the trend observed in 2003 and 2004, the incidences of voluntary delistings significantly exceeded those of involuntary delistings in 2005 and 2006. In 2005, out of 66 delisted companies, a majority of 46 companies chose to delist voluntarily, while 20 were involuntarily delisted. A similar pattern occurred in 2006, where 124 companies were

[1040] World Bank, ' Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment—Egypt' (March 2004) 35082, 1
[1041] World Bank, ' Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment for The Arab Republic of Egypt' (June 2009) 62542, 5

voluntarily delisted out of 152 delisted companies, resulting in 28 companies being delisted involuntarily. The rise in the number of voluntarily delisted companies, almost two years after the implementation of the 2002 Rules, might be the result of listed companies reassessing the costs and benefits of being listed, and deciding to exit the EGX voluntarily to avoid compliance costs.

However, besides the implementation of the 2002 Rule, it is essential to highlight that Egypt had also revoked the tax exemption granted to listed companies on 10 June 2005.[1042] Thus, it is likely that the combined effect of the 2002 Rules and the cancellation of the tax exemption has led many companies to consider exiting the EGX in order to mitigate costs. Nevertheless, while the cancellation of this tax exemption may have likely contributed to the delistings from the EGX, it is essential to note that its impact on triggering delistings from the EGX is probably limited, given the drastic reduction in the number of delisted and newly listed companies as of 2002. i.e., 3 years before the cancellation of the tax exemption.

Fourth, the year 2007 represented a distinct anomaly within the study period, as it was the second-highest year in terms of total delistings from the EGX, with 171 companies exiting the exchange. Additionally, the ratio between the companies that voluntarily and involuntarily delisted is relatively similar. This year, 93 companies opted for voluntary delisting, followed closely by 78 companies that were involuntarily delisted. The narrow gap between the two types of delisting might indicate the unattractiveness of the EGX as a listing venue this year, promoting many companies to delist, either voluntarily or involuntarily.

Fifth, the incidence of involuntary delistings in 2008 was almost double those that pursued voluntary delisting. Specifically, of 82 delisted companies that year, 59 were removed involuntarily, while 23 companies opted for voluntary delisting. In 2009, the divergence between voluntary and involuntary delistings was notably reduced. Of 129 companies delisted this year, 75 were removed involuntarily, while 54 decided to delist voluntarily.

Sixth, remarkably, the year 2010 stands out in the EGX dataset as the first year where no companies were involuntarily delisted, which is a notable deviation from the trends observed in the preceding years. In that year, a total of 38 companies chose to delist voluntarily, which further demonstrates the unique nature of the delisting activity in 2010.

[1042] Article 120 of the Tax Income Law No 157 of 1981 was canceled by virtue of Law No 91 of 2005 issued on 8 June 2005 with an applicable date as of 10 June 2005.

Seventh, from 2011 to 2021, a significant decrease in the overall incidence of delisted companies was observed. In 2011, no companies were involuntarily delisted, with only three companies voluntarily delisted. This may be partially related to the political and economic uncertainty that followed the 2011 Egyptian revolution. The peak of delisting cases during this period occurred in 2012, when 7 companies were delisted. Of these, 4 companies chose to delist voluntarily, while 3 were involuntarily removed. The subsequent year, 2013, witnessed equal numbers of voluntary and involuntary delistings, with 2 companies falling into each category.

Furthermore, from 2014 onwards, the EGX experienced a notable reduction in the number of involuntary delistings, with a total of 6 companies delisted involuntarily in 2019, 2020, and 2021. On the other hand, voluntary delistings were more progressive, with 32 companies delisting between 2014 and 2021. Notably, 2021 had the highest number of delistings during this period, with 7 companies choosing to delist from the EGX. Therefore, while this period may contrast with previous years in terms of the total number of delisted companies, it still demonstrates a continuous delisting trend on the EGX, a pattern that has remained consistent.

Notably, the years 2003, 2004, 2006, 2007, and 2009 experienced the highest frequency of delistings, signalling periods of significant market or regulatory adjustments. While 2005 and 2010 also saw elevated delisting rates, the magnitude of these occurrences was comparatively lower.

6.3.3 Delisting Determinants on the EGX

As explained in Chapter 2, delisting can occur for various reasons. This section examines the determinants of delisting on the EGX from 2002 to 2021 to identify the influence of regulatory changes on this delisting trend and assess the significance of this influence, if any.

Over the years, a total of 1,140 companies were delisted, out of which 682 were delisted involuntarily and 458 were delisted voluntarily. These are significant numbers in comparison to the total number of newly listed companies during the same period, which totalled 255 companies. While the high number of involuntarily removed companies resulted from failure to comply with the ongoing listing requirements, the voluntarily delisted companies might have also pursued the delisting option to avoid compliance with these requirements, among other possible reasons. It is thus essential to explore the actual triggers that influenced this significant delisting pattern on the EGX during this period.

Therefore, since the reasons for voluntary delisting can differ from those for involuntary delisting, this section distinguishes between the determinants for each of these two types of delisting.

6.3.3.1 Voluntary Delisting

As explained above, the EGX Dataset indicates that the total number of voluntarily delisted companies is 458. While voluntary delisting started to occur in 2002, 2006 stands out as having the highest occurrence of voluntary delistings on the EGX, with 124 companies delisted. The subsequent year, 2007, marked the second-highest rate of voluntary delisting incidents, with 93 companies exiting the market. The years 2009 and 2005 recorded the third- and fourth-highest occurrences, with the delisting of 56 and 46 companies, respectively.

Companies typically pursue voluntary delisting for several reasons, which are primarily related to the outcome of a cost-benefit analysis conducted by the companies to weigh the costs and benefits of remaining listed versus being delisted.[1043]

In this respect, upon examining the EGX Dataset, delisting reasons are available for only 76 delisted companies, thereby leaving 385 companies with no underlying justification for their voluntary departure from the EGX. Out of the 73 companies whose delisting cause is known, 72 companies were delisted due to M&A transactions, and only 1 company as a result of liquidation.

Table (2) below shows the total number of voluntarily delisted companies with their corresponding justification for delisting, whether known or not, as received from the EGX:

Year	**No. of Voluntarily Delisted Companies**	**EGX's Cause of Delisting**		
		Liquidation	**M&A**	**N/A**
2002	6	1	1	4
2003	27	0	7	20
2004	4	0	1	3
2005	46	0	1	45

[1043] For more details, see Chapter 2, Section 2.3.3.1.

2006	124	0	12	112
2007	93	0	10	83
2008	23	0	1	22
2009	56	0	9	47
2010	38	0	8	30
2011	3	0	1	2
2012	4	0	2	2
2013	2	0	1	1
2014	1	0	1	0
2015	5	0	2	3
2016	1	0	1	0
2017	2	0	2	0
2018	5	0	0	5
2019	6	0	2	4
2020	5	0	3	2
2021	7	0	7	0
Total	**458**	**1**	**72**	**385**

Table 2: A Yearly Breakdown of Voluntarily Delisted Companies with their Corresponding Delisting Justification

Additionally, Figure (20) below illustrates the intersection of the delisting causes for voluntarily delisted companies from 2002 to 2021.

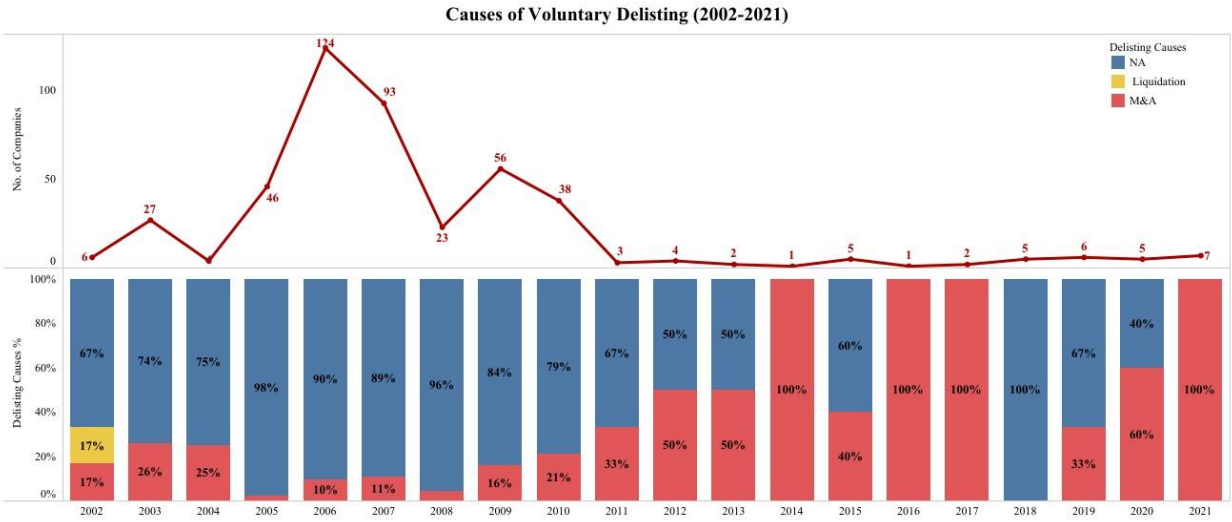

Figure 20: The % Ratio of Causes of Voluntarily Delisted Companies from the EGX from 2002 to 2021

The table and figure above reveal that the number of companies delisted due to M&A transactions fluctuated over the years, totalling 72 companies. M&As were the primary cause of delistings in 2014, 2016, 2017, and 2021, whereas they represented the predominant cause in 2012, 2013, 2015, and 2020. Nevertheless, the delisting causes of the majority of delisted companies (i.e., 385 companies) were neither available in the EGX Dataset nor publicly accessible. This analysis thus shows that M&A transactions had no significant impact on delistings from 2002 to 2012.

6.3.3.2 Involuntary Delisting

As illustrated earlier, involuntary delistings are initiated by stock market regulators to sanction companies that do not meet the continuous listing requirements. During the period under investigation, the EGX underwent continuous regulatory changes aimed at enhancing CG practices among listed companies. From 2002 to 2021, 683 companies were involuntarily delisted. The highest number of involuntary delistings occurred in 2003, with 283 companies being delisted. The second-highest number occurred in 2004, with the delisting of 128 companies. This is followed by 82 and 75 companies being involuntarily delisted in 2007 and 2009, respectively. These delistings thus warrant an investigation into the actual causes that led companies to fail to comply with the ongoing listing obligations and, if possible, the specific ongoing listing requirements that the companies could not meet.

Figure (21) below shows the intersection between the voluntarily and involuntarily delisting from 2002 to 2021.

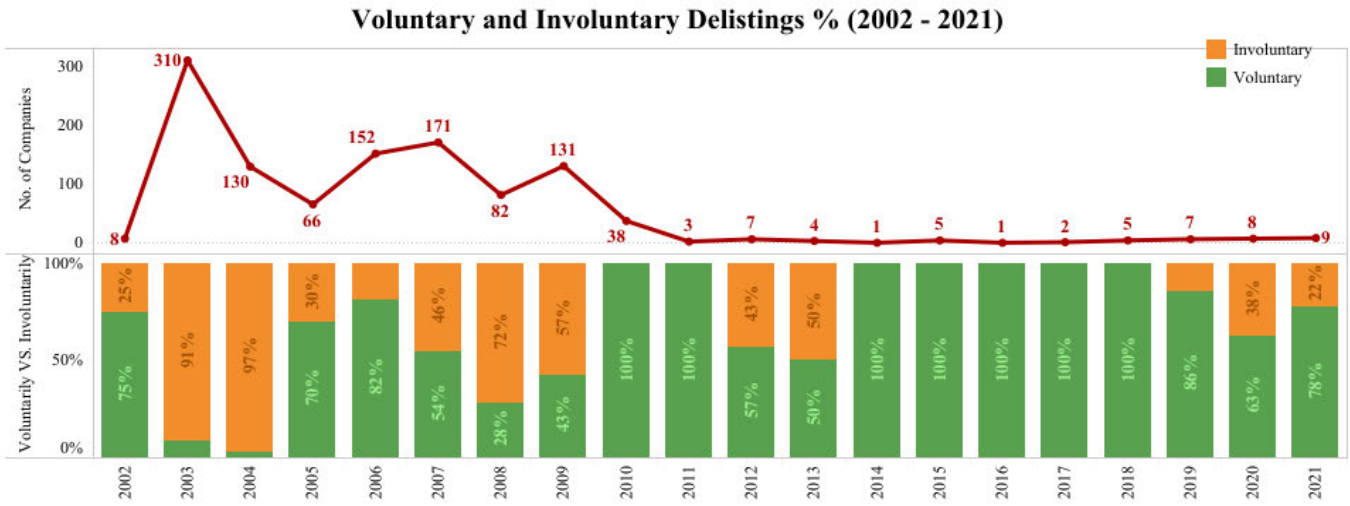

Figure 21: The % Ratio of the Intersection between Voluntary and Involuntary Delisings from 2002 to 2021

Concerning the determinants of the high number of involuntary delisted companies from the EGX, the EGX Dataset includes several reasons that influenced the EGX to delist these companies involuntarily. These are eight reasons, as follows: (a) non-compliance with listing rules, (b) violation of disclosure requirements, (c) failure to meet financial standards for two consecutive years, (d) absence of trading activity for more than six months, (e) failure to pay listing fees, (f) mergers and acquisitions transactions, (g) absence of trading since listing, and (h) a combination of failing to meet financial standards and no trading activity for a period exceeding six months.

Table (3) below shows a yearly breakdown of the involuntarily delisted companies with their underlying justification for delisting:

Year	No. of Involuntarily Delisted Companies	EGX's Cause of Delisting							
		Non-compliance with listing rules	Violation of disclosure requirements	Failure to meet financial standards for two consecutive years	Absence of trading activity for more than six months	Failure to pay listing fees	Absence of trading since listing	M&A	Failure to meet financial standards No trading activity for a period exceeding six months
2002	2	2							
2003	283	283							
2004	126	121	3					2	
2005	20	11	2					7	
2006	28		28						
2007	78	4	15	3		12	27		17
2008	59		7		31		21		

2009	75	67	5	3					
2010									
2011									
2012	3	2						1	
2013	2	1						1	
2014									
2015									
2016									
2017									
2018									
2019	1	1							
2020	3	3							
2021	2	2							
Total	**682**	**497**	**60**	**6**	**31**	**12**	**48**	**11**	**17**

Table 3: A Yearly Breakdown of Involuntarily Delisted Companies with their Corresponding Delisting Justification

Additionally, Figure (22) below shows the intersection of the delisting causes for involuntarily delisted companies from 2002 to 2021.

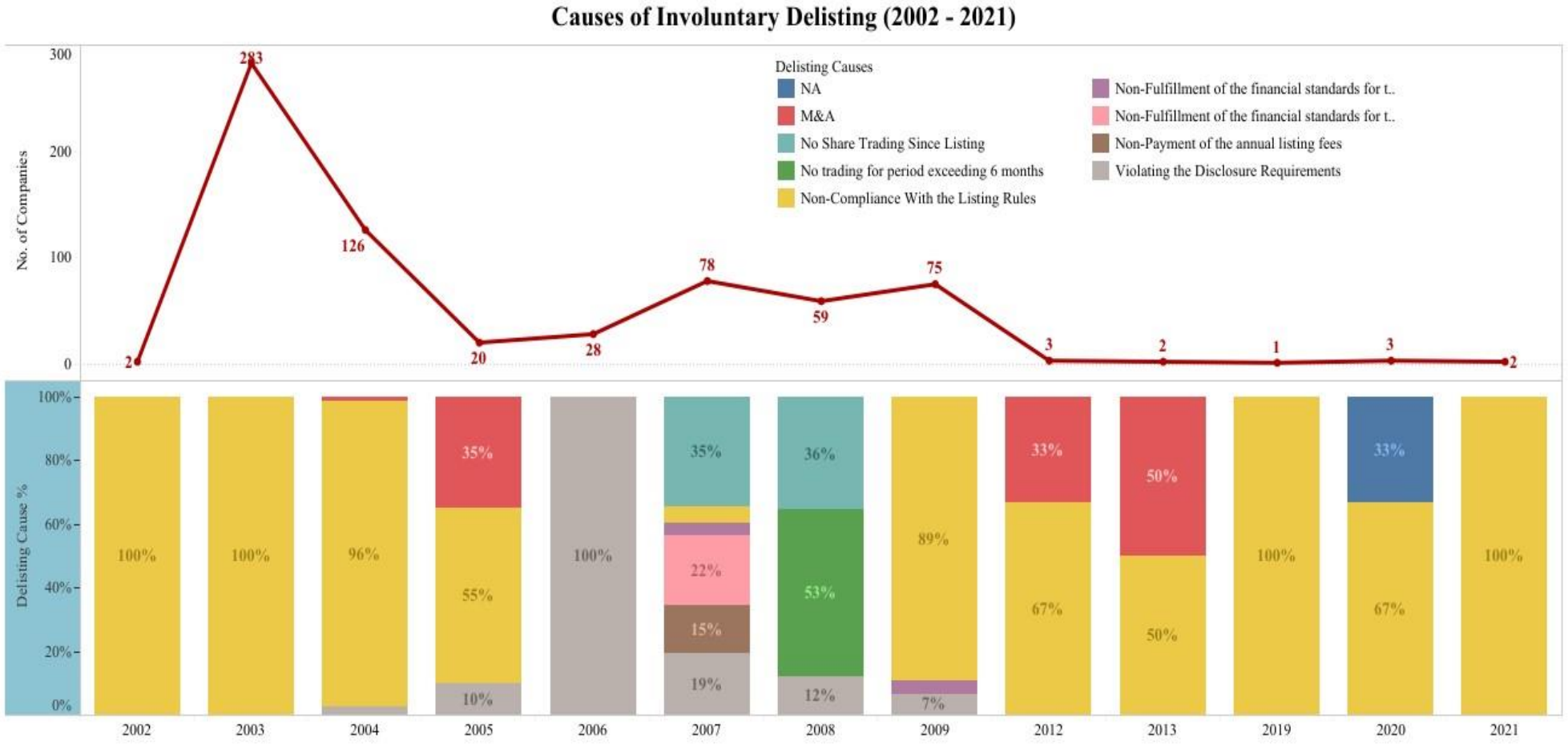

Figure 22: The % Ratio of Causes of Involuntarily Delisted Companies from the EGX from 2002 to 2021

The above table and figure reveal some considerations, as follows:

First, the majority of involuntary delistings occurred due to a failure to comply with the listing rules, standing at 497 companies, out of the 682 companies. Hence, almost 73% of the total incidents of the involuntarily delisted companies failed to comply with the ongoing listing requirements. Additionally, this notable number represents nearly 44% of the aggregate number of delisted companies, whether voluntarily or involuntarily, from the EGX throughout 2002 to 2021.

Second, failure to adhere to disclosure requirements was the second-highest cause of involuntarily delisted companies, accounting for 60 companies.

Notably, the year 2006 witnessed the highest number of delistings, with 28 companies being removed from the EGX. A similar pattern was observed in 2007, when 15 companies were delisted due to violations of disclosure obligations. This might indicate an aggressive enforcement approach by the EGX to the rules aimed at preserving market transparency and integrity.

Third, listed companies whose shares were not publicly traded for an extended period were involuntarily delisted, particularly in 2007 and 2008, with 27 and 21 companies, respectively, being delisted. Additionally, in 2008, a high number of delistings were observed due to inactivity (i.e., non-trading for a period exceeding 6 months), totalling 31 companies.

Fourth, the combined reasons for non-fulfilment of financial standards for two consecutive years and the absence of share trading for a period exceeding six months were quoted as the delisting reasons for 17 companies in 2007. This specific criterion for delisting was not cited as a reason for delisting in any other year within the study period. In addition, the non-fulfilment of the financial standards for two consecutive years alone was highlighted as the reason for the delisting of 7 companies in 2007 and 2009.

Fifth, one of the listed companies' ongoing obligations is paying the annual listing fees. The EGX dataset reveals that 12 companies were involuntarily delisted in 2007 due to their failure to pay the listing fees.

In conclusion, the EGX dataset reveals the voluntary and involuntary nature, as well as the numbers, of delisting cases. Although the reasons for the majority of voluntary delistings are unknown, involuntary delistings are well-documented. The most common reasons for voluntary delisting were M&A transactions, especially after 2010. In contrast, the most

influential reason for involuntary delisting was failure to comply with the listing rules. Therefore, this shows EGX's strict enforcement approach to the listing and delisting rules.

6.3.4 Analysis of Delisting Patterns Across Industry Sectors

This analysis further contributes to CG studies by examining delisting and the possible differential effects of CG regulations across various sectors of companies listed on the EGX. In other words, including companies from different sectors in this analysis will offer a broader understanding of the response of these sectors to CG reforms. By examining which sectors were more prone to delisting during this period, the study aims to get information on the dynamics of the EGX and identify the differential impacts on industries within the specified timeframe, i.e. from 2002 to 2021.

In this context, the EGX had listed companies from a wide array of sectors, totalling 18 sectors, as follows: (1) contracting and construction engineering; (2) food, beverages and tobacco; (3) travel and leisure; (4) non-banking financial services; (5) real estate; (6) basic resources; (7) textiles and durables; (8) industrial good, services and automobiles; (9) trade and distribution; (10) building materials; (11) shipping and transportation services; (12) healthcare and pharmaceuticals; (13) paper and packaging; (14) IT, media and communications services; (15) banks; (16) energy and support services; (17) educational services; and (18) utilities.

Before addressing each sector separately below, Figure (23) below depicts the annual number and distribution of delisted companies across the different sectors from 2002 to 2021.

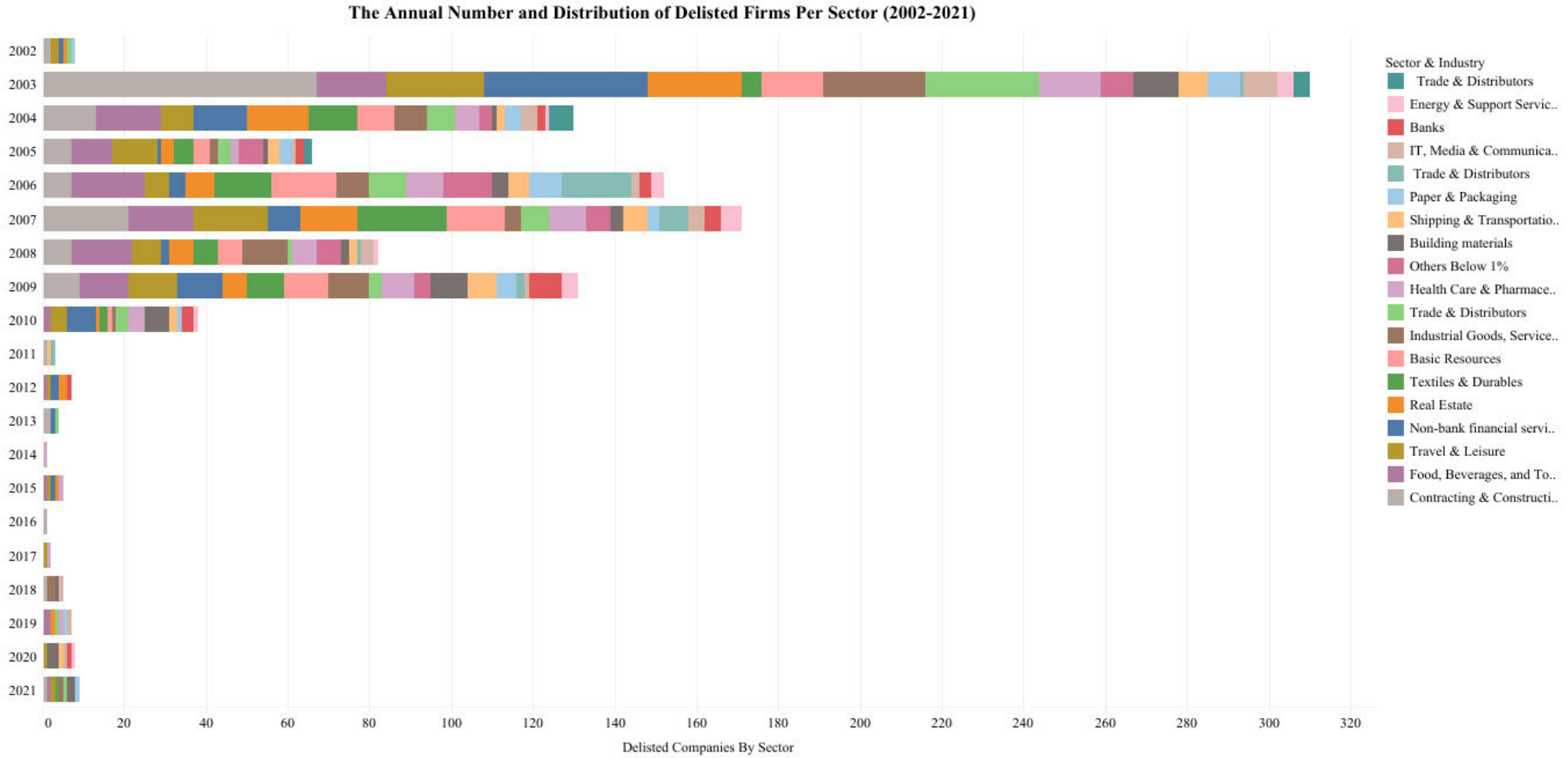

Figure 23: The Annual Number and Distribution of Delisted Companies across Sectors from 2002 to 2021

The above figure highlights significant sector-specific trends. Sectors, such as "Contracting and Construction Engineering" and "Non-bank Financial Services", experienced consistent and high delisting activity, particularly following the implementation of the 2002 Rules. These sectors appear to have faced more significant challenges in adapting to the strict CG rules and ongoing listing requirements. Similarly, the "Industrial Goods, Services, and Automobiles" sector recorded significant delistings in 2003, further highlighting the immediate impact of regulatory changes on this sector.

Sectors like "Food, Beverages, and Tobacco" and "Health Care & Pharmaceuticals" demonstrated steady delisting activity throughout the period, reflecting persistent sector-specific challenges. On the other hand, "Real Estate" and "Building Materials" recorded few delistings, suggesting a relative resilience to the regulatory reforms, albeit sporadic spikes indicate challenges in specific years as well.

Interestingly, the "Textiles & Durables" sector experienced notable delistings in later years, highlighting the evolving challenges in maintaining compliance and market relevance within this sector.

From 2014 onwards, following the implementation of the 2014 Rules, the number of delistings decreased across most sectors. However, occasional fluctuations persisted in sectors like "Industrial Goods, Services, and Automobiles" and "Basic Resources," which could indicate continued pressure on companies in these sectors.

It is worth noting that the highest number of companies delisted from the EGX fell under the "Contracting and Construction Engineering" sector, with a total of 155 companies. It is followed by the "Food, Beverages, and Tobacco" sector, with a total of 117 companies. This indicates that some sectors were more vulnerable than others in compliance with the strict rules and regulations embedded in the 2002 Rules.

In summary, the overall pattern of delisting underscores the pivotal role that regulatory reforms, particularly the 2002 and 2014 Rules, play in the developments at EGX. A very high delisting rate during the early years of the 2000s may represent the direct aftermath of adopting strict rules, while a further decline indicates an adjustment and stabilisation period. The differences in sectors may also suggest the importance of sector-specific factors, making it difficult for one-size-fits-all approaches to market and economic conditions, as well as other regulations applicable to each sector.

The following analysis examines the data for each sector in more detail, therefore providing a full picture of the impact on each sector and identifying the prevalent causes of delistings within each:

6.3.4.1 Contracting & Construction Engineering

First, the contracting and construction engineering sector experienced the delisting of 150 companies between 2002 and 2021. 116 companies were delisted involuntarily, while 34 companies chose to leave the EGX voluntarily. Thus, around 77.5% of companies in this sector were removed from the EGX involuntarily. The highest number of these delistings occurred in 2003, with a total of 68 companies delisted from the EGX. Out of these, 65 companies were involuntarily delisted, while only 3 companies opted for voluntary delisting. A similar trend was observed in the following year, 2004, albeit at a reduced scale. This year, 14 companies were delisted involuntarily. A delisting surge in this sector was also notable in 2007, resulting in 21 companies being delisted. Following this peak in delistings, the sector experienced a decline in the number of companies delisted from the EGX. Specifically, the numbers dropped to 7 and 9 companies in 2008 and 2009, respectively, with the majority being involuntarily delisted. Afterwards, this sector experienced a few delisting incidents.

When examining the causes of delistings within this sector, it was found that non-compliance with listing rules was the primary reason for their delisting from the EGX, accounting for 88 companies, particularly in 2003 and 2004. Furthermore, violations of disclosure requirements emerged as the second most significant cause of delistings, resulting in the removal of 10 companies in 2006 and 2007 combined. Other reasons, such as M&A transactions, liquidation, non-compliance with financial standards, and not trading for a period exceeding six months, were also present.

6.3.4.2 Education Service

A relatively small number of companies were delisted within the education services sector. Specifically, a total of 7 companies chose voluntary delisting across three consecutive years: 2006, 2007, and 2008, with 2 companies delisted in each year. Moreover, the sector experienced involuntary delistings of 1 company each in 2005, bringing the total number of delistings to 8. The underlying reasons for these delistings remain unspecified, except for 1 company that was involuntarily delisted in 2005 due to a merger and acquisition transaction and 1 company in 2009 due to non-compliance with listing rules. This data suggests a minimal but noteworthy impact of delisting on the education services sector, though the lack of detailed

cause information for the majority of cases highlights an area for potential further investigation. The delisting cause of 6 companies in this sector was unknown. However, all of these 6 companies were voluntarily delisted.

6.3.4.3 Travel & Leisure

Between 2002 and 2021, a notable 102 companies in the travel and leisure sector were delisted from the EGX, with the majority being removed involuntarily. Several reasons could contribute to this massive number of delistings, including industry-related challenges, market approaches, or regulatory requirements that disproportionately may have affected companies in this sector.

The years 2003 and 2004 witnessed a high number of involuntarily delisted companies, totalling 32 companies. Conversely, in 2005, 11 companies were voluntarily delisted, whereas there were no incidents of involuntary delisting. Furthermore, a total of 23 companies were delisted between 2008 and 2010. Out of these, 10 companies were involuntarily delisted, while 13 companies opted for voluntary delisting.[1044]

The non-compliance with listing rules and failure to adhere to disclosure obligations were the primary reasons for the delisting of the majority of these companies, which totalled 43 companies. The underlying reasons for the delisting of 39 companies between 2002 and 2007 are unknown, as all of them were voluntarily delisted.

6.3.4.4 Real Estate

Within the companies in the real estate sector, 87 companies were delisted from the EGX, where the number of involuntarily delisted companies outweighed the number of voluntarily delisted companies. In 2003 and 2004, 38 companies were involuntarily delisted from the EGX. In contrast, in 2006, 7 companies were voluntarily delisted. In 2007, 2008, and 2009, the number of companies that were involuntarily delisted reached 18, while the number of companies that opted for voluntary delisting was 11. Additionally, 1 company was voluntarily delisted in 2019 because its stock trading levels did not meet the desired standard.

In this respect, 45 companies were removed from the EGX due to non-compliance with listing rules, and an additional 3 companies were delisted for violating disclosure requirements. 9 companies were delisted for not trading shares since their listing, with 7 companies in 2007

[1044] It should be noted that the registration of one company was cancelled prior to the IPO. However, the date of such cancellation by EGX was unknown.

and 2 companies in 2008. It is also worth noting the unavailability of the delisting reasons for 21 companies within this sector, all of which were voluntarily delisted.

6.3.4.5 Trade & Distributors

Similar to the real estate sector, 108 companies were delisted from the travel and distributors sector, with the overwhelming majority being involuntarily removed from the EGX. A total of 42 companies were involuntarily delisted in 2003 and 2004, while only 4 companies exited voluntarily. Yet, in 2006, the number of voluntarily delisted companies was higher than that of involuntary delisted companies, which were 18 and 8 companies, respectively.

For companies that were involuntarily delisted, a majority of 46 companies were removed due to non-compliance with the delisting rules, along with 9 companies for failure to comply with their disclosure obligations. Additionally, the causes of the delisting of 39 companies are unknown, with only 1 company being involuntarily delisted, while the remaining companies were voluntarily delisted.

6.3.4.6 Shipping & Transportation Services

A total of 35 companies were delisted from this sector, with 20 companies involuntarily delisted and 15 companies delisted voluntarily. Involuntary delisting occurred more in 2003 and 2009, with the exit of 6 and 8 companies, respectively.

On the other hand, voluntary delistings accounted for 20 companies, with the majority occurring in 2006 and 2009, when 4 and 8 companies, respectively, were delisted. Furthermore, the years 2005 and 2010 witnessed the voluntary delisting of two companies. It is also noteworthy that the number of voluntary and involuntary delistings in 2007 was equal, with 3 companies from each category being delisted.

Concerning the causes of delisting, a high number of the delistings were attributed to non-compliance with listing rules, accounting for 15 companies. Remarkably, the specific reasons for the delisting of 12 companies are unknown, and all of them were voluntarily delisted.

6.3.4.7 Healthcare & Pharmaceuticals

This sector witnessed the delisting of a notable number of companies from the EGX, accounting for 67 companies. The total number of incidents of voluntary and involuntary delisting was relatively identical, recording 31 and 34, respectively. While 2003 witnessed a high involuntary delisting rate, with the removal of 14 companies from the EGX, 2006

experienced the highest voluntarily delisting activity, with 9 companies, followed by 7 companies in 2007.

Out of these numbers, 25 companies were delisted for non-compliance with the ongoing listing rules, while 5 companies were delisted as a result of M&A transactions. Also, 1 company was delisted in 2019 due to liquidity issues, and 1 company was delisted in 2015 due to the increased financial and administrative burden associated with higher listing fees. The underlying delisting reasons for 27 companies are unavailable in the dataset, with 26 being voluntarily delisted and 1 having an unknown reason.

6.3.4.8 Food, Beverages, and Tobacco

This sector experienced significant delisting activity, with 117 companies delisted from the EGX between 2002 and 2021. Of these, 62 were delisted involuntarily, whereas 53 chose to exit the EGX. The majority of involuntary delistings occurred in 2003, 2004, and 2008, with the removal of 16, 15, and 15 companies, respectively. Conversely, voluntarily delisting occurred more frequently in the years 2005, 2006, and 2007, accounting for 33 companies.

The causes of delisting were diverse. A total of 38 companies were delisted due to non-compliance with the listing rules, with 16 of these delistings occurring in 2003. In 2009, 2 companies were delisted for failing to comply with the ongoing listing requirements. Additionally, 2 companies were delisted in 2019 due to the listing of their parent companies, and 1 was delisted due to the cancellation of its registration, which was associated with high costs incurred during the IPO. Moreover, 5 companies were delisted due to violations of disclosure requirements, while 44 companies were recorded as lacking a delisting cause; 43 of these were voluntarily delisted, and 1 was unknown.

6.3.4.9 Energy & Support Services

A total of 20 companies were delisted from the EGX within this sector. The overwhelming majority of them were involuntarily delisted, with 4 companies delisted in each of the years 2003, 2007, and 2009. In 2006 and 2007, 3 companies and 1 company opted for voluntary delisting.

Non-compliance with the listing rules was the reason for almost 50% of the companies' delisting. Additionally, the delisting cause for 5 companies is unknown, and all of them were voluntarily delisted.

6.3.4.10 Textiles & Durables

A total of 77 companies were delisted in this sector. Between 2002 and 2005, 17 companies were involuntarily delisted, compared to 5 companies that were voluntarily delisted. Afterwards, the number of involuntarily delisted companies steadily increased, reaching 15 companies in 2006 and 2007, which was slightly lower than the number of voluntarily delisted companies, which totalled 18 in both years.

The majority of companies were delisted for non-compliance with listing rules, resulting in 19 companies being removed from the listing. M&As and non-payment of annual listing fees were recorded by 8 and 3 companies, respectively, while 8 companies were delisted due to violating disclosure requirements. Furthermore, non-trading of shares since listing, non-fulfilment of financial standards for two consecutive years, and non-trading for periods exceeding 6 months were recorded in 3, 1 and 2 companies, respectively.

The delisting cause of most companies in this sector was unknown, recording an overall number of 29 companies between 2002 and 2021, all of which were voluntarily delisted.

6.3.4.11 Industrial Goods, Services and Automobiles

In this sector, 74 companies were delisted from the EGX. Between 2003 and 2009, 46 companies were involuntarily delisted, with the majority of these delistings occurring in 2003, resulting in the delisting of 21 companies. The voluntarily delisted incidents involve 28 companies, which were delisted between 2003 and 2010, as well as in 2018. Thus, there were no delisting cases in this sector from 2011 to 2017 and from 2019 to 2020, with only 1 company voluntarily delisted in this sector in 2021.

In this sector, 35 companies were delisted due to non-compliance with listing rules, and 2 companies were delisted for violating disclosure requirements. Furthermore, 8 companies were delisted due to M&A transactions. Notably, the delisting causes are unavailable for 22 companies, all of which were voluntarily delisted.

6.3.4.12 IT, Media & Communication Services

In this sector, 29 companies were delisted from the EGX. The dataset shows that the numbers of both types of delistings did not vary noticeably, except in 2003 and 2004, when the number of involuntarily delisted companies was 12. Between 2005 and 2009, the number of voluntarily delisted companies was double that of those who were involuntarily delisted, i.e., 7 to 3

companies, respectively. 2 companies were also voluntarily delisted in 2019, compared to only one in 2018 and 2021.

The number of delisted companies because of non-compliance with listing rules was 19. Only 1 company was delisted due to not trading shares since listing, not trading for a period exceeding six months, not fulfilling financial standards for two consecutive years, and not trading for a period exceeding six months. Furthermore, 4 companies were delisted due to M&As, while the delisting cause for 7 companies was unknown; all of these were voluntarily delisted.

6.3.4.13 Paper & Packaging

38 companies were delisted from the EGX within this sector. The majority of these companies, 20, were voluntarily delisted. In 2006 alone, 7 companies decided to exit the EGX. 11 companies were delisted involuntarily in 2003 and 2004.

Within this sector, 16 companies were delisted due to non-compliance with the listing rules, and 1 company was delisted for non-compliance with disclosure requirements. Additionally, 2 companies were delisted as a result of M&A transactions. Notably, the delisting causes for 18 of the delisted companies are unavailable, all of which were voluntarily delisted.

6.3.4.14 Basic Resources

A total of 81 companies were delisted. In 2003 and 2004, the number of involuntarily delisted companies was 24, compared to 0 voluntarily delisted companies. However, the number of voluntarily delisted companies rose dramatically in 2005, 2006, and 2007, resulting in an overall total of 28 delisted companies, compared to only 5 involuntarily delisted companies. The following years witnessed minor changes. In 2008 and 2009, voluntary delisting slightly outweighed involuntary delisting, with 7 companies delisted voluntarily, and 5 companies delisted involuntarily, respectively.

In this sector, 31 companies were delisted due to noncompliance with the delisting rules, while 1 company was delisted for violating disclosure requirements and failing to pay the annual listing fees. 6 companies were delisted due to not trading shares since their listing, and 4 companies were delisted due to M&As. Additionally, the delisting reasons for 32 companies were unavailable, as all of them were voluntarily delisted.

6.3.4.15 Building Materials

A total of 52 companies were delisted within this sector. Remarkably, the majority of companies, specifically 30 companies, were voluntarily delisted. 13 companies left the EGX voluntarily between 2009 and 2010.

However, 2003 witnessed a significant increase in the number of involuntary delistings, recording 10 companies. Between 2004 and 2010, 21 companies were voluntarily delisted, compared to 10 companies that were delisted.

In this context, 15 companies were delisted due to non-compliance with listing rules, and 11 were delisted due to M&As. Four companies were delisted because they had not traded. Moreover, the delisting causes for 20 companies were unknown, all of which were voluntarily delisted.

6.3.4.16 Utilities

A minimal number of companies were delisted in this sector, totalling 7 companies. Between 2002 and 2009, 3 companies were voluntarily delisted, while 4 companies were involuntarily delisted, illustrating a mild difference between the two types of delisting.

The analysis of the causes for delisting reveals that 2 companies were delisted due to non-compliance with the listing rules, while 1 company was delisted for violating disclosure requirements. Additionally, the delisting cause for 3 companies is unknown, as all of them were voluntarily delisted.

6.3.4.17 Unknown Sector(s)

This included 9 delisted companies. Out of this number, 4 companies were removed from the EGX involuntarily for non for non-compliance with the ongoing listing requirements. On the other hand, the delisting date, delisting type, and sector of the other five companies were unknown.

6.4 Conclusion

This analysis reveals that CG reforms embedded in the EGX's listing and delisting rules, starting from the 2002 Rules, have likely affected the appeal of the EGX and the companies' ability to stay listed or be listed. One possible explanation is that the compliance costs imposed on listed companies were so high that they chose to exit the EGX and pursue other financing options.

While these reforms may have cleaned the market by removing poorly performing companies, thereby paving the way for more transparent and accountable companies to remain, the magnitude of the delistings observed on the EGX is remarkable, particularly in circumstances where there have been no new listings, balancing the EGX's size. Notably, almost 40% of the delisted companies had an authorised capital exceeding EGP 50 million, with some reaching as high as EGP 20 billion. Among them, 47 companies had an authorised capital of EGP 1 billion or more, which would challenge the argument that delisted companies were merely "Lemons" or small ones. Large companies also chose to exit the stock market or were forced to leave the EGX. This finding renders Egypt a distinct case, as nearly all the jurisdictions that experienced delistings found that these delistings were occurring amongst small companies.

Additionally, the importance of affording strong legal protection to minority shareholders and corporate disclosure for the development of stock markets is entirely recognised. However, stringent CG regulations and the incremental compliance costs associated with these rules could result in unintentional consequences, including the exit of many listed companies from the stock exchanges, as seen with the adoption of the SOX in the USA.

The above descriptive analysis of the EGX Dataset indicates that 2002 marked a turning point in the lifecycle of the EGX, as a significant portion of listed companies opted for or were forced to go private and delist their securities from the EGX. EGX has almost lost more than 80% of its listed companies. This is in addition to the relatively low number of companies that have gone public.

The 2002 Rules substantially tightened the listing requirements for companies listed on the EGX, among other things, by imposing strict CG regulations for the first time. These rules may have made it more challenging for companies to list and remain listed on the EGX, prompting them to consider exit options to avoid the costs associated with compliance with the new disclosure requirements and other ongoing listing obligations.

The timeline of delistings can also be indicative of the market impact over time due to the CG reforms. Generally, peaks in delistings appear to have occurred during 2003 and 2004, primarily due to involuntary delisting. This implies that most of these delistings may have resulted from the adoption of the 2002 Rules and the strict enforcement approach adopted by the EGX thereafter.

Moreover, since 2010, voluntary delistings have resulted from M&A transactions, which reflects the influence of strategic factors on their decisions rather than the CG reforms. It is

also noted that a considerable portion of delistings lacked specific causes for delisting, particularly in the case of voluntarily delisted incidents.

In addition, delisting patterns by industry sector on the EGX offer an important source of insight into the dynamics of CG regulations, enforcement, and sector-specific challenges. For most sectors, delisting was involuntary, and non-compliance with the listing requirements was the most common reason for delisting, followed by failure to comply with disclosure obligations. These delistings had a severe impact on three sectors: “Contracting and Construction Engineering” (155 companies), “Food, Beverages, and Tobacco” (117 companies), and “Travel and Leisure” (102 companies). These findings reveal that companies faced challenges in adhering to the ongoing listing requirements, and the regulatory changes were more vulnerable to some sectors than others.

These findings suggest that companies encountered difficulties in adhering to the continued listing requirements, and regulatory changes were more susceptible to specific sectors than others. This would, therefore, imply that the effectiveness of the regulatory efforts in compelling compliance may have been more intrusive on industries that were not well-equipped for these reforms. On the other hand, voluntary delistings were common in other sectors, such as “Textiles and Durables”.

The above analysis further shows that the CG reforms, introduced in the 2002 Rules, may have created sectoral differences in terms of impact. Of course, all sectors were affected. However, some sectors appeared to adjust better to the changed regulatory environment than others, which were either delisted involuntarily or opted for voluntary delisting. This suggests that sector-specific characteristics should be considered when designing CG reforms, as some sectors may require more support, flexibility, or tailored regulations to address their unique needs.

In brief, the high number of involuntary delistings suggests that the adoption of the 2002 Rules has likely led to the aggressive removal of non-compliant companies from the EGX. However, this highlights the challenges and struggles these companies encountered in meeting the new CG rules.

Chapter 7: Analysis of the Semi–Structured Interviews

7.1 Introduction

In the preceding Chapter, the EGX Dataset was presented and analysed. This analysis revealed that nearly 82% of the listed companies on the EGX were delisted, with 60% of those companies being involuntarily delisted and the remaining 40% delisted voluntarily. The causes of the voluntary delistings were unavailable, except for 72 companies that were delisted as a result of M&A transactions and 1 company for liquidation. Non-compliance with the ongoing listing requirements and failure to meet the disclosure obligations, particularly under the 2002 Rules, were highlighted as the primary causes for involuntary delisting.

Given that the EGX Data was silent on some aspects and did not provide conclusive conclusions regarding the underlying causes of the high delisting rates observed on the EGX, mainly whether the CG reforms or other factors drove the low number of listed companies on the EGX, semi-structured interviews were conducted with market stakeholders.[1045]

Those stakeholders included policymakers, regulators, executives, shareholders, and consultants. Those individuals are expected to possess more information, knowledge, and firsthand experience from their involvement in listing and delisting decisions, as well as the formulation and implementation of CG rules, in various professional capacities.

This chapter is thus designed to delve into the analysis of the data obtained from the semi-structured interviews.

As explained earlier in Chapter 5, the interview questions addressed three main themes that emerged from existing scholarly studies on the economics of regulations and the determinants of delisting, as well as the findings of the EGX Dataset's analysis provided in Chapter 6. These themes mainly relate to the formulation and implementation of CG regulations on companies listed on the EGX, the possible delisting determinants of the companies that left the EGX, including the probable influence of the CG reforms, and the current perception of the CG rules and how it could be amended to stimulate the listing activity in the EGX.

These three themes are interconnected and considered the cornerstone of the discourse in the present thesis. Each of these themes is explained in turn below. Accordingly, this Chapter is organised as follows. **Section (7.2)** analyses the respondents' responses to the questions about

[1045] *See* Chapter 5.

the formulation and implementation of the CG rules. **Section (7.3)** outlines the particularities of the delisting phenomenon in the EGX in the eyes of the respondents. Section (7.4) explores the perspective of the current CG regulations and the possible policy recommendations for the improvement of EGX's appeal for listings. A conclusion then follows in **Section (7.5)**.

7.2 The Formulation and Implementation of CG Rules

This subsection elucidates the respondents' responses to interview questions regarding the development and implementation of CG rules applicable to companies listed on the EGX. These questions mainly aim to find out the impact of the best international regulations of CG on the formulation of the CG regulations in Egypt, the stakeholders' engagement in drafting and revising those regulations, how often the rules are updated, the paramount problems or difficulties that the listed companies encountered in adhering to the CG rules, and finally whether there is any rule that is not welcomed by the companies already listed or willing to list their shares in EGX.

For structural purposes and ease of analysis, each question or category of questions will be grouped into a subheading below.

7.2.1 Influence of International Best Practices

Regarding familiarity with the international best practices of CG, a clear understanding and strong familiarity were noted among the Regulators and Consultant groups when the issue was initially discussed.

Turning to the impact of international best practices CG on the development of CG regulations in Egypt, Regulators identified the influential role of these principles in shaping CG reforms, including those imposed by the EGX. They also mentioned the OECD Principles of CG, the UK CG Code, and other similar initiatives as important references that any reform plans would consider, particularly concerning board independence, the protection of shareholders' rights, and disclosures.

One regulator highlighted, "*We generally follow the best international practices since they provide us a common global benchmark that is essential in signalling the competitiveness of our regulation and the stock market*."

Another regulator stated, "*The early reforms and the adoption of the CG regulations have been part of the other economic reforms devised during this collaboration between the Egyptian government and the international institutions*."

While there was a strong sentiment about the importance of following international best practices among the Regulators, three regulators raised concerns about this approach, highlighting a possible inconsistency between these practices and the Egyptian context, given that family businesses and SOEs remain the dominant corporate structures. For example, one of them said: "*We usually design our CG regulations in light of international best practices. However, let me express that I was always concerned that this set of rules could be irrelevant or unsuitable for our market since families or the state are major shareholders in most companies, which makes the application of CG as viewed internationally very challenging*."

The Consultants were also very familiar with international best practices, given their role in advising companies on compliance and CG improvements. Most of them supported the high impact of international standards on designing CG regulations at the EGX. 60% of the Consultants further explained that the strict application of global practices in Egypt is necessary to improve the market's reputation and perceptions of its credibility and integrity.

On the other hand, the remaining 40% of this group was concerned about the potential negative impact of becoming too dependent upon the best international rules. As one respondent mentioned, "*I would agree on following up all the international practices in order to get ideas about the most updated rules and regulations and their aims, but I would really be concerned about the impact of borrowing these rules and regulations without a correct evaluation of their need and suitability for Egypt."* A similar concern about the actual effectiveness of these reforms can be seen in the following comment: "*While these reforms were inspired by the best rules internationally, there has been a gap between adopting the principles and building the local capacity to implement them effectively*."

For the Executives, knowledge of international best practices varied significantly. Executives from large, multinational companies demonstrated a positive familiarity with international standards, while others showed no knowledge of these practices. However, they mostly remained sceptical about the real impact of global standards on the CG regulations at EGX. 30% of the respondents in this group were also cynical about the suitability of international rules for their businesses. A respondent said, "*While I could understand the importance of international standards for any domain, I think it is much better to have rules and regulations*

that fit the unique characteristics of our companies and the market here." On the contrary, respondents from large companies praised the reflection of international best practices in Egypt, as this would encourage foreign investors to invest in their companies and securities traded on the EGX.

Therefore, from the perceptions of the three groups, the impact of the international best practices of CG is uncontroversial across the three groups. However, 54% of the total respondents across the three groups expressed concerns about the impact of these international standards on the integration and suitability of these standards with the unique dynamics and shareholding structure of companies listed on the EGX.

7.2.2 Review and Amendment Frequency

All respondents were asked about the frequency with which the regulator reviews and updates the CG rules applied to listed companies. This question is crucial, as numerous amendments to the listing and delisting rules on the EGX have been made, which may have disrupted the market and made its participation uncertain due to the successive amendments and the nature of the obligations they impose. These amendments could also be an indicator of regulatory adaptation to the circumstances prevailing at the time, market development, or new market risks that emerged during that period.

The majority of respondents highlighted that these amendments were primarily made on an ad hoc basis. Most of the Regulators explained that any change to the listing and delisting rules, along with the CG regulations imposed on listed companies, was either made to improve the market's credibility and follow international practices or in response to specific events observed in the market.

On this issue, the Executives and Consultants have primarily welcomed any change that reflects the market's needs and meets the companies' demands. However, changes that would impose an additional burden on companies should only be introduced after proper discussions with the relevant stakeholders. One respondent commented, "*Too frequent changes to the rules may even be counterproductive as companies would have to adapt to them and also incur costs and time required for analysing the new changes and implementing them*."

Consequently, all three groups confirmed that a review of the listing and delisting rules on an ad hoc, occasional basis is the standard, which may be a positive sign for EGX's flexibility in responding to market changes. On the other hand, there was a perceived inconsistency about

the appropriateness of frequent reviews. In this regard, the majority of Executives and Consultants advocated for periodic reviews, so that companies would be aware of their timing and be prepared to adapt to any new requirements, provided that proper consultation is conducted before issuing any new rules.

7.2.3 Stakeholder Consultation

Since consultation with stakeholders forms the backbone of every rulemaking or rule-changing process for advancing any regulation, a question was posed to the respondents to explore whether EGX adopts a consultation process prior to undertaking any reforms aimed at modifying the applicable legal frameworks for listed companies.

The majority of respondents mentioned that the regulator is currently consulting stakeholders, including board members, market advisors, shareholders, and industry associations, before advancing new regulations, although not on every regulation and subject to the regulator's discretion. However, several doubts were raised regarding the level and quality of such consultations. On the other hand, numerous Executives believed that the few consultation sessions held recently were simply symbolic, as their feedback appeared not to have been considered when shaping the final regulations.

Consultants also welcomed the efforts towards stakeholder involvement but recognised that their views must be better represented. They emphasised that stakeholder consultations should be improved through designing structured mechanisms to receive and evaluate feedback from stakeholders. Additionally, consultations should be conducted with a broader range of participants, particularly among SMEs, family-owned companies, investors, academics, and professionals, to make this process more inclusive and effective. They thus concluded that proper consultation would ensure that CG reforms are better aligned with stakeholder needs and find wider acceptance.

7.2.4 EGX's Enforcement Approach

According to the analysis of the EGX Dataset, the majority of delistings recorded in this study were involuntary. i.e., 60% of the incidents. It is, therefore, necessary to ask a question regarding the EGX's enforcement pattern of the listing and delisting rules.

The majority of the Regulators praised EGX's market observations and its timely action in preventing fraud or malpractice. A regulator mentioned, "*EGX has done very well in both the enhancement of transparency and compliance with CG regulations.*" He described the strict

actions taken by EGX as necessary to sustain investors' confidence and the credibility of the market. However, some regulators indicated that they would prefer a less rigorous enforcement mechanism, given the prevailing corporate structure in the market. A lax enforcement would also be required to encourage companies to comply with the CG standards.

On the other hand, many Executives and Consultants highlighted the inconsistent enforcement approach adopted by the regulator. While companies with simple violations were pursued strictly, others with virtually identical or more significant violations were not touched.

7.2.5 Challenges to CG Compliance

Most of the Regulators voiced their opinion that companies face three fundamental challenges. First, there is a lack of awareness and knowledge, primarily at the company level, about what needs to be implemented in accordance with CG rules. "*Many companies do not understand the benefit of CG and perceive it as a compliance burden rather than a strategic imperative, and we try to alter this perception,"* a regulator said. The second factor is the administrative and financial costs associated with compliance, particularly for start-ups and companies with limited budgets. The third crucial factor mentioned was cultural resistance to certain CG practices, such as independent board structures. As one respondent put it, *"Family-owned businesses especially have a hard time with this notion of independence of the board."*

The same challenges, including those of costs and unclear regulations, were echoed by the Executives. One executive stated, "*We do not have dedicated teams or expertise to meet such heavy CG requirements*." Another executive added, "*The high cost of meeting the disclosure and reporting requirements deters many small companies.*"

Moreover, Executives expressed a lack of clarity regarding specific rules, which had ambiguous room for interpretation and uncertainty. The Executives further commented on poor communication of new regulations and also stated that no proper engagement was carried out to consider stakeholders' views when preparing these regulations. There was also a sense of selective enforcement: "*It is like it targets small companies to a great degree, not giving the larger guys a good headache. There seems to be quite an inequality going on*," opined one respondent, while another remarked: "*small companies are affected and scrutinised more heavily than larger companies*." A further concern was related to the sudden announcement of the adoption of new rules and the obligation to comply with these rules, which imposes unforeseen risks on the businesses.

Consultants highlighted systemic issues, such as market readiness and the mismatch between regulations and business realities. One consultant commented, "*The CG standards are ambitious, but the infrastructure to support compliance is still developing."* Another one explained, "*The market was not fully prepared for the level of transparency and accountability demanded by these regulations*." They also pointed out that SMEs have minimal access to expertise and training, which hinders their ability to meet CG regulations. As one consultant put it: "*Companies need more proactive support and guidance through these complexities."* They further emphasised that compliance costs have been high for some companies, as they may not have sufficient financial resources to devote to compliance, particularly research and development companies and SMEs.

Consequently, the three groups agreed that companies have been encountering challenges and difficulties in complying with the regulations. Executives and Consultants noted that *"Compliance is costly for many companies, and more especially for small ones that lack the resources and means to meet the requirements,"* further highlighting the lack of affordable consultancy services for listed companies.

Furthermore, consultants and regulators cite cultural resistance as one of the fundamental issues, as family-owned companies often complain about the use of independent directors. In the words of a consultant, *"The main hurdle is trying to get independent directors in place within family-run companies who are seeing it as losing control."* Others criticised the practicality of some adopted rules, such as the mandatory appointment of women to boards. As explained by an executive, *"Some of the requirements are unrealistic based on where our market currently sits in its level of development.*

The concept of selective enforcement was a consistent concern expressed by the majority of Executives and Consultants. As one executive put it, "*There is a feeling that large companies get preferential treatment, while the needs and capabilities of smaller ones are disregarded."* Consultants claimed that inconsistent enforcement erodes confidence in the rule-making system and creates discrepancies between companies.

In a nutshell, the most critical barriers pertain to cost and resource constraints, cultural resistance and practicality, inconsistent enforcement, regulatory complexity, and lack of adequate awareness and understanding of the rules.

7.2.6 Concluding Remarks

The formulation and implementation of the CG rules on the EGX are multi-dimensional processes; international standards, insufficient stakeholder engagement, strict enforcement practices, and challenges encountered by listed companies all play a part. Although the adoption of global best practices, such as those from the OECD and the UK CG Code, has provided a strong framework for transparency and accountability in the market, concerns persist about their relevance to Egypt's specific corporate landscape, which is dominated by family-owned companies and SOEs. Some respondents did not find these global standards appropriate without adjustments to local market dynamics; still, others found them essential in attracting foreign investment and giving credibility to the market.

Changes and updates to CG rules have been made ad hoc, usually in response to specific market incidents. Although this flexibility is viewed as a positive feature, opinions among respondents are divided on whether the rules need to be reviewed more regularly. Some opine that the current frequency allows new problems and issues to slip under the radar. Others are concerned about the operational disruptions that these frequent changes cause, especially when they are introduced without prior notice.

Consultations among stakeholders have recently taken place; however, they are not perceived as being thorough and comprehensive. To many respondents from the Executive and Consultant groups, these efforts were perceived as symbolic or otherwise inadequate in shaping regulatory outcomes. Consultants call for more formal and substantively inclusive engagement among market participants since better consultation may lead to a practical regulation that is widely accepted.

More significantly, in implementing the CG rules, the EGX was noted for advancing integrity and accountability through strict enforcement of regulations concerning financial reporting and disclosure. However, inconsistent enforcement may have eroded trust and perpetuated perceptions of unfairness between small and large companies.

Compliance challenges are prevalent, particularly for SMEs and family-controlled companies. The costs of compliance are very high, resources are scarce, and a lack of expertise is another barrier. Additionally, there is cultural resistance to certain CG practices, such as independent board structures. Unclear and complex regulations, along with inconsistent enforcement and sudden rule changes, exacerbate the difficulty of compliance.

In a nutshell, although significant efforts have been made to align the CG framework of EGX with that of leading international markets and enhance transparency, these challenges would be more effectively addressed by adopting a more relevant approach in terms of specific needs, inclusiveness, and consistency. The engagement of stakeholders needs to be improved, regulations must be developed in light of the country's particularities, and SMEs and family-owned companies must be considered in any reforms to CG regulations at the EGX.

7.3 Delisting From the EGX

Between 2002 and 2021, 82% of the listed companies on the EGX were delisted. The EGX was responsible for 60% of these delistings, while 40% were pursued voluntarily by the companies. The analysis of the EGX Dataset yielded inconclusive findings regarding the primary causes of these delistings, particularly for those that were voluntary.

The EGX Dataset has not provided any information that would help identify the reasons and factors that compelled the defaulting companies to not comply with the CG regulations, primarily those embedded in the 2002 Rules and the 2014 Rules. Additionally, the EGX Dataset lacked information on the causes of delisting for over 90% of the voluntarily delisted companies, except in some cases after 2012, where M&As were the primary factor. They thus highlighted the need for an additional investigation into the actual triggers of delistings from the EGX.

Therefore, to gain a more comprehensive understanding of the delisting phenomenon on the EGX and its actual determinants, specific questions about delisting from the EGX were posed to the respondents during the semi-structured interviews. The responses and insights received from the respondents to these questions will likely provide valuable and accurate knowledge of the influences that have motivated or contributed to the delisting decisions, both voluntary and involuntary.

The questions were generally designed to address the issues raised in this thesis, primarily exploring the reasons for the voluntary and involuntary delistings of the EGX, the potential impact of the EGX's regulatory framework on delisting decisions, and the most significant rules that prompted these decisions.

Nevertheless, prior to directing these questions to the respondents, all respondents were first asked about their familiarity with the delisting concept, and they all expressed an awareness thereof.

In this respect, a respondent from the Regulators expressed, "*We apply delisting as a threat to sustaining the credibility of our exchange by removing non-compliant companies."* Also, a respondent from the executives' group commented, "*We have been advised that delisting is a risk, but I am not familiar with its conditions."*

Notably, most of the responses from the Consultants identified delisting as a key topic, with one even going so far as to say, "*It is a frequent topic in our discussions with clients.*" To that end, another member of the same group added, "*We are involved when companies either have delisting threatened or wish to leave the market of their own desire. It is an important issue for many businesses."*

These statements highlight the significance of the delisting issue and its perceived threat to businesses listed on the EGX. The remainder of this section will present the answers provided by the respondents to the other questions related to this issue.

7.3.1 Reasons for the Voluntary Delisting

As explained in Chapter 2, voluntary delisting occurs when a listed company decides to leave the stock exchange voluntarily. The outcome of the cost-benefit analysis is the determining factor for the companies' decision to be listed, remain listed, or be delisted.[1046]

Given that the reasons for the majority of voluntary delistings that occurred in the EGX from 2002 to 2021 are unavailable in the EGX Dataset, this section explores these reasons from the responses received from the respondents to the question of "What are the three most significant reasons that might have likely influenced companies to delist from the EGX?".

The respondents have identified several reasons for the voluntary delisting of companies from the EGX. From the perspective of the Regulators, companies opted for delisting due to market conditions, primarily illiquidity, low trading volumes, and the absence of investors, as well as strategic corporate decisions that led to M&A transactions. Four respondents from this group highlighted the compliance costs as another reason for these delistings. They explained that these costs were burdensome for companies, especially for small businesses and those with poor performance. A regulator described, "*The costs of complying with CG regulations, mostly those related to the auditing and disclosure requirements, made many companies delist."* Three respondents also stated that the freedom to manage a company without scrutiny was another

[1046] See, e.g., Sreedhar T Bharath and Amy K Dittmar, 'Why do firms use private equity to opt out of public markets?' (2010) 23 REVIEW OF FINANCIAL STUDIES 1771, 1773

reason for the decision. The cancellation of the tax incentive was also painted as one of the reasons for delisting.

Over 75% of the Executives pointed out that cost-benefit analysis plays a crucial role when both listing and delisting decisions are considered; one said, "*When companies see little trading activity or benefits from being listed, the costs can outweigh the advantages."*

The majority of the Executives also mentioned that the disclosure requirements would involve costs and efforts towards compliance, which were something the managers wanted to avoid. 40% of them expressed concerns about the disclosure of information that could then benefit their competitors. The free-rider approach was also raised, where some companies delisted themselves from the EGX after finding that other companies in their sector were being delisted. 20% of the responses from this group also highlighted the lack of desire to obtain capital from the EGX, as other financing sources were available without "*the hassle of the listing rules*", said a respondent from the Executives. The absence of any listing incentives, such as the tax incentives that were previously offered, was also noted.

Consultants noted that some companies were delisted for restructuring purposes or to reposition themselves in the market strategically. This is because "*Companies that do not see sufficient benefits from public listing opt to delist to focus on long-term goals without the pressure of meeting market requirements*", said a consultant.

Most of the Consultants also revealed that the main reasons for delisting among family-owned companies were primarily associated with regaining control and avoiding the CG requirements, which were considered a lack of control over their businesses' operations. Two consultants further mentioned that market volatility was one of the reasons some companies chose to delist; one described, "*When market prices are volatile, a company would naturally consider that the risks and uncertainty of remaining on the stock exchange exceed the potential benefits."*

Additionally, the Executive and Consultant highlighted one of the significant causes of why companies are delisted or are considering delisting, namely, unexpected regulatory changes. An executive explained, *"[Such] continuous changes in the regulations cause us panic internally"*.

To conclude, three groups have relatively cited the rising compliance costs associated with adherence to regulations, albeit with varying weights. One consultant said a client told her, "*The cost of complying with the regulations made it unfeasible for us to stay listed*." Others

said being listed no longer offered enough advantages, including access to capital or increased visibility, that justified the time and expense. Thus, the regulations placed a burden on companies, finding delisting from the EGX as a prompt cure to this pain, especially for SMEs and family-owned companies.

7.3.2 Reasons for Involuntary Delisting

Involuntary delisting is pursued by the stock exchange itself as a sanction when a listed company fail to comply with the applicable ongoing listing requirements and disclosure obligations, as explained in Chapter 2.

Following the above question, which pinpointed the reasons behind the voluntary delisting, respondents were also asked about the most frequent causes that motivated the EGX to delist companies from the EGX. The unanimous answer is that failure to adhere to the companies' continuing listing requirements was the leading cause of such delisting. "*The most influential reason was a failure to meet ongoing listing regulations, especially financial reporting and transparency requirements,"* clarified a regulator.

The second cause is the failure to comply with disclosure requirements, followed by the failure to meet financial and auditing requirements. Inactive trading of securities is another cause of these delistings. A regulator explained, "*A general reason for involuntary delisting was the companies' inability to meet our financial and operational standards."* It is also noted that constant failure to comply with the CG rules, such as the inability to meet the requirements for board independence, led to the delisting of non-compliant companies.

While most Executive and Consultant groups agreed that non-compliance was the primary driver of involuntary delistings, they also noted that EGX's enforcement and scrutiny were not always consistent. An executive said, "*We have seen companies get removed due to reasons that seem minor compared to others that remain listed despite clear violations*".

Therefore, the primary triggers that result in involuntary delisting were: (i) non-compliance with listing rules, such as failure to meet disclosure requirements, financial reporting, or trading activity requirements; (ii) financial instability, as companies are unable to sustain financial viability and fail to meet EGX standards; and (iii) inactive trading for a prolonged time.

7.3.3 Oppressive CG Regulations

The above two questions have identified only the primary reasons for both the voluntary and involuntary delistings. However, specific rules that made the regulatory change unwelcome to some companies, requiring them to bear the burden, were not provided. Thus, a question related to this very set of rules was posed to the respondents, i.e., "What are likely the three most significant rules that companies did not or could not meet?". Responses' content and inherent reasoning varied, yet all predominantly targeted disclosure requirements, board composition, and the cost of compliance.

The severity of the disclosure requirements is regarded as the primary cause of delistings. The companies complained about modifications to the scope of disclosure requirements, which they considered burdensome, expensive, and ill-suited to their operations, as reported by a few regulators. Still, most of the Regulators believe that such disclosure requirements and any modifications made thereto were necessary for EXG's transparency and minority shareholder protection. One regulator summarised, "*Transparency was and remains a challenge, particularly for small and family companies."* Most Regulators do not identify the specific disclosure requirements that were at issue, except for two regulators who specified the lawsuit disclosure and the disclosure of board members' ownership in other companies.

The second pressing regulation was the board's independence. This is in light of the reality that the corporate framework in Egypt comprises family-owned companies, SOEs, and SMEs. In family-owned companies, there has been resistance to the appointment of independent board members due to concerns about losing control over the management of their businesses. Nevertheless, one regulator commented. "*Board independence is a cultural challenge in many companies*", indicating that companies started to accept and embrace the appointment of independent board members.

The third regulation relates to satisfying the financial reporting and auditing standards according to the IFRS, highlighted as "*a common issue faced by the EGX*", a regulator said.

Executives seconded similar views. They all identified rules relating to disclosure requirements in terms of their content, scope, and time as the significant causes for delisting. The leading disclosures included executives' compensation, related-party transactions, and strategic and operational information. With regard to the monetary compensation for board members and executives, there was a concern about potential backlash from employees or society. An

executive justified, "*We are concerned about the adverse reaction of employees or the public if they feel that the level of executive compensation is excessive."*

Additionally, most of them mentioned the high disclosure compliance costs as a reason for delisting. One executive commented, "*The reporting requirements are too complex for small companies, and hiring external auditors adds to the cost burden."* Another said, "*We simply could not keep up with CG requirements and reporting standards required by the EGX."*

Another key rule is related to the composition of the board. Most regulators upheld their views regarding the board's independence, as it would be challenging for most companies to achieve. One executive encapsulated this stance when he categorically stated, "*Independent directors are seen as a waste, particularly for those with a family ownership model.*"

Furthermore, most Executives considered financial reporting and auditing requirements unfavourable for the majority of companies, especially SMEs. Companies consider such requirements as burdensome in terms of expenses, resources, and skills. Additionally, for family-owned companies, disclosing financial information is considered detrimental to their competitive position. As one executive expressed, "*Publishing financial statements and reports exposes us to scrutiny from competitors and other stakeholders."*

The Consultants reiterated the same regulations. However, more emphasis was placed on the disclosure requirements of business decisions and operational information, which were sensitive disclosures for most companies. Companies did not prefer to report on their future business expansion plans and strategic alliances. A director in a large listed company told a consultant, "*We were discreet about disclosing our strategic intentions because competitors could benefit from them."*

On the other hand, 50% of Consultants mentioned that the problem was not related to the rules and regulations of CG. Instead, it was related to inaccessible or inadequate systems or resources. A consultant stated, "*Small companies cannot keep the documentation and reporting requirements of the EGX*.". A consultant further elaborated, "*Most of the companies have not deliberately violated the rules of the disclosure; they could not satisfy them, so they were forcefully delisted from EGX."* He added, *"Many of the companies lacked qualified or enough employees to prepare the needed financial reports by the EGX while hiring auditors from outside was costly for these companies."*. A consultant has also highlighted that recently, "*Companies have been voicing their concerns about ESG disclosures"*, said a consultant. He explained that ESG disclosures may affect the listing status of some companies and discourage

others from listing, especially small ones that lack support and resources, regarding them as an additional burden.

Therefore, across the three groups, certain types of disclosures were identified as unfavourable for companies. These include financial and auditing disclosures, executive and board members' compensation, strategic business decisions, operational information, and related-party transactions.

7.3.4 Changes in EGX Regulatory Framework

A final question was asked on whether changes in the EGX regulatory framework might have affected delisting decisions. The majority of the Regulators declared that the strict regulations probably influenced some companies to delist, but justified such changes as essential to market integrity. One regulator clarified, "*The tightening of the rules may have influenced companies to exit the EGX, but these reforms were important to have better transparency in the stock market and improve investor confidence*".

This negative influence of the EGX reforms on delistings was also shared by some executives who highlighted the additional burdens created by these reforms. One executive stated, *"The required costs to comply with these rules made it challenging for most companies to retain their listing status."* Some also pointed out the impact of the sudden amendments to the listing rules, made without any prior announcement or consultation, which led them to consider exiting the market.

Additionally, Consultants agreed that regulatory changes may have played a role, especially those made in 2002 and subsequent ones. "*They raised the compliance bar, and many companies could not keep up*," said one consultant.

Thus, most of the respondents opined that the rigid regulatory regime was closely associated with high delisting rates. While Regulators consider these reforms necessary to enhance the market's integrity, Executives and Consultants have commented that many companies lack the capability or readiness to adapt and comply. Notably, SMEs have borne the hit of this regulatory squeeze: a consultant stated, "*The reforms raised the bar, but many companies lacked the resources to sustain."*

Compliance costs have increased significantly with the new changes to CG regulations. While large companies have been able to bear this cost, small ones could not afford the financial and administrative burden and found it easier to delist than to continue paying the listing costs.

Executives also reported the difficulty of disclosure and reporting that requires auditing by higher-standard auditors. One executive noted, "*These costs might be bearable for large companies but unbearable for small companies*." According to them, increased costs had become a significant factor driving decisions about delisting. Some companies were highly likely to delist since the perceived benefit of listing itself was quite insignificant.

In contrast to the numerous benefits of regulatory changes, one major concern raised by the Consultants was the increased compliance costs resulting from this change. A consultant highlighted, "*The cost of auditors, CG structures, and regular reporting is an extremely high cost for companies with low market activity."* He added that unless the costs of compliance reach a more proportional threshold, many companies will continue to find delisting an attractive option.

7.3.5 Concluding Remarks

The reasons and motives behind the delisting of the EGX were discussed in this section. During the period from August 2002 to December 2021, 1,140 companies were delisted from the EGX. Among those, the largest number resulted from involuntary delisting due to non-compliance with the EGX's regulations, primarily the 2002 and 2014 Rules.

While voluntary delistings were less recorded, the reasons noted among these few were M&A transactions and strategic corporate decisions. Deeper insights from the respondents on motives and challenges related to delisting have accentuated regulatory burdens, market conditions, and corporate strategies.

Some of the major driving factors include high compliance costs, low market liquidity, and burdensome disclosure obligations, particularly for SMEs and family-owned companies. The motives for delisting, for most companies, were related to reducing administrative burdens, regaining control, or avoiding the disclosure of sensitive information. Market volatility and the absence of listing incentives also contributed to the trend, as companies sought alternative financing options outside the exchange.

The involuntary delistings were due to companies' non-compliance with the stringent listing requirements concerning reporting, transparency, and trading activity. Inconsistent implementation was another trend that sparked perceptions of inequity towards the regulatory setting. The persistence of strict CG regulations regarding the independence of the board and

compliance with IFRS continued to strain SMEs and family-owned companies, which have limited resources to conform to these regulations.

These were compounded by the EGX's regulatory framework, driven by sudden twists and a consequent increase in attention to compliance, forcing multiple companies to delist. These reforms, hailed by regulators, were said to be necessary to maintain proper market integrity, whereas most Executives and Consultants were concerned about the lack of gradual implementation or support towards compliance. Compliance appeared to be too expensive, potentially leading companies to reconsider their listing status.

Thus, from all these responses, a consensus was reached on the need to adopt balanced regulatory reforms and cost-effective compliance mechanisms to encourage market participation and reduce delisting rates.

7.4 Future Policy Considerations

The above section underlined the primary causes that have triggered the substantial delistings from the EGX. Chief among these causes was the high compliance costs associated with adhering to the continued listing requirements and disclosure obligations, as well as the resistance from family-owned companies to any change that would be perceived as a loss of control. Generally, it appears that the 2002 Rules and the 2014 Rules have not taken into account the prevailing corporate structure in Egypt, which is characterised by concentrated ownership, whether by families or the state, or the varying characteristics of companies in terms of size, industry, and operational goals.

To this end, this section aims to gather the respondents' perspectives on some regulatory proposals that may address the pressing challenges currently faced by the EGX.

The goal, therefore, is to suggest some policy recommendations that may help retain market growth and stability, reduce the incidence of continued delisting, and encourage listing activity. In this regard, questions regarding the motives for listing, feedback on the applicable CG regulations, the likely incentives for listing, and two regulatory proposals concerning listing levelling and dual-share classes will be addressed below.

7.4.1 Motivations for Listing

Since delisting is the opposite of listing and companies usually operate on a cost-benefit basis to determine if the compliance cost outweighs perceived benefits, whereby they would opt for

delisting if the cost outweighs the benefits, it first becomes important to understand the core reasons that influence companies to list on the EGX so their absence would lead to delisting or at least making listing a less attractive option for them. A question was thus asked about the three significant common motivations for companies to list on the EGX.

According to the Regulators, increased visibility, reputation, and access to capital were the most significant reasons for listing on the EGX. A regulator highlighted, *"Listing allows companies to raise funds for their expansion plans while improving their reputation in the market".* Others also mentioned the role of listing as an opportunity to achieve long-term growth.

Executives unanimously agreed that access to capital was a major driver for listing; one explained, "*Ability to raise capital to finance new projects or expansions was the most prominent reason why we decided to list"*. Further incentives cited by the Executives include enhanced market visibility and possible strategic investor attraction. Additionally, they highlighted the advantage of liquidity, which allows founders or early investors to exit partially or fully.

While Consultants shared the same opinions, they added that listing also places the company in a better position in the market; one said, *"Being listed makes companies more attractive to institutional investors; they prioritise transparency and companies with good CG structures."*

Therefore, companies seek listing on the EGX to raise capital, signal credibility, attract investors, or as an exit option for funders and early investors. Listing was also viewed as a strategic decision whereby companies could obtain funds for expansion, new projects, or debt reduction. One executive concluded, "*Listing provides us with an opportunity to secure long-term financing that would otherwise be difficult through traditional banking channels.*"

7.4.2 Feedback on the CG Regulations

As any regulatory change should first evaluate the suitability of the current regulations, a question was raised regarding the opinion of listed companies and those considering listing on the EGX regarding the current CG rules. Regulators highlighted that while most companies appreciated the intent behind CG regulations, they had some concerns about their implementation. A regulator noted, "*Companies understand the value of CG regulations, but they believe they are too rigid or difficult to comply with."*

Executives' views were mixed. Large companies generally focus on the positive aspects of regulations, signalling credibility and attracting more attention from investors. An executive commented, "*CG rules help build trust with investors".* Nevertheless, on the other hand, small companies find the regulations burdensome and overly complex. Another said, *"The efforts and costs required are challenging."* Moreover, some executives criticised the favouritism approach to large companies; one executive stated, "*The rules are tailored for large companies, with no consideration to other companies."*

Consultants revealed that the key concern is about practicality. As one consultant mentioned, "*Companies frequently ask themselves whether the benefits of compliance are well worth the effort, especially when the rules appear to be misaligned with their operational realities."* Both groups agreed that more straightforward guidelines and better enforcement mechanisms would help improve perceptions of these rules.

Moreover, the three groups indicated that the need for independent directors is one of the most contested requirements, especially by family-owned companies. One executive stated, *"For family-owned companies, bringing in independent directors feels like a loss of control over the business and a lack of trust in the ability to manage the company."*

Maintaining the liquidity level demanded by the EGX was also highlighted as another challenge for SMEs listed or willing to list at the EGX. *"Keeping up the liquidity levels required by the EGX is unachievable for many small companies,"* commented a consultant. He further explained that most companies face difficulty with this issue, and they risk being delisted as a result.

Additionally, 80% of the respondents mentioned complaints about the complexity and frequency of financial reporting, which companies consider a significant burden. One executive commented, *"The reporting requirements are ongoing and time-consuming for managers."*

The Consultants further emphasised that the EGX requires more transparent communication regarding the intent and actual application of the regulations. One of them said, "*The lack of clarity and guidance about any new regulation makes companies overwhelmed and uncertain about how to comply."*

In a nutshell, large companies appreciate that CG regulations could bring more transparency and confidence from investors. On the other hand, SMEs and family-owned companies face numerous obstacles, primarily high compliance costs and the unsuitability of specific rules to

fit their business or operational preferences. Matters pointed to as especially burdensome included independent board requirements, strict disclosure obligations, and liquidity thresholds.

7.4.3 EGX Incentives for Listing

In analysing the EGX Dataset, it was observed that listed companies were granted certain tax exemptions as an incentive for listing. While the most significant exemption was cancelled in 2005, the emergence of delisting incidents began three years earlier, in 2002.

Therefore, a reasonable subsequent question would be around the possible incentives or actions that the EGX might offer or undertake to encourage more listings and mitigate the delisting events. While the Regulators were initially hesitant to address this question openly, the majority emphasised the importance of capacity building in terms of educating existing players and potential issuers about the benefits of listing and CG requirements. Training and workshops were suggested as tools to bridge the gap between the EGX and stakeholders. Others suggested reduced listing fees to lower barriers for SMEs.

On the other hand, both Executives and Consultants mentioned some measures and motivations. Chief among them is the streamlining of listing requirements. The Executives urged the EGX to simplify the procedures for listing and to adopt more pragmatic regulations. An executive highlighted, "*Simplifying the CG rules and showing more flexibility in the application could help make listing attractive."* In fact, Consultants suggest reducing the volume of documentation and regulatory requirements as a means to decrease the perceived burden and make the path easier for SMEs. The two groups concurred and welcomed the option of having a menu of rules for the companies' choice.

Other proposed actions included reducing compliance costs to encourage companies to stay listed or be listed. The forms of such reduction were numerous. The majority of Executives emphasised the need for tax benefits and a correlation between the listing fees and the company's size. Others requested financial aid from the government to encourage companies to list. A few mentioned that the market consultants' fees should be more economical so that they are accessible to SMEs. A few of them also demanded a review of the prevailing regulations by the regulatory body to eliminate overlapping provisions. They also insisted that EGX should propose no more regulatory changes without prior consultations.

Most Consultants have, once again, confirmed that there should be an appropriate channel of communication between the EGX and market participants. This channel would give an opportunity to discuss their apprehensions and also delineate the benefits of listing and the CG regulations. Some consultants have also emphasised the need to provide tax benefits to listed companies. A consultant said, "*Tax incentives would provide immediate financial relief and motivate more companies to consider the EGX."*

Consequently, most respondents agreed that simplifying listing requirements, lowering costs, offering targeted incentives, and providing education and support are critical components in bringing more companies to the EGX. These measures would make the environment more favourable, primarily for SMEs and family-owned companies, offering more opportunities for market participation and growth.

7.4.4 Tiered Listing and Optional Sets of CG Regulations

Given that the regulatory reforms may have likely affected the delisting decisions of many companies, the researcher examined the reforms advanced by other emerging jurisdictions to identify the suitability of specific mechanisms adopted in these jurisdictions for Egypt. One notable experience was the introduction of a tiered listing system in the Brazilian capital market, under the auspices of the São Paulo Stock Exchange (Bovespa), which offered various tiers for listing, each with a distinct set of CG regulations.[1047] To assess the appropriateness of this option for the EXG, a question was directed to the respondents about their opinion on the presence of different sets of CG rules and whether this would promote listings or not.

The majority of Regulators argued that permitting discretionary sets of CG rules within the EGX is not feasible, as the existing regulations are the bare minimum necessary to sustain investor protection and the EGX's reputation. However, some were willing to accept that this would bring about listings. One regulator said: "*Having a core set of mandatory rules with optional additional requirements might encourage more companies to list without compromising CG quality."* They emphasised the importance of flexibility without compromising the core principles of CG.

On the other hand, Executives agreed on the proposals relating to tiered or optional rules, viewing them as a possible way to show flexibility in accommodating companies of different

[1047] Ronald J Gilson, Henry Hansmann and Pargendler Mariana, 'Regulatory Dualism as a Development Strategy: Corporate Reform in Brazil, the United States, and the European Union' (2011) 63 Stanford Law Review 475, 482-486

sizes and sectors. An executive stressed, *"Small and family-owned companies would benefit from this tiered approach, as they can choose to comply with a few rules in the beginning and add further ones as they grow."*

Consultants also considered that optional rules would be more appropriate for the corporate structure of Egyptian companies, being "*A flexible framework"*, said a consultant.

To conclude, the one-size-fits-all approach currently in place is deemed unsuitable for SMEs and family-owned companies. The tiered listing and an optional menu of CG rules would likely provide flexibility for companies to choose from, depending on their respective size or sector. This was widely accepted by Executives, Consultants, and a few Regulators.

7.4.5 Dual-Class Shares Structure

DCSS refers to a company that issues two or more classes of shares that have unequal voting powers. This type of structure means that one group of shareholders is granted disproportionate voting power, usually the founders or insiders, while the majority of investors have limited or no voting rights.[1048] The issue has garnered considerable attention in recent years and is now becoming increasingly widespread across many jurisdictions. DCSS has been hailed as a success, increasing listings in specific markets, particularly high-tech startups and SMEs. Nevertheless, there were varying views on its impact on investor protection and market integrity.

Regulators expressed mixed approaches. While for some, the availability of dual-class shares attracts listings and brings much-needed flexibility to founder-promoters, others are concerned that it might lead to a loophole that dilutes good CG standards in listed companies. A regulator said, *"A dual-class share structure might help get the listings. However, we need to do so in a manner that causes no harm to the interests of minority shareholders".*

On the other hand, most Executives, the majority of whom belonged to family-owned companies, agreed about the suitability of the DCSS. An executive commented, "*Dual-class shares would enable us to keep control while leveraging the advantages of being listed"*.

Likewise, Consultants emphasised that DCSS would attract growth-oriented companies, particularly start-ups and family-owned companies, to the market. "*Dual-class shares could*

[1048] For more comprehensive details about the DCSS, see, e.g., Anandi Banerjee, 'Dual-Class Firms: A Systematic Literature Review' (2024) 23(April Special Issue) Empirical Economics Letters 257, 257-270

make listing more appealing for founders who want to raise capital without losing control," remarked one consultant.

In a nutshell, DCSS was widely welcomed, and its virtues were particularly suited for family-owned and start-up companies whose owners wanted to retain more control over management and access to public funds. On the other hand, the majority of the Regulators have ultimately emphasised the need to balance this option with adequate shareholder protections.

7.4.6 Concluding Remarks

The above subsection addresses some of the key policy matters that, if considered and thoroughly explored, may have the potential to overcome various challenges facing EGX, ensuring better growth in size through reforms in CG regulations that mitigate the risks of delistings and provide incentives for new listings. According to Regulators, Executives, and Consultants, access to capital and increased credibility are among the reasons that attract companies to the listing. Additionally, for most respondents, the listing is a strategic move toward funding growth, attracting investors, and enhancing market visibility. However, on the compliance side, SMEs and family-owned companies have significant concerns regarding the rigidity of rules, the requirements of independent directors, and the extent and frequency of reporting.

Other respondents suggest that simplifying the listing requirement, offering a tax benefit in cases where CG standards are observed, providing less compliance-related costs, and relaxing the rules and regulations related to CG for SMEs and family-owned companies would encourage listings.

Finally, segmented listings could be incorporated, as in the Brazilian model of tiered listing, from which an issuer can initially fulfil a core set of CG standards, subject to phase-based entry points, requiring further adoption of heightened CG rules. The respondents also understood DCSS's potential as an opportunity that may attract startups and family-owned companies. Founders could keep the ownership control of such companies while accessing the stock exchange. However, Regulators affirmed that this should be complemented by safeguards to strike a balance between flexibility and adequate investor protection.

In general, it suggests that building a facilitating environment, reducing costs, and streamlining regulatory obligations, education, and industry- and size-specific practices would make EGX more appealing, reduce the tendency to delist, and enhance market participation.

7.5 Conclusion

The above presentation and analysis of responses obtained from respondents in the semi-structured interviews reveal an intricate landscape for CG in Egypt, which is, first and foremost, influenced by international standards and, secondarily, dominated by concentrated ownership. Additionally, there appear to be views that conflict with the benefits of CG, and varying degrees of compliance among Egyptian companies that have experienced challenges and strict enforcement practices.

Quotes featured in this Chapter demonstrate the personal experiences and perceptions of respondents regarding the reform of CG regulations. These reflections highlight the complexity of adapting international standards in a local context. There is a need for effective engagement with stakeholders and for more flexible regulatory structures. Responses further highlight that mutual collaboration between regulators and market participants, transparency in regulatory procedures, and sector-specific support are necessary.

Notably, the findings support the formulation of adaptive, context-specific regulatory practices aimed at addressing specific obstacles that hinder Egyptian companies from realising the benefits of their listings. A more comprehensive analysis of the findings resulting from the examination of the EGX Dataset and the semi-structured interviews is presented in the subsequent chapter.

Chapter 8: Summary of Findings and Conclusion

8.1 Introduction

This study primarily explores the potential correlation between CG reforms and the significant number of delistings from the EGX during the period spanning from the adoption of the 2002 Rules through December 2021. Remarkably, although this trend continues and persists up to date, with a small number of listings and delistings, it is now dominated by the delisting of large companies.

This Chapter concludes this thesis. It first presents a comprehensive overview of the entire dissertation, with an emphasis on the key points of each chapter.

It also provides a summary of the primary findings and conclusions of this study, including the outcomes of its descriptive quantitative analysis of the EGX Dataset and the interview data obtained from the semi-structured interviews. This Chapter further outlines specific implications and policy recommendations for consideration, concluding with the particular limitations of this study and avenues for future research.

Accordingly, this Chapter is structured as follows: **Section (8.2)** summarises the entire study, whereas **Section (8.3)** highlights the key glimpse of the delisting phenomenon in Egypt. **Section (8.4)** explores whether there is any convergence or divergence between the characteristics of delistings in the EGX and other jurisdictions. **Section (8.5)** describes some policy recommendations, followed by **Section (8.6)**, which explains the thesis's contributions. **Section (8.7)** illustrates the thesis's scope and limitations, and **Section (8.8)** recommends some areas for future research.

8.2 Summary of the Study

This study examines the potential impact of CG reforms on the delisting of listed companies from the EGX, aiming to elucidate the likely effect or contribution of these reforms on the delisting of 1,140 companies from the EGX between August 2002 and December 2021. This study comprises 8 chapters, as outlined below.

Chapter 1 sets the background for this thesis, contextualising the challenges faced by the EGX within the broader context of CG reforms and global delisting trends. It highlights a significant issue: the number of listed companies on the EGX has fallen dramatically by almost 82% from 2002 to 2021. This is paradoxical, as, despite extensive regulatory reforms being implemented

to modernise the EGX and make it more attractive, it has continued to witness a trend of delisting, coupled with an extremely low level of new listings.

This chapter identifies global trends in delisting, highlighting similar phenomena across both developed and emerging stock markets. However, Egypt's case stands out due to the severity of the decline and its inability to offset delistings with new listings, unlike many other jurisdictions. This makes Egypt a critical case study for the evaluation of the potential impact of CG reforms on market dynamics within EMs. It does so by situating the challenges to EGX in its historical evolution of CG frameworks. Inspired by international CG reforms, such as the UK's 1992 Cadbury Report and the 1999 OECD Principles of CG, Egypt's CG reforms included the promulgation of the CML, followed by the 1994 Rules, the 2002 Rules, and the 2014 Rules. Such reforms have aligned Egypt's capital market with leading international practices. The adoption of the 2002 Rules, however, coincided with the onset of delistings, which poses critical questions about their effectiveness and potential unintended consequences.

This chapter also highlights the research gap in the literature. Although a few global studies have attempted to investigate the probable contribution of CG reforms to delistings, they are primarily focused on developed markets. The scarcity of studies on EMs, particularly those focusing on Egypt, further highlights the importance of this study in addressing a crucial gap in the literature.

Additionally, it outlines the study's objectives and questions that guide the study. These will aim to identify key CG reforms in Egypt, analyse trends in listing and delisting, observe the reasons behind delisting decisions, and evaluate the implications of broader CG reforms on the EGX. The study employs a sequential explanatory mixed-methods approach, integrating descriptive quantitative analysis with qualitative insights from semi-structured interviews with stakeholders.

In addition to its academic contribution, the thesis has practical relevance for policymakers, regulators, and investors. The findings are expected to inform the design of more context-sensitive CG frameworks that strike a balance between the benefits of transparency and investor protection, while also ensuring the sustainability of a robust and inclusive capital market. The study also draws general lessons for other EMs that face similar challenges, focusing on Egypt as a leading economy in the MENA region, with one of the oldest stock exchanges, and as an early adopter of CG reforms.

Chapter 2 examines CG frameworks and the delisting phenomenon, being the two pillars of the present study. It reviews the key aspects of both concepts, including the primary theoretical grounds and global trends. This chapter is divided into two separate sections. The first section examines the CG's evolution and importance, specifically for EMs, whereas the second section explores the multifaceted nature of delisting, including its definition, forms, determinants, and consequences.

Concerning the CG, the chapter highlights the significant role of CG regulations in aligning the conflicting interests of shareholders and managers. Two primary CG approaches were examined: the shareholder-oriented model, which is dominant in Anglo-American economies, and the stakeholder-oriented model, which is prevalent in European and Asian nations. These models shape CG reforms and practices globally, influencing the regulatory frameworks based on the prevailing cultural, institutional, and legal contexts. The recent attention and evolution of CG were related to global financial failures, such as those of WorldCom and Enron, which necessitated the adoption of stricter CG rules. As a result, the 1992 Cadbury Report in the UK and the 2002 SOX in the US were issued, among other jurisdictions. These two leading CG reforms underscored a global shift toward enhancing financial disclosures, investor protections, and board accountability. The chapter also highlights the role of international institutions, such as the World Bank and the OECD, in promoting CG reforms, particularly in EMs, where regulatory weaknesses and institutional voids create a need for robust frameworks that can attract foreign investment and ensure market integrity.

Given the prevalence of specific challenges in EMs, including ownership concentration, weak enforcement mechanisms, and high compliance costs, implementing Western CG models in EMs without contextual adaptation may result in superficial compliance and unintended consequences, including increased delistings.

The second section explores the phenomenon of delisting, including definitions, forms, determinants, and consequences. Voluntary delistings occur when companies leave the stock exchange due to cost-benefit analyses, changes in market conditions, M&A transactions, or restructuring purposes. Involuntary delistings are imposed by the stock exchange's regulator as a sanction for non-compliance with continued listing rules, failure to meet disclosure obligations, financial distress, or bankruptcy. Both forms reflect distinct dynamics with divergent implications for shareholders and markets.

Voluntary delistings are also influenced by many factors, which encompass compliance costs, market liquidity, and company characteristics. Studies in developed markets, particularly the US and Europe, identify SOX compliance burdens, low liquidity, and undervaluation as major drivers. Empirical evidence suggests that small, less liquid, and underperforming companies are disproportionately affected by high regulatory burdens.

Nevertheless, voluntary delistings can generate a positive return for shareholders when executed strategically, such as through leveraged buyouts, while involuntary delistings signal financial distress and undermine market confidence. The chapter emphasises that CG frameworks at the company level have a significant influence on the outcomes of delisting, with strong CG systems reducing the risks of opportunistic behaviour by insiders and enhancing investor protection.

Finally, this chapter identifies some literature gaps pertaining to the delisting phenomenon globally and in EMs specifically. To date, very few studies have focused on how CG reforms may have contributed to delisting in other jurisdictions, aside from the US. Additionally, existing literature primarily focuses on voluntary delistings, with less attention to involuntary delistings. Additionally, there is a lack of research on the determinants of delisting, whether voluntary or involuntary, in EMs. Additionally, there are conflicting findings on the impact of financial distress, low liquidity, and managerial opportunism on delisting decisions; however, localised and context-sensitive analyses are lacking. Furthermore, limited comparative research has been conducted on the interaction between CG regulations, regulatory frameworks, and delisting across countries, and the role of cultural, social, and economic contexts is still open to question.

Chapter 3 establishes the theoretical foundation for exploring the potential contribution of CG reforms to delisting on the EGX through the lens of regulatory economics, agency theory, institutional theory, and public choice theory.

Regulatory intervention is considered a fundamental tool for confronting market failures and stimulating economic stability, albeit while being prone to inherent challenges at the same time. Market failures, resulting from externalities, public goods, monopolistic practices, and information asymmetries, disrupt efficient resource allocation, necessitating government intervention to restore balance. For instance, regulations address negative externalities, such as pollution, ensure the provision of public goods, and mitigate information asymmetries through disclosure requirements.

However, regulations come with their own risks. When they are poorly designed or overly complex, they can backfire, causing inefficiencies, stifling innovation, or even creating new problems, as seen with overregulation and the occurrence of unintended consequences, which are referred to as “government failure”. This failure can occur due to bureaucratic actions, self-serving behaviour by officials, or when powerful interest groups influence the craft and/or implementation of the regulations to benefit themselves, a phenomenon known as regulatory capture.

This chapter highlights the importance of considering five key principles for regulatory efficiency: transparency, accountability, proportionality, targeting, and consistency. To have effective regulations, the latter must strike a balance between control and flexibility, ensuring market stability while minimising compliance costs. Regulations should also be context-sensitive, adapting to the prevailing local context and circumstances to enhance their impact and legitimacy. It further highlights the impact of regulatory risks, stemming from uncertainty, inconsistent enforcement of regulations, and information asymmetry. These risks would lead to uncertainty in business activities and discourage investments. To mitigate these risks, clear guidelines, independent authorities, stakeholder involvement, and adaptive regulatory frameworks are required.

This chapter also explains the concept of policy transfer, where developing countries borrow policies and regulations from more developed jurisdictions through coercive, normative, or mimetic structures. Coercive transfers are achieved through the reform conditions imposed by international institutions, i.e., the IMF, whereas normative transfers originate from global standards and best practices. Mimetic transfers occur when countries adopt regulatory frameworks that are successful elsewhere. These transfers could lead to over-standardisation, which may overlook local contexts, thereby rendering the transferred regulations and policies ineffective. Thus, for these policy transfers to yield their intended objectives, they should be accompanied by institutional compatibility, public legitimacy, and adaptation to the local settings.

In EMs, regulations are instrumental in addressing market flaws and protecting the respective stakeholders. However, if not correctly designed, their harmful and unintended impacts would be exacerbated. For example, SMEs are more vulnerable to high compliance costs and regulatory burdens, warranting a simplified and size-sensitive regulatory framework.

More specifically, the CG regulations target specific objectives, such as establishing accountability, protecting the interests of stakeholders, and enhancing the development and confidence in markets. However, CG regulations also face limitations, including selective protections for particular stakeholders, inconsistent enforcement, and vulnerabilities to regulatory capture, which would undermine market efficiency and public trust.

In a nutshell, regulation is a double-edged sword. While it is necessary to correct market failures and foster economic growth, excessive or poorly implemented regulations can lead to inefficiencies and undermine their intended objectives. Therefore, a balanced and context-sensitive approach is necessary.

Chapter 4 focuses on the evolution of EGX and CG frameworks in Egypt, which serves as the case study for this thesis. The EGX's operations and activities have undergone significant transformations since its inception in the late 19th century, reflecting broader economic and political shifts in Egypt. Despite its initially flourishing state, it fell into dormancy during the 1960s as the then-socialist government began nationalising industries. It was later revitalised by liberalisation and privatisation reforms, particularly in the 1990s.

On the other hand, CG reforms, supported by the World Bank and the IMF, sought to enhance market integrity, improve transparency and board accountability, and increase shareholder protections.

These reforms aimed to address board independence, disclosure requirements, minority shareholder protection, and the establishment of audit committees. Mandatory CG rules were also embedded into the listing and delisting rules of the EGX, starting with the 2002 Rules, which marked a turning point in the EGX's regulatory framework. This is because, following the implementation of the 2002 Rules, the number of listed companies started to decline significantly, reaching 213 in 2021 from 1,147 in August 2002.

Chapter 5 outlines the research methodology employed to explore the potential influence of CG reforms on the delisting trends observed on the EGX between 2002 and 2021. The study employs an explanatory sequential mixed-methods approach, combining a descriptive quantitative approach with qualitative data from interviews to ensure a thorough examination of the research problem. The quantitative component comprises a descriptive analysis of secondary data obtained from the EGX, offering insights into listing and delisting patterns over time. The EGX Dataset, compiled and analysed for the first time in this study, included historical information on 1,353 companies listed on the EGX from 1971 to 2021. The data was

thoroughly collected, reviewed, cross-checked, and supplemented with other publicly available reports. This is complemented by semi-structured interviews with 34 participants from regulators, corporate executives, and market consultants, which aim to capture the experiences of participants and facilitate a comprehensive understanding of the implementation of the CG reforms and the delisting phenomenon on the EGX.

The open-ended questions, enshrined in the semi-structured interviews, ensured flexibility and depth in responses, which are necessary for the exploratory nature of this study. Additionally, ethical guidelines, including confidentiality and informed consent, were strictly followed.

The findings derived from this methodological approach are presented in the subsequent chapters.

The analysis in **Chapter 6** has revealed a stark and distinctive delisting trend on the EGX over the past two decades, highlighting the close temporal correlation between CG reforms and market dynamics. It shows a sharp decline in the number of companies listed on the EGX, which had stood at 1,147 in 2002 and decreased to around 213 by the end of 2021. The decline appeared to be primarily attributed to the delistings that followed the introduction of the 2002 Rules, which marked a milestone moment for the EGX's regulatory structure. The reforms instituted stronger CG regulations and disclosure requirements, significantly increasing compliance costs and subjecting listed companies to greater burdens. Although these reforms were intended to boost transparency and protect investors, they may have inadvertently created barriers for listed companies, particularly SMEs and family-owned companies, to remain listed, leading to a significant exit from the EGX.

The chapter examines the patterns of delisting and listing through several time intervals, specifically preceding and succeeding the implementation of fundamental CG regulations in 2002 and 2014. The evidence confirmed that, prior to 2002, the EGX had experienced a steady growth in the number of listed companies. The enforcement of the 2002 Rules, however, coincided with a sudden reversal of this trend. By increasing the requirements to list and imposing stringent CG standards, the rules may have triggered a delisting wave, potentially due to companies' inability to cope with the new requirements. As a result, companies may have re-examined the cost-benefit implications of maintaining listed status under increased regulatory burden and enforcement pressure.

The analysis also revealed that, although the 2014 Rules aimed to enhance CG practices and further protect investors, they had only a minor impact on stimulating listing activity on the EGX. New listings continued to remain low, and although reduced, delistings still occurred, resulting in an inactive market with a negligible net increase in listed companies. This may indicate the potential difficulty caused by these rules, which could likely discourage potential listings and encourage existing companies to delist.

A closer examination of the causes of delistings revealed that approximately 60% of delisted companies were removed involuntarily, primarily due to non-compliance with listing rules, disclosure failures, and an inability to meet financial requirements. Voluntary delistings, accounting for 40%, were primarily prompted by cost-benefit analysis and M&A transactions since 2012. The study further emphasised the disproportionate impact of such regulatory reforms on SMEs, which were more inclined to delist because they had limited resources to bear the higher compliance costs. This is consistent with international evidence pointing to the sensitivity of small businesses to the regulatory burdens imposed by CG reforms.

In addition, the sectoral analysis revealed cross-industry differences, with specific sectors, such as “Contracting and Construction Engineering,” “Food and Beverages,” and “Textiles and Durables,” experiencing high delisting rates. These sectors may have uniquely encountered challenges in meeting regulatory requirements, resulting in heightened sensitivity to delisting. Meanwhile, the “Real estate” and “Utilities” sectors showed relative resilience, showing sector-specific factors moderating the effects of CG reforms.

These results warrant a critical re-examination of the regulatory structure of the EGX to strike a balance between market accessibility and investor protection, thereby enhancing the EGX’s vibrancy and inclusiveness. This re-examination is necessary to enhance the attractiveness of the EGX and address the challenges of its stagnant state.

Chapter 7 summarises and examines the findings from semi-structured interviews with 34 stakeholders to explore the setting and implementation of CG rules, the drivers of delistings from the EGX, and potential policy suggestions to reduce delisting rates and foster a more dynamic listing environment. These interviews facilitated an insightful understanding of the potential delisting drivers, supporting the analysis of the EGX Dataset presented in Chapter 6.

Respondents attested to the beneficial contribution of the implementation of international best practices, including the UK CG Code and the OECD Principles of CG, to enhance transparency in the market, independence of the boards, and shareholder protections. Nevertheless, doubts existed regarding the suitability of applying these best practices to Egypt's family businesses and SOEs, which dominate the corporate landscape. One intriguing tension thus arose between the aspiration to meet international standards and the need to tailor regulations to the local market. Large companies viewed the regulations positively to increase credibility and attract foreign investors, while SMEs and family-owned companies saw them as cumbersome and unsuitable for their operations.

The ad hoc nature of the regulatory amendments was emphasised both as a strength and a weakness. The flexibility to adapt to arising challenges served the EGX well, but frequent, sudden changes bred uncertainty and operational disruption for companies. Consultation with stakeholders, although improving, was often perceived as inadequate and exclusive, with the SMEs and family-owned companies feeling excluded from the regulatory debate.

The delisting phenomenon was analysed under the framework of voluntary and involuntary forms. Voluntary delistings were primarily driven by excessive compliance costs, low liquidity, and strategic company decisions, including M&As. Family-owned companies sought to regain control and avoid disclosure requirements, whereas others viewed listing as comparatively less valuable if there were no tax incentives and other benefits. Non-compliance with listing requirements, including disclosure obligations, accounted for the majority of involuntary delistings. Respondents also highlighted inconsistent enforcement in some cases, which led to feelings of unfair treatment and undermined confidence in the rationale behind the regulatory changes.

The analysis further revealed deeper structural issues within the EGX. The costs of compliance proved to be the critical discouraging factor, most notably among SMEs, who lacked both the funds and the resources to comply with the requirements. Cultural opposition to the practices of CG, including the requirement for independent boards, further exacerbated the situation, especially for family-owned companies.

In an attempt to mitigate these challenges, the respondents were asked about specific proposals for future regulatory reforms. Simplifying and tailoring CG rules to meet the size and sectoral requirements of companies was stressed as a critical step. The introduction of multi-tiered listing rules and DCSS was seen as a means to facilitate SMEs and family-owned companies

without compromising the integrity of the market. Lowering the costs of compliance through the use of tax incentives, reduced listing charges, and low-cost advisory services was also deemed necessary. Additionally, improved stakeholder communication, capacity-building, and formal consultancy mechanisms were observed to foster confidence and harmonisation with the EGX and market players.

The findings underscore the importance of well-balanced regulatory strategies that maintain market integrity while promoting inclusion and flexibility. By looking forward to alleviating high compliance expenses, facilitating effective stakeholder interaction, and adopting innovative measures through policy, the EGX can lower delisting levels and increase the number of companies listed on its exchange, thereby helping to improve the long-term growth and stability of Egypt's capital market.

Chapter 8 is the concluding chapter of the thesis. The key problems discussed throughout the preceding chapters are summarised, and the overall results of the study are presented. The chapter further presents two primary regulatory recommendations for policymakers to consider. The study's significance, scope, and limitations are also described. The chapter ends with the potential directions for future research.

8.3 The Delisting Phenomenon in the EGX

Chapters 6 and 7 demonstrated that the EGX has experienced numerous delistings since its inception, with 82% of companies listed between 2002 and 2021 subsequently delisting. 60% were involuntary, resulting from non-compliance with regular requirements for maintaining listings, and 40% were voluntary delistings. The leading cause of involuntary delistings was failure to meet CG requirements, including financial reporting, disclosure, and maintaining a minimum level of trading activity.

All of these requirements, although necessary to maintain market integrity, were difficult for several companies, especially SMEs and family-owned companies, to meet due to a lack of resources and skills, or because they had not yet met them. Voluntary delistings, on the other hand, were primarily driven by high compliance costs, low liquidity, and strategic motivations, such as M&As. Family-owned companies were shown to oppose transparency and accountability requirements, viewing such obligations as a loss of control over their business. Additionally, the lack of clear incentives to list, such as tax benefits, contributed to the problem and made delisting an appealing option for some of these companies.

A common thread was the high financial and administrative costs associated with complying with CG rules. The expense of financial reporting, disclosure requirements, and having independent boards were cited as the main disincentives to listing and remaining listed. SMEs and family-owned companies, which are predominant among Egypt's listed companies, were especially affected by the costs. Numerous companies lacked the professional skills and capital necessary to comply with the CG rules, resulting in widespread discontent with the regulations. Resistance to certain CG practices, such as the induction of independent directors, exacerbates the problem. For most family-owned companies, the requirement to appoint independent directors interfered with their independence, posing an insurmountable obstacle to compliance and rendering them highly likely to delist from the stock exchange.

The EGX's adoption of international CG standards, including the UK CG Code and the OECD Principles of CG, has certainly increased transparency and the level of investor protection in the market. Nevertheless, it has its limitations. These standards appeared to be too cumbersome and not applicable to the specific Egyptian corporate ownership structure, particularly for SMEs and family-owned companies. Numerous stakeholders were concerned with the feasibility of applying international standards to the heavily owned concentrated companies and the highly SME-dominated structure of the Egyptian market. This gap created the sentiment that the CG framework applies to large companies but leaves other companies behind.

Additionally, inconsistencies in the enforcement of CG rules were viewed as posing a considerable concern. Although tightened enforcement of the listing requirements has enhanced the market's integrity, it has also raised suspicions of bias and favouritism. Stakeholders alleged that smaller companies were subjected to strict enforcement compared to large companies. The lack of even-handed enforcement has eroded confidence in the regulatory framework and may have deterred SMEs and family-owned companies from participating in the market.

Moreover, the frequent and sudden amendments to the CG regulations, although they may be seen as providing flexibility and adaptation, have bred uncertainty and operational disruption for listed companies. Abrupt changes to the regulations, made without sufficient prior consultation and preparation, have still isolated some companies and likely contributed to the high delisting rate.

Another key problem unearthed in Chapter 7 was the lack of stakeholders' engagement in the development and application of CG regulations. Although the EGX has made some attempts to engage with market players through consultations, these efforts were viewed as being carried out symbolically and without the required depth. SMEs, family-owned companies, and other key stakeholders were excluded from the process, and the regulatory reforms fell short of meeting the actual needs of these groups. Stakeholders emphasised the need for more inclusive and formal mechanisms of consultation, where regulations are not only effective but also widely accepted. Better stakeholder engagement was found to enhance the sense of ownership and cooperation during the regulatory process.

Finally, this section gives an overview of delisting's primary highlights, as follows:

8.3.1 Historical Trends and Initial Growth (1970–2002)

As the oldest exchange in the MENA region, EGX increased from 10 listed companies to 1,147 companies at its peak in July 2002. The rise in the number of listed companies is attributed to EGX's evolving appeal. Notably, listing activity was robust during the 1990s, especially following the implementation of the privatisation program as part of IMF-backed reforms. Offering SOEs to the private sector involved raising capital through the EGX.

At that time, Egypt promulgated the CML, which set the foundations for EGX's operations and provided the basic listing requirements and ongoing listing obligations. The CML was followed by the 1994 Rules, being the first listing and delisting rules for securities on the EGX. Other notable measures included the adoption of tax exemption policies. These measures have thus created an enabling landscape for growth and positioned the EGX as a key hub for capital markets in the region.

8.3.2 The Turning Point: CG Reforms in 2002

Although the EGX had a promising trajectory during the 1990s, the GC reforms introduced by the 2002 Rules seemed to be a turning point. Whereas these reforms had intended to bring the EGX closer to international best practices, boost transparency, and safeguard investors' rights, they also brought a number of challenges in their wake. The 2002 Rules established strict disclosure standards, mandated audit committee requirements, and imposed additional listing and continuing listing obligations. Ultimately, the primary obligations of the listed companies encompassed:

- Disclosure of detailed information related to shareholders, board members, and contractual relationships.
- Compliance with IFRS and establishment of audit committees.
- Immediate disclosure of any material event that would affect the company's operation or financial performance.

These were revolutionary requirements, but very onerous, particularly for SMEs and family-owned companies that lacked the resources to comply. Unlike other jurisdictions, where CG reforms were adopted gradually with financial incentives, the EGX has introduced the 2002 Rules with full implementation and without any incentives.

The EGX Dataset reveals that the number of listed companies significantly declined right after the implementation of the 2002 Rules. From an initial 1,147 companies in 2002, the number fell to 984 in 2003 and continued to decline until it stabilised at approximately 213 companies in 2021. The sharp decline in listings during this period could indicate an increased regulatory burden, potentially rendering delisting an attractive option for many companies, as affirmed by the majority of respondents in the semi-structured interviews.

8.3.3 Intensity of Delistings Post-2002 Rules

The remarkable decline in the number of listed companies after the adoption of the 2002 Rules reflects a dire problem unmatched in any other jurisdiction. Such an unprecedented magnitude and intensity of delisting, along with a minimal new listing activity within the same period, makes Egypt's case quite peculiar, with the following key features:

8.3.3.1 Mass Delistings

The EGX experienced the delisting of 82% of its listed companies from August 2002 to December 2021. Between 2003 and 2010, 1080 companies were delisted, specifically during the period closest to the implementation of the 2002 Rules. Additionally, significant fluctuations in the number of delistings occurred in peaks, which is indicative of years of intense enforcement or a transition period. For instance, 2003 recorded the highest annual rate of delisting, with 310 companies removed. This surge underlines the immediate impact of the 2002 Rules on the EGX. The year 2007 marked the second-highest number of delistings from the market, with 171 companies leaving the EGX.

This magnitude of delisting has not been witnessed in other jurisdictions, which may indicate the high level of pressure that the new CG framework has placed on companies.

8.3.3.2 Dominance of Involuntary Delistings (2003-2004)

In total, involuntarily delistings represent 60% of the delisted companies. Most of these delistings after 2002 were involuntary and were primarily triggered by companies failing to comply with the strict requirements of the new CG framework. The immediate imposition of the 2002 Rules appeared to influence the delisting of 440 companies by 2004, of which 409 were involuntary. Companies were likely unable to meet heightened disclosures and auditing requirements, while others may have chosen to delist voluntarily to avoid the costs of compliance.

The occurrence of more involuntary delistings compared to voluntary ones suggests that CG reforms have primarily driven the observed trend of delisting on the EGX. This is unique, as voluntary delistings were more predominant in the other jurisdictions.

8.3.3.3 Dominance of Voluntary Delisting (2005-2006) and (2014-2021)

A reversal in the delisting pattern was observed, with voluntary delistings outnumbering involuntary ones in 2005, when 46 companies were voluntarily delisted (compared to 20 involuntary delistings). This trend continued in 2006, with 124 companies voluntarily delisted (versus 28 involuntary delistings). This shift likely reflects companies' reassessment of the costs and benefits of remaining listed, perhaps exacerbated by the cancellation of tax exemptions in 2005. Moreover, between 2014 and 2021, even as involuntary delistings declined, voluntary delistings continued, reflecting the ongoing challenges companies face in justifying the costs and obligations of being listed.

8.3.3.4 Market Apathy (2007)

There were almost equal distributions of voluntary and involuntary delistings in 2007, with 93 and 78, respectively, potentially demonstrating broader dissatisfaction with EGX as a viable listing venue.

8.3.3.5 Sectoral Delistings

From 2002 to 2021, companies from 18 industries were delisted from the EGX. The highest three sectors are "Contracting and Construction Engineering" with 155 delistings, "Food, Beverages, and Tobacco" with 117, and "Travel and Leisure" with 102. "Utilities" and "Education Services" are the least affected, with 7 and 8 delistings, respectively. This

discrepancy highlights distinct challenges at the industry level, diverse market dynamics, and shifts in regulatory policies that may have contributed to unequal outcomes across industries.

8.3.3.6 Continued Low Listing Activity

Since 2002, the number of new listings in the EGX has been scant. The scarcity of IPOs and the fact that the market has stabilised at a fraction of its former size suggest that the regulatory reforms, although well-intentioned in pursuit of market integrity, may have had the opposite effect of discouraging market participation. Other markets, such as Malaysia, offered accompanying incentives for their respective CG reforms, which helped maintain or even improve the number of listed companies.[1049]

8.3.3.7 Market and Economic Factors

Economic uncertainty, particularly following the 2011 revolution, may have also contributed to the decline in both listing and delisting activities. The political and economic environment might have prompted fewer new listings and limited delistings during this period.

8.3.4 Limited Impact of the 2014 Rules

The 2014 Rules tightened the regulatory requirements, adding more disclosure obligations, minimum shareholder requirements, and the conclusion of agreements between companies and the EGX, through which the parties formalised their obligations. The 2014 Rules have no impact on the overall number of listed companies in the EGX. Between 2014 and 2021, the market experienced slight fluctuations, with 52 new listings and 48 delistings.

8.3.5 Delisting Determinants | A Holistic Panorama

8.3.5.1 Voluntary Delistings

During the study period, 458 companies (40%) were voluntarily delisted from the EGX. The primary reasons identified for these delistings included cost-benefit considerations, M&A, and strategic realignment. The key observations are:

(A) Peak Years

- The year 2006 observed the highest number of voluntary delistings, with 124 companies exiting the EGX.

[1049] On Kit Tam and Monica Guo-Sze Tan, 'Ownership, Governance and Firm Performance in Malaysia' (2007) 15(2) Corporate Governance 208, 208-220

- The year 2007 was the second-highest, with 93 voluntary delistings.
- The years 2009 and 2005 recorded 56 and 46 voluntary delistings, respectively.

(B) Primary Causes

- The EGX Dataset identified M&A as the most prominent cause for voluntary delisting after 2012. Of the 458 cases, 72 companies were delisted due to M&A transactions.
- Liquidation accounted for only 1 company.
- The remaining 385 companies had no publicly available justification for their delisting, reflecting a gap in data that is filled by semi-structured interviews.
- Most respondents highlighted that high compliance costs and extensive disclosure requirements were the primary triggers for these delistings. The subsequent cause was the desire for better control and management, as well as to avoid regulations and administrative burdens. Low liquidity and the absence of adequate investors were also emphasised.
- The cancellation of the tax incentives in 2005 might have also contributed to this trend.

8.3.5.2 Involuntary Delisting

In total, 682 companies (60%) were delisted involuntarily. The EGX primarily drove these delistings for reasons related to non-compliance with listing requirements. The pattern of these delistings revealed that they were more pronounced in the years immediately after the implementation of the 2002 Rules. Key highlights of the findings include:

(A) Peak Years

- The year 2003 witnessed the highest number of involuntary delistings, with 283 companies removed.
- The year 2004 followed with 126 involuntary delistings, signalling continued stringent enforcement of the 2002 Rules.

(B) Primary Causes

- Non-compliance with listing rules emerged as the leading cause, accounting for 497 delistings (73% of all involuntary cases).
- Violation of disclosure requirements ranked second, with 60 companies delisted for failing to meet disclosure obligations.
- The absence of trading activity led to the delisting of 27 companies in 2007 and 21 in 2008.

(C) Unique Key Observations

- In 2007, 17 companies were delisted for a combination of failing to meet financial standards and non-trading activity. This criterion was unique to that year, highlighting specific enforcement priorities during that period.
- Failure to pay listing fees was cited for 12 companies in 2007, reflecting financial non-compliance as a secondary but notable determinant.

8.3.6 Intrinsic Factors Intensifying the Impact of GC Reforms

Several inherent factors might have exacerbated the impact of the 2002 Rules and the 2014 Rules on the EGX, as follows.

8.3.6.1 Dominance of Concentrated Ownership

Unlike other jurisdictions with more dispersed ownership structures, Egyptian companies are predominantly owned by family-owned companies and SOEs. For these companies, CG practices increase the threat to their control and privacy through the independence of their boards and disclosure requirements. This culturally and structurally ingrained resistance to reforms had a heightening effect, as many companies chose to delist rather than comply with the new listing requirements.

8.3.6.2 Stringent Regulations Without Phased Implementation

The 2002 Rules introduced immediate and stringent requirements regarding disclosures, mandatory audit committees, and minimum shareholder thresholds. While the 2002 Rules granted existing listed companies a one-year grace period for compliance, many companies were more concerned about the scope of the 2002 Rules and their associated compliance costs, rather than the grace period itself.

8.3.6.3 Inconsistent Enforcement and Market Perceptions

Stakeholders highlighted the perception of selective enforcement, whereby SMEs were scrutinised more rigorously than large ones. This inconsistency eroded trust in the regulatory framework and may have exacerbated the trend of delistings.

8.3.6.4 Limited Incentives

The cancellation of tax exemptions, coupled with a lack of significant benefits accruing to listed companies, may have diminished the appeal of the EGX as a means of raising capital.

8.3.6.5 Frequent Regulatory Amendments

Moreover, the frequent and sudden changes in CG regulations caused uncertainty and disrupted operations. These ad hoc changes in nature should be more structured and predictable, as highlighted by the stakeholders. The limited stakeholder engagement in the rule-making process may have also alienated companies from being willing to comply with the reforms in CG regulations.

8.4 Delisting Triggers: Convergence and Divergence

First, most of the voluntary and involuntary delistings appeared to be correlated with CG reforms. Compliance costs, low market liquidity, and regulatory burdens are labelled as the main triggering factors, which are not unique to Egypt. Research on delisting trends in both the US and Europe reveals similar motivations, particularly for SMEs that cannot afford the costs of being publicly listed under stringent regulatory regimes, such as the SOX in the US and the Transparency Directive in Europe.[1050] It appears that the EGX's experience resembles that of the US after the adoption of the SOX.

However, the magnitude and nature of Egypt's delistings differ from those of these developed economies. The prevalence of involuntary delistings for non-compliance with the CG rules underlines the regulatory challenges in an emerging market context. Controversy, more cases of delisting in developed markets were pursued for strategic objectives, including M&A transactions.[1051] This divergence underlines the trade-offs EMs must consider, considering the specific vulnerabilities of their respective corporate landscapes.

Second, the challenges facing Egyptian companies' ability to comply with CG regulations, including high costs of compliance, cultural resistance, and resource constraints, are not unique and reflect findings from other EMs. In India and Nigeria, for example, studies highlight the high financial and administrative compliance burdens as a significant deterrent to the ability of SMEs, which lack the resources of larger companies, to comply with regulations.[1052]

[1050] Christian Leuz, Alexander Triantis and Tracy Yue Wang, 'Why Do Firms Go Dark? Causes and Economic Consequences of Voluntary SEC Deregistrations' (2008) 45 J ACCOUNT ECON 181, 181-185

[1051] András Marosi and Nadia Massoud, 'Why Do Firms Go Dark?' (2007) 42 JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS 421, 421-424

[1052] Rajesh Chakrabarti, William Megginson, and Pradeep K Yadav, 'Corporate Governance in India' (2008) 20(1) Journal of Applied Corprorate Finance 59, 59-63; Elewechi N M Okike, 'Corporate Governance in Nigeria: the status quo' (2007) 15(2) Corporate Governance 173, 173-191

However, these challenges are less pronounced in developed markets because of the institutional maturity of regulatory frameworks and the availability of resources to support compliance. For instance, the EU has adopted mechanisms that ease the transition for small companies, such as targeted support programs and initiatives like "Think Small First".[1053] These are beneficial pointers for EMs, such as Egypt, to develop more inclusive and proportionate regulatory frameworks.

8.5 Policy Recommendations

The findings from Chapters 6 and 7 highlighted the need to strike a balance between aligning the EGX with international best practices and adapting these standards to Egypt's specific corporate landscape context. While global standards have brought credibility and transparency to the market, their rigid application has created significant challenges, particularly for SMEs and family-owned companies. Adopting a more pragmatic approach that considers local market dynamics and provides flexibility for different types of companies is essential for fostering a vibrant and sustainable capital market.

Tackling such challenges requires a balanced strategy that combines global alignment with local flexibility, specific incentives, and inclusive regulatory reforms. By adopting these measures, the EGX can reduce delisting rates, encourage more companies to list, and ensure the growth and sustainability of Egypt's capital market.

Chapters 7 and 8 emphasised the need to adopt locally based reforms sensitive to market realities and reflecting the varying characteristics of companies, depending on their shareholding structure, size, and industry. Furthermore, more practical and close engagement and collaboration with the stakeholders are necessary. Offering incentives to encourage companies to list and remain listed is another matter that warrants due consideration.

In addition to these considerations, and based on the findings of the interviews, global best practices, and experiences of other countries from developed jurisdictions and EMs, this section briefly develops two policy recommendations on how an inclusive, competitive, and sustainable market can be achieved in the EGX; namely, proposals for adopting tailored CG approaches, such as tiered listing levels inspired by Brazil's Novo Mercado and the introduction of limited DCSS, which has begun to gain growing attention in recent years. The

[1053] European Commission, 'Communication From The Commission To The European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions on An SME Strategy for a sustainable and digital Europe' COM/2020/103 final, 7

goal is to make the EGX more accessible to a wide range of businesses, especially SMEs and family-owned companies, while maintaining strict CG practices that will attract both domestic and international investors. Both options are addressed below.

8.5.1 Regulatory Dualism | Tiered Listing Levels

Brazil is a leading emerging market that shares several critical characteristics with Egypt, making it a meaningful reference point for economic and regulatory reform.[1054] Both have large, diverse populations, and large informal sectors. The most prominent common problems in the CG arena for both countries are low transparency, improper enforcement of investor protections, concentrated ownership, and underdeveloped capital markets.[1055] Both countries underwent CG reforms almost concurrently in the 2000s.[1056]

Nevertheless, what sets Brazil apart is its reform path. While Brazil has adopted internationally recognised best practices in CG, it has tailored these reforms to align with its unique contextual setting, making it a successful reform story among EMs.[1057]

Nevertheless, to advance its CG practices in these challenging contexts, Brazil adopted the regulatory dualism approach.[1058] This would involve introducing parallel regulatory regimes, one retaining the status quo for traditional companies and another introducing higher standards in tiered levels with a view to encouraging stricter adherence to best CG practices. Adopting this framework would enable companies to determine which regime to operate within, taking

[1054] For a recent comprehensive explanation of Brazil's regulatory framework, see, e,g., OECD, *Regulatory Reform in Brazil*, OECD Reviews of Regulatory Reform (OECD Publishing 2022) <https://doi.org/10.1787/d81c15d7-en> accessed 20 January 2025; Bernard S Black, 'Strengthening Brazil's Securities Markets' [2000] SSRN Electronic Journal <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=247673> accessed 20 January 2025; Bernard S Black, 'The Legal and Institutional Preconditions for Strong Securities Markets' (2001) 48 UCLA Law Review 781

[1055] For Brazil, See e.g., Ronald J Gilson, Henry Hansmann and Pargendler Mariana, 'Regulatory Dualism as a Development Strategy: Corporate Reform in Brazil, the United States, and the European Union' (2011) 63 Stanford Law Review 475, 482-486

[1056] For the historical perspectives of CG in Brazil, See e.g., Alexandre Di Miceli da Silveira, 'Corporate Governance and Capital Markets in Brazil: History and Current Overview' (17 January 2014) <https://ssrn.com/abstract=1998306> accessed 20 January 2025; for its regulatory approach, see, e.g., Mariana Pargendler, 'Politics in the Origins: The Making of Corporate Law in Nineteenth-Century Brazil' (2011) 60 American Journal of Comparative Law 805; Bernard S Black, Antonio Gledson de Carvalho and Joelson Oliveira Sampaio, 'The Evolution of Corporate Governance in Brazil' (2014) 20 Emerging Markets Review 176; Mariana Pargendler, 'How Universal Is the Corporate Form? Reflections on the Dwindling of Corporate Attributes in Brazil' (2019) 58 Columbia Journal of Transnational Law 1; John Armour and Caroline Schmidt, 'Layers of Legality : Building Enforcement Capacity for Brazilian Corporate Law' (29 October 2014) 20/2014 federalismi <https://www.federalismi.it/nv14/articolo-documento.cfm?Artid=27761> accessed 20 January 2025

[1057] Ronald J Gilson, Henry Hansmann and Pargendler Mariana, 'Regulatory Dualism as a Development Strategy: Corporate Reform in Brazil, the United States, and the European Union' (2011) 63 Stanford Law Review 475, 486-501

[1058] Ibid

into account their size, industry, shareholding structure, and operational and strategic imperatives.

A notable example of regulatory dualism is the Brazilian Novo Mercado, established as a premium listing segment on the São Paulo Stock Exchange (B3). When Novo Mercado was launched in 2000, it presented itself as a separate category in which companies would willingly accept more strict CG regulations. Participation was entirely voluntary, and companies could commit to higher CG requirements, such as having no non-voting shares, one share per one vote, high disclosure standards, and a free float of at least 25%.[1059]

Novo Mercado is thus an embodiment of regulatory dualism, where an exchange can have more stringent standards coexisting with traditional listing choices. Companies desirous of gaining the confidence and credibility of investors worldwide had a reason to voluntarily opt for this premium segment, while those unable or unwilling to accept such standards could remain in the old tiers. In this way, it created a market-driven route for reform by aligning CG practices with global benchmarks without necessitating immediate changes.

Novo Mercado has been acclaimed by academia and practitioners alike. Studies revealed a rise in the number of listed companies, as companies were joining Novo Mercado, the highest tier that encompasses the stricter CG requirements.[1060] A more interesting finding was the change in the shareholding pattern from concentrated ownership to a dispersed one.[1061]

The model also showed how regulatory dualism can effectively balance modernisation with inclusiveness, offering businesses an incremental path to superior standards without shocking the market. The success of Novo Mercado suggests that dualism in regulations may be one path toward potentially effective and gradual regulatory reforms. This is also supported by other

[1059] See B3, Novo Mercado Listing Regulation (3 October 2017) <https://www.b3.com.br/data/files/E6/11/48/DC/E0372610D290A226790D8AA8/Novo%20Mercado%20Listing%20Regulation%20(Oct%203%202017).pdf> accessed 20 January 2025

[1060] Erica Gorga, 'Changing the Paradigm of Stock Ownership: From Concentrated Towards Dispersed Ownership? Evidence from Brazil and Consequences for Emerging Countries' (2011) SSRN Electronic Journal 1, 7-8 < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1121037> accessed 20 January 2025; Antonio Gledson de Carvalho and George G Pennacchi, 'Can a Stock Exchange Improve Corporate Behavior? Evidence from Firms' Migration to Premium Listings in Brazil' (2012) 18 Journal of Corporate Finance 883, 885

[1061] Erica Gorga, 'Changing the Paradigm of Stock Ownership: From Concentrated Towards Dispersed Ownership? Evidence from Brazil and Consequences for Emerging Countries' (2011) SSRN Electronic Journal 1, 6 < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1121037> accessed 20 January 2025

studies that advocate for a hybrid regulatory approach, combining mandatory baseline rules with voluntary mechanisms that enable companies to exceed these standards.[1062]

In the context of Egypt, this kind of dual regulatory framework may help address some of the specific challenges facing the EGX. Offering a tiered system, for instance, the EGX would be able to provide pathways for companies to adhere to CG standards that correspond with their size and stage of development. This approach not only encourages SMEs, family-owned companies, and other companies to enter the EGX but also sets a clear trajectory for upgrading CG practices as those companies grow.

In this regard, the following is a brief proposal of the main components of a possible framework for EGX:

8.5.1.1 Basic Tier: SME-Friendly Framework

This is an entry-level tier to incentivise listing for SMEs, family-owned companies, and tech ones by reducing barriers to listing while supporting gradual improvement in GC practices. Companies in this tier would, for example, adopt the core CG requirements in terms of minimum disclosure obligations and basic financial reporting. A straightforward GC framework must be designed for this tier. For example, there should be no obligatory board independence at this stage. Companies would be encouraged, but not required, to adopt cutting-edge CG practices, including ESG reporting. Additionally, these companies would benefit from reduced listing fees and compliance costs, thereby offering incentives for SMEs to participate in the EGX.

8.5.1.2 Intermediary Tier: Scaling CG

This is designed to enable middle-market companies to scale their CG practices as they expand. Companies in this category would, for example, meet enhanced financial reporting standards, comply with limited requirements for independent board representation, and adhere to specific liquidity thresholds. The opportunity to voluntarily adhere to higher CG standards, signalling investors of intense CG and preparing for possible future migration to an advanced tier.

[1062] Anita Indira Anand, 'Voluntary Vs Mandatory Corporate Governance: Towards An Optimal Regulatory Framework' [2005] SSRN Electronic Journal <https://www.researchgate.net/publication/245550126_Voluntary_vs_Mandatory_Corporate_Governance_Towards_an_Optimal_Regulatory_Framework> accessed 20 January 2025

This would help the transition of mid-sized companies from SMEs to larger companies, and it would fill the gap between basic and advanced listing standards.

8.5.1.3 Advanced Tier: Premium Listings

Companies in this category would, for example, fully adhere to global best practices for CG, including full disclosure, diversified boards, integrated ESG considerations, and high liquidity thresholds. Demonstrating their credibility and commitment to these stringent regulations would make them attractive to global institutional investors.

The introduction of tiered listing levels presents several advantages for EGX. SMEs in Egypt represent over 90% of the companies and employ a significant percentage of the labour force, being a key driver of economic growth in Egypt.[1063] However, they face numerous challenges, including their inability to secure finance, as highlighted by a policy paper issued by the Egyptian Center for Economic Studies, interestingly titled "Eliminating the Legislative Bias against SMEs".[1064] This is partially because SMEs' access to equity markets remains limited due to compliance costs and burdensome CG requirements, as explained above.

This approach is also in line with Egypt's SME development plan under its "National Agenda for Sustainable Development – Egypt 2030 Vision", which aims to enable SMEs to access capital and thereby spur economic growth.[1065] Therefore, the tiered listing levels would likely encourage SMEs and family-owned companies to join the EGX by lowering the entry barrier and reducing compliance costs. This will likely give companies that may be discouraged from participating in the EGX the opportunity to participate better. The model also provides a clear path for companies to enhance their CG practices as they grow, which is essential for long-term sustainability and market confidence. In this regard, it is necessary to highlight that Egypt has a separate stock exchange for SMEs called the **NILEX**.[1066] However, a similar delisting trend was observed in NILEX, which currently has 16 companies traded on its platform,[1067]

[1063] Central Bank of Egypt, *Financial Stability Report 2020* (2020) <https://cbe.org.eg/-/media/project/cbe/page-content/rich-text/financial-stability/english/fsr-2020-english-version.pdf> accessed 20 January 2025

[1064] Muhammad Muhammad Abu Al-Qumsan, 'Eliminating The Legislative Bias Against SMEs' (February 2021) ECES-PB7-E, 19 <https://eces.org.eg/en/eliminating-the-legislative-bias-against-smes/> accessed 20 January 2025

[1065] Egyptian Ministry oof Planning and Economic Development, 'The National Agenda for Sustainable Development: Egypt's Updated Vision 2030' (2023) <https://mped.gov.eg/Files/Egypt_Vision_2030_EnglishDigitalUse.pdf> accessed 20 January 2023

[1066] For more details about the NILEX in terms of its listing reguirement and evolution, see, e.g., Fady Tawakol, 'Enhancing the NILEX Growth in Egypt: A Study of the Relevant Laws and Regulations' [2021] Journal of Law in the Middle East 100

[1067] See SMEs market data at EGX's official website, EGX, 'Today's Market Watch' <https://www.egx.com.eg/en/NILEX.aspx> accessed 11 January 2025

down from 41 companies in 2014,[1068] which highlights its unappealing nature to SMEs, an issue that warrants a separate future study.

Moreover, the listing tiers differentiated by CG benchmarks would not undermine the credibility of the EGX among its international counterparts. This is because premium listings that comply with global CG standards may well ensure the participation of foreign investors, enhancing the credibility and competitiveness of the EGX. Additionally, the adoption of this system would also be considered a regulatory competition whereby jurisdictions compete to attract companies' listings.[1069]

Nevertheless, while such dualism in regulation may provide a range of flexibility and routes toward gradual reform, this regulatory dualism is not immune to some risks and challenges. For instance, companies can exploit the availability of dual systems by opting to operate under the less restrictive regulatory regime, which would, in turn, undermine the effectiveness of this approach. It may also stress the regulators' administrative resources and ability to oversee a market with fragmented systems. While the emergence of Novo Mercado was beneficial for the revitalisation of the Brazilian stock market, with almost 40% of listed companies being listed in Novo Mercado, further reforms were sought to develop the capital market.[1070] For these reasons and others, Novo Mercado updated its listing rules in February 2018,[1071] and it has recently published a public consultation regarding some proposed amendments to Novo Mercado's rules.[1072]

Hence, drawing on the experiences and lessons of other EMs, such as Brazil, can help Egypt overcome the unappealing condition of the EGX. The introduction of a multi-tier listing regime

[1068] Fady Tawakol, 'Enhancing the NILEX Growth in Egypt: A Study of the Relevant Laws and Regulations' [2021] Journal of Law in the Middle East 100, 104

[1069] For more details on regulatory competition and arbitrage in financial markets, see, e.g., Wolf-Georg Ringe, 'Regulatory Competition in Global Financial Markets — The Case for a Special Resolution Regime' (2016) 1 Annals of Corporate Governance 175; Magnus Willesson, 'What Is and What Is not Regulatory Arbitrage? A Review and Syntheses' in Giusy Chesini, Elisa Giaretta, and Andrea Paltrinieri (eds), *Financial Markets, SME Financing and Emerging Economies* (Palgrave Macmillan 2017) 75

[1070] Pedro Matos, 'An Assessment Of Dual-Class Shares In Brazil: Evidence From the Novo Mercado Reform' (CFA Institute Brazil 2017) 16 <https://rpc.cfainstitute.org/sites/default/files/-/media/documents/support/advocacy/dual_class_shares_in_brazil.pdf> accessed 20 January 2025

[1071] B3, 'Listing Segments: Novo Mercado' <https://www.b3.com.br/en_us/products-and-services/solutions-for-issuers/listing-segments/novo-mercado/> accessed 20 January 2025

[1072] Moreira Menezes, Martins Advogados, 'B3 announces public consultation about proposed alterations in the regulations of the Novo Mercado' (7 May 2024) <https://moreiramenezes.com.br/en/b3-announces-public-consultation-about-proposed-alterations-in-the-regulations-of-the-novo-mercado/> accessed 20 January 2025; B3, Public Consultation No 01/2024-DIE on Novo Mercado Evolution (2024) <https://www.b3.com.br/data/files/DF/A6/B3/5E/51B3F8100E866AE8AC094EA8/Public%20consultation%20-%20Novo%20Mercado%20Evolution.pdf> accessed 20 January 2025

would likely provide the EGX with a dynamic, inclusive environment that meets the various needs of companies and investors alike.[1073] In this sense, this would address the specific needs of SMEs and/or family-owned companies while simultaneously enhancing Egypt's credibility as an investment destination following international standards.

Furthermore, the potential suitability of this system is further supported by most of the Executives and Consultants, as well as a few regulators, during the semi-structured interviews, as explained above.[1074] They praised this option for offering flexibility depending on the company's size and sector.

In a nutshell, while the approach of regulatory dualism promises a good avenue through which Egypt may renew its regulatory environment in pursuit of accelerated economic growth, this shall primarily be a question of thoughtful design and vigilant implementation. It would be through learning from international precedents,[1075] the current reforms occurring in Brazil, and adapting strategies to the local context that Egypt could utilise regulatory dualism to make the EGX more appealing. Therefore, careful consideration and implementation of this mechanism are required to effectively balance the need for reform with the practicalities of the existing local environment.

8.5.2 A Conditioned DCSS

The adoption of DCSS represents a policy option that, albeit controversial, might significantly enhance the appeal of the EGX to high-growth companies and innovative startups. By allowing the issuance of shares with differential voting and dividend rights, DCSS enables founders or insiders to retain control while accessing external capital.[1076] This structure departs from the more traditional OSOV principle,[1077] where voting control should coincide with equity

[1073] For more details on Novo Mercado and its influence on other countries such Romania and Turkey, see e.g., Maria Helena Santana, Melsa Ararat, Petra Alexandru, Burcin Yurtoglu, and Mauro Rodrigues da Cunha, 'Novo Mercado and Its Followers: Case Studies in Corporate Governance Reform' (2008) Global Corporate Governance Forum Focus 5 <https://documents1.worldbank.org/curated/zh/109341468136179593/pdf/426760NWP0Focu1Box0327331B01PUBLIC1.pdf> accessed 20 January 2025

[1074] *See* Chapter 7, Section 7.4.4.

[1075] *See*, e.g., Federico Cenzi Venezze, 'The Costs of Control-enhancing Mechanisms: How Regulatory Dualism Can Create Value in the Privatisation of State-owned Firms in Europe' (2014) 15 Eur Bus Org Law Rev 499, 499–544

[1076] For a recent brief analysis of this structure and its relevant studies, see, e.g., Anandi Banerjee, 'Dual-Class Firms: A Systematic Literature Review' (2024) 23(April Special Issue) Empirical Economics Letters 257, 257-270

[1077] Sanford J Grossman and Oliver Hart, 'One share-one vote and the market for corporate control' (1988) 20 Journal of Financial Economics 175, 175

ownership to enable shareholder democracy.[1078] Instead, DCSS provides founders with superior voting rights when they hold small equity stakes, thereby giving them stability in executing long-term strategies and avoiding the pressures of short-term market forces.[1079]

One of the primary considerations for founders and majority shareholders when considering a listing is the listing platform, whose regulatory frameworks provide them with the opportunity to retain control.[1080]

DCSS has drawn global attention, especially after its adoption by companies, i.e., Google, Alibaba, and Facebook, during their IPOs.[1081] From 2020 to 2023, over 40% of technology IPOs and approximately 20% of IPOs in other industries have adopted this structure, with this approach increasingly gaining popularity.[1082] Leading exchanges, such as the NYSE,[1083] NASDAQ,[1084] LSE,[1085] China,[1086] and the HHSE,[1087] have used DCSS as a way to attract issuers seeking regulatory environments that balance between founder control and access to public markets.

[1078] Bernard Black and Reinier Kraakman, 'A self-enforcing model of corporate law' (1996) 109 Harvard Law Review 1911, 1933; Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert Vishny, 'Investor protection and corporate valuation' (2002) 57 The Journal of Finance 1147, 1148

[1079] For more details about the merits of this structure, see e.g., Bobby V Reddy, 'Finding the British Google: relaxing the prohibition of dual-class stock from the premium-tier of the London Stock Exchange' (2020) 79 Cambridge Law Journal 315, 324; Stephan Nüesch, 'Dual-class shares, external financing needs, and firm performance' (2016) 20 The Journal of Management & Governance 525, 526; Marco Ventoruzzo, 'The disappearing taboo of multiple voting shares: regulatory responses to the migration of Chrysler-Fiat' (2015) ECGI Working Paper Series in Law, No 288/2015, 9–10 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2574236> accessed 20 January 2025

[1080] Philippe Espinasse, *IPO: A Global Guide* (2nd edn, Hong Kong University Press 2015) 14–22

[1081] Anandi Banerjee, 'Dual-Class Firms: A Systematic Literature Review' (1 April 2024) 23(April Special Issue 3) Empirical Economics Letters 257, 257-270

[1082] Ibid

[1083] NYSE, Listed Company Manual, 313(A) <https://nyseguide.srorules.com/listed-company-manual/09013e2c8503fcb5> accessed 20 January 2025

[1084] NASDAQ Listing Center, Stock Market Rules, 5640 <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules/nasdaq-5600-series> accessed 20 January 2025

[1085] HM Treasury, 'UK Listing Review', 3 March 2021 <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966133/UK_Listing_Review_3_March.pdf> accessed 20 January 2025. LSE has followed this raising trend of adopting dual-class share structure, after its prohibition, to maintain its competeivitines as a listing venue after the Brexit; Bobby V Reddy, *Founders without Limits: Dual-Class Stock and the Premium Tier of the London Stock Exchange* (Cambridge University Press 2021) 125

[1086] Shanghai Stock Exchange (SSE), STAR Board Listing Rules (2023 Revision), 4(5) <https://english.sse.com.cn/start/sserules/stocks/trading/c/10644064/files/7d100419dcca456b97cabaf2dfd3b904.pdf> accessed 20 January 2025;

[1087] HKEX 'Consultation Conclusions: A Listing Regime for Companies from Emerging and Innovative Sectors' (April 2018) para 17 < https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/February-2018-Emerging-and-Innovative-Sectors/Conclusions-(April-2018)/cp201802cc.pdf> accessed 20 January 2025; HKEX, Main Board Listing Rules, 8A <https://en-rules.hkex.com.hk/sites/default/files/net_file_store/HKEX4476_5103_VER18567.pdf> accessed 20 January 2025

The DCSS would make sense for Egypt, given that family-owned companies and SMEs dominate the economy, which would help meet the market's particular needs. Most of these companies are unwilling to list on the EGX due to concerns about losing control over their operations. DCSS enables founders to retain decision-making authority while allowing these businesses to raise capital, thereby boosting market participation and liquidity. Moreover, DCSS can help balance market short-termism,[1088] which is one of the challenges that global financial markets face, where investors mostly prefer immediate returns over sustainable growth. By shielding companies from hostile takeovers and market-driven pressures,[1089] DCSS creates a stable environment for implementing long-term strategic initiatives.

While this CG model has been debated extensively, it has proven to enhance the attractiveness of listing venues that permit it.[1090]

Nevertheless, it also poses CG risks. Opponents highlight that it compromises the OSOV principle by concentrating control in the founders' hands, which could lead to the sorts of CG abuses associated with wide disparities in ownership and control, including excessive executive compensation,[1091] related-party transactions, and asset tunnelling.[1092]

To address such challenges, EGX needs to establish strict regulations for a DCSS. Mandatory sunset clauses could ensure that superior voting rights are eliminated over time.[1093] For example, when the founder sells their shares or leaves the board, enhanced disclosure of voting disparities and related CG risks should also be considered. Similar to the US, the adoption of the DCSS could only be allowed in pre-IPOs, thereby offering protection to the interests of the existing shareholders in companies that adopt OSOV.[1094] Additionally, the DCSS could be

[1088] Marc T Moore and Edward Walker-Arnott, 'A fresh look at stock market short-termism' (2014) 41 Journal of Law and Society 416, 424–427
[1089] Henrik Cronqvist and Mattias Nilsson 'Agency costs of controlling minority shareholders' (2003) 38 Journal of Financial and Quantitative Analysis 695, 700
[1090] *See*, e.g., Anandi Banerjee, 'Dual-Class Firms: A Systematic Literature Review' (2024) 23(April Special Issue) Empirical Economics Letters 257, 257-270; Fa Chen 'Does the dual-class share structure help stock markets attract issuers? Empirical lessons from global financial centres' (2023) 43 Legal Studies 159, 159–178
[1091] Kee H Chung and Jeong-Kuk Kim 'Corporate ownership and the value of a vote in an emerging market' (1999) 5 Journal of Corporate Finance 35, 36
[1092] Lucian Bebchuk 'The case for increasing shareholder power' (2005) 118 Harvard Law Review 833, 850; Vladimir A Atanasov, Bernard S Black, and Conrad S Ciccotello, 'Unbundling and measuring tunneling' (2014) 5 University of Illinois Law Review 1697, 1698–1699
[1093] Lucian A Bebchuk and Kobi Kastiel, 'The Untenable Case For Perpetual Dual-Class Stock' (2017) 103(4) 585, 585–630
[1094] Fa Chen 'Does the dual-class share structure help stock markets attract issuers? Empirical lessons from global financial centres' (2023) 43 Legal Studies 159, 159–178

limited to specific industries or sectors, such as high-growth sectors where long-term innovation and success require the founder's control.[1095]

Global experiences also provide some lessons on developing DCSS regulations. For example, both China and Hong Kong have event-based sunset provisions to balance flexibility with accountability, whereas the US adopts a more lenient approach by relying on private ordering and ex-post remedies, such as class action mechanisms.[1096] The recent introduction of a US-style securities class action mechanism in both China and Hong Kong shows that less restrictive ex-ante regulations can be combined with potent ex-post remedies to protect investors without discouraging issuers.[1097]

These different approaches reflect various regulatory philosophies, but the common denominator is to have a balance between the flexibility an issuer would want and the protection of the investor.[1098] Thus, the EGX's cautious tailoring of an approach that best suits Egypt's unique market conditions would enable it to utilise DCSS to its advantage in attracting innovative companies, thereby contributing to economic development by enhancing its relative competitiveness as a regional exchange.

Policymakers in Egypt should further evaluate the availability and suitability of substituting control-enhancing instruments within their legal framework. For instance, in China and Hong Kong, which are characterised by highly concentrated ownership and a blockholder system, the demand for the DCSS is lower due to the effectiveness of other substituting instruments.[1099] Furthermore, insufficient limiting regulations can significantly hinder the facilitation of effective market competition through the adoption of DCSS.[1100] The balance between market openness and investor protection will be a challenge that needs to be addressed to ensure that DCSS contributes to enhancing the attractiveness of the EGX without compromising CG standards, as remarked by the Regulators during the semi-structured interviews.[1101]

[1095] Ibid
[1096] Ibid
[1097] Ibid
[1098] Fa Chen 'Does the dual-class share structure help stock markets attract issuers? Empirical lessons from global financial centres' (2023) 43 Legal Studies 159, 159–178
[1099] Ibid
[1100] Ibid
[1101] *See* Chapter 7, Section 7.4.5.

By adapting its means to Egypt's economic and regulatory context,[1102] the EGX will be able to position DCSS as complementary to its broader reforms, making the exchange a dynamically competitive platform for high-growth companies and innovative startups capable of sustaining economic growth and attracting both domestic and global investment. In all cases, a conditioned DCSS that is time-barred and/or subject to more stringent disclosure obligations would be preferable to avoid undermining the investors' confidence or protections.

8.6 Thesis Contributions

The objectives of this thesis were to provide valuable insights and knowledge concerning CG reforms and their potential influence on delisting trends, particularly in the context of EMs, using the EGX as a case study.

In light of the analysis and findings presented in the preceding chapters and sections, this study makes several key contributions, as explained below.

8.6.1 Theoretical Contributions

The study investigates the underexplored domain of the potential impact of CG reforms on delisting trends, particularly in the context of Egypt, as an emerging market. It aims to provide another angle that may challenge existing assumptions about the effectiveness of CG reforms universally by illustrating possible unintended consequences. It thus contributes to the limited body of research on the unintended consequences of regulatory reforms in EMs.

In addressing the research questions, this thesis relied on a theoretical framework that integrates regulatory economics, agency theory, institutional theory, and public choice theory. It demonstrates how issues, such as compliance burdens, regulatory capture, and agency conflicts, manifest in EMs, where institutional weaknesses exacerbate such challenges.

The study further contributes to the evolving literature on the determinants of delisting of listed companies globally, particularly in the context of EMs, which suffer from limited studies in this domain. To the best of the researcher's knowledge, this is the first comprehensive study that addresses the delisting, in both forms, voluntarily and involuntarily, over a considerable time frame of 50 years in an emerging stock market generally and in Egypt specifically.

[1102] Aurelio Gurrea-Martínez, 'Theory, Evidence, and Policy on Dual-Class Shares: A Country-Specific Response to a Global Debate' (2021) 22 Eur Bus Org Law Rev 475, 475–515. Additionally, See, e.g, some valid questions that should be considered when considering the adoption of the DSCC. George Dallas, 'Dual Class: Call for Views' (ECG blog, 6 October 2023) <https://www.ecgi.global/publications/blog/dual-class-call-for-views> accessed 20 January 2025

The study also critiques the naïve adoption of CG frameworks from developed markets (e.g., OECD Principles, UK CG Code) in other jurisdictions, such as Egypt. It highlights the risks of policy transfer without proper adaptation to local corporate, cultural, legal, and institutional realities. It also contributes to a broader understanding of how global standards interact with local practices in the domain of CG.

8.6.2 Methodological Contributions

The integration of descriptive quantitative analysis of the EGX Dataset and qualitative insights gained through semi-structured interviews indicates the effectiveness of the mixed-methods research strategy in studying intricate regulatory phenomena. This method is recommended for future research investigating the dynamic interaction between CG reforms and market functioning.

The descriptive quantitative analysis of listing and delisting trends on the EGX over nearly five decades, i.e., from 1970 to 2021, provides original insights into the market's evolution and activity. The EGX Dataset is also a novel and unique contribution, as it was crafted by the researcher for the first time for this study and will be beneficial for future research. Furthermore, the semi-structured interviews with regulators, executives, and consultants offer rich qualitative data on the perceptions and practical challenges associated with CG reforms and delisting, thereby offering a context-specific view of CG challenges in Egypt.

The findings of both analyses could thus form the basis for future empirical studies on the efficiency of CG reforms.

8.6.3 Practical Contributions

The thesis offers practical suggestions to resolve the identified challenges. These primary suggestions are to adopt a tiered list structure, streamline the requirements for CG for SMEs, strengthen stakeholder consultations, and offer limited DCSS for listings while preserving investor protection.

In addition, through the identification of the disproportionate burden of compliance costs on SMEs, the study identifies the necessity for size-differentiated regulations. This has concrete implications for regulators, who must balance between market accessibility and investors' confidence. Focusing on the culture, including the resistance to independent board structures, provides valuable lessons on designing reforms to match local settings, while also encouraging global best practices.

Moreover, the study demonstrates the trade-offs between increasing transparency and retaining market accessibility. The study supports proportional and focused regulatory strategies, striking a balance between the need for control and flexibility to ensure reforms achieve their desired impact without unnecessary burdens. The results are also applicable to international institutions and policymakers in EMs and beyond. They provide implications for the need to adapt CG reforms to the local environment, rather than replicating the global template.

8.6.4 Contribution to EMs Research

The study presents a comprehensive investigation of the reforms of CG in the context of an emerging market, taking into account the specific challenges faced by countries such as Egypt. The findings provide an insightful picture of the functioning of regulatory frameworks where institutions are weak, and ownership is concentrated.

The study also encourages further cross-national research on CG reforms and delisting across other EMs, stressing the need for cultural and institutional adaptability.

8.7 Study Limitations

This study offers valuable insights into the delisting phenomenon in Egypt, and, more specifically, the potential impact of the CG reforms on the observed delisting trend on the EGX. Nevertheless, it is essential to acknowledge its scope and limitations to ensure a valid understanding of the findings.

First, the study investigates the potential effects of CG reforms introduced to the listing and delisting rules in Egypt on delistings from the EGX between 2002 and 2021. Although the study includes an analysis of listing trends from 1970, the focus on the study period implies that the results may not be generalizable to other periods or applicable to other stock exchanges.[1103] Additionally, any regulatory changes occurring after 2021 are outside the scope of this study, which may limit the generalizability of the conclusions in a constantly evolving regulatory environment. Also, the linkage between the CG practices adopted by delisted companies and delisting decisions fell outside the scope of this study.

Second, the study only covers the CG regulations related to listed companies on the EGX, excluding unlisted companies, banks, non-banking financial entities, and foreign securities that

[1103] For more information about the selection criteria, see, Chapter (5), Section (5.3).

are cross-listed on the EGX. In addition, rules that may apply to other financial instruments, such as bonds and securities issued by SOEs, are excluded.[1104]

Third, the study further acknowledges that capital markets are subject to other influences, including economic policies, political stability, and the development of the banking sector. However, while accepted, these influences are not considered in the present study. Thus, the analysis does not account for the prevailing macroeconomic and institutional environment, which could have contributed to the delisting trends or exacerbated the regulatory burden imposed on listed companies, thereby compelling them to delist.

Fourth, the study does not account for the emergence of alternative financing options for companies in recent years, which may have contributed to the low number of new listings on the EGX. This suggests the need for broader research on the economics and functionality of stock markets as capital-raising venues for companies, thereby warranting future studies to investigate this potential factor in the context of EMs further.

Fifth, the study employs both descriptive quantitative and qualitative methods; each has its inherent limitations despite efforts to enhance validity and reliability:

(A) Quantitative Analysis: The descriptive quantitative analysis relies on secondary data initially obtained from the EGX. While this data is considered authoritative, it may have limitations in terms of completeness and consistency. Some critical data, such as the motivations behind the majority of voluntary delistings, were unavailable. However, data availability and completeness are common challenges in EMs studies and may limit the scope of analysis.[1105] Additionally, there could be potential discrepancies, omissions, or errors in the data provided by the EGX, which may affect the overall validity and reliability of the study's conclusions. Furthermore, due to data shortage and limitations prevailing in EMs and Egypt specifically, the analysis of the EGX Dataset was also not supported by advanced techniques, e.g., regression models, to establish causal relationships.

However, since this study is exploratory, the descriptive analysis serves its purpose of seeking broader patterns or unveiling any possible temporal linkages that may have occurred between the introduction of CG reforms and the events of delisting observed on the EGX.

[1104] Ibid

[1105] Silvina Bruggia, 'Sustainable Growth in Emerging Markets Starts with the Data' 7 December 2022 < https://www.lseg.com/en/insights/data-analytics/sustainable-growth-in-emerging-markets-starts-with-the-data?utm_source=chatgpt.com > accessed 17 January 2025

Additionally, owing to various methodological and context-related factors, an empirical or regression-oriented approach has not been employed in this study. First, several of the most important explanatory drivers behind delisting decisions outlined in this study, such as strategic motivations, perceived regulatory burden, and the influence of informal institutional dynamics, are inherently qualitative and not readily quantifiable. Second, the research question is primarily exploratory in nature, seeking to explore the context-specific drivers of delistings in the context of ongoing reforms in CG regulations. Therefore, the study aims to generate insights rather than test statistically verifiable hypotheses. Third, the sample of delisted companies is characterised by high heterogeneity across industries, ownership structures, financial performance, various CG regulations, and delisting explanations, which rendered the development of a coherent regression model with explanatory significance challenging.

Based on these limitations, a descriptive quantitative approach, which shows the listing and delisting patterns and the temporal correlations between CG reforms and delistings, supplemented by semi-structured interviews, was deemed more appropriate to address the underlying research question and capture the complexity and richness of the phenomenon under investigation. Nevertheless, this analysis establishes the foundation for further investigations using inferential methods, such as statistical tests or regression models, to test hypotheses or establish causal relationships.

Qualitative Insights: the semi-structured interviews provided valuable insights but were constrained by the number of respondents. Some potential participants declined to participate, and the extended timeframe under study introduced reliance on participants' recollections, which may be subject to memory biases. In addition, thematic analysis will always entail elements of subjectivity, even when inter-coder reliability checks have been made. Furthermore, the responses provided by participants may be affected by biases, such as social desirability bias or hesitancy to share sensitive information regarding CG practices or delisting decisions. Moreover, while semi-structured interviews offer flexibility, this flexibility can lead to variations in how questions are posed or interpreted by participants, potentially affecting the consistency of the data collected.

Sixth, as the study has placed more emphasis on Egypt, with its unique corporate structure dominated by family-owned companies, SOEs, and SMEs, caution is required when generalising findings to other countries globally or in EMs that have different cultural and economic contexts from Egypt.

Seventh, the sectoral variations in how CG reforms affect industries were also not thoroughly studied, as they would require a more comprehensive analysis of the other laws and regulations adopted in each sector, the prevailing market conditions, and economic and political perspectives, to fully understand the industry-specific impacts.

Eighth, the study also highlights challenges related to policy transfer and contextual relevance. While comparisons to international CG frameworks, such as those of the OECD and the UK, provide helpful benchmarks, the study underscores the disconnect between these models and Egypt's local corporate landscape. However, the study does not delve deeply into how similar challenges have been addressed in other EMs or how reforms could be adapted more effectively to local contexts.

These limitations underscore the need for future research that addresses all the key limitations described above and explores other unexplored matters, as will be explained in the following section.

8.8 Proposals for Future Research

In light of the findings and analysis developed throughout this study, further research in this domain is still necessary to deepen the understanding of the rationale behind the decline in the number of listed companies across stock exchanges. As explained earlier,[1106] studies on the delisting phenomenon are limited and provide inconclusive and mixed findings. They also tend to focus on developed stock exchanges, giving no account to the particularities of other jurisdictions, such as EMs.

To this effect, several key areas for future research emerged, aiming to enhance the understanding and effectiveness of CG reforms and their impact on market behaviour, listing and delisting trends, and the broader economy. One significant avenue for investigation is the expansion of the EGX Dataset to include more granular and comprehensive data, particularly regarding voluntary delistings, the financial and operational performance of delisted companies, and specifics on compliance with CG requirements. Integrating these insights with alternative sources, such as financial disclosures, shareholder meeting records, or EGX's approvals for delistings, would provide a more comprehensive understanding of the underlying drivers of delisting decisions.

[1106] See Chapter 2, Section 2.4.

Additionally, given the reliance on international CG standards in Egypt, comparative studies with other emerging and developed markets are another critical area for research. Examining how similar CG reforms have been implemented and adapted in countries with comparable economic and institutional conditions can offer valuable lessons. This research could explore how other jurisdictions balance the benefits of CG regulations with the challenges of compliance, particularly for SMEs and family-owned companies.

Another strand of research involves investigating the sectoral impacts of CG reforms. While this study primarily focused on aggregate market dynamics, future research could explore how different industries respond to CG regulations. This would enable policymakers to design sector-specific reforms that address unique challenges while capitalising on industry-specific opportunities.

Longitudinal analysis is also necessary to examine the long-term effects of CG reforms on company performance, market attractiveness, and investor confidence. This has to be further extended to track the delisted companies and monitor their post-delisting performances to identify whether the delisting decisions were strategic moves to meet their needs or a mere reaction to regulatory requirements.

Additionally, the cross-cultural and cross-institutional settings call for further investigation. Resistance to CG practices, including board independence and increased transparency, has its origins within the culture and institutions, whose standards may not necessarily meet international requirements. Research may identify strategies to overcome those obstacles, including capacity-building programs, educational programs, and stakeholder engagement processes.

Adapting CG frameworks to suit SMEs and family-owned companies is another potential research area. Since they struggle to cope with stringent CG requirements, future research may investigate the viability of implementing tiered listing regimes or optional CG rules in EMs. Experimental approaches can assist through evidence-based recommendations to develop more inclusive and supportive regulatory regimes.

Moreover, evaluating policies and conducting impact assessments should become priority areas for future research. These can establish methods to measure the cost-benefit trade-offs of CG reforms, examining the equilibrium between the cost of compliance and the advantages of enhanced market transparency and increased investor confidence. The findings of such

assessments would provide policymakers with guidance on designing reforms that are efficient and adaptable.

One promising area to explore is the use of alternative financing options by delisted companies and SMEs. Future studies may examine how such companies raise capital through private equity, family members, venture capitalists, or the bond markets to gain further insight into the overall financial ecosystem.

Furthermore, international experiences with regulatory dualism and DCSS are worth considering. Examining their implementation in other markets and their impact on CG practices, investor protections, and market forces may reveal the potential for their application in Egypt and other EMs.

Lastly, future research may analyse the macroeconomic determinants of the effectiveness of CG reforms, including political considerations, inflation, and the volatility of the exchange rate, and their possible contribution to delisting decisions. These dynamics would enable the development of more robust and flexible regulatory regimes. Moreover, investigating alternative technological solutions to compliance problems, including the use of blockchain technology and digital reporting platforms, may provide cost-effective and accessible solutions for SMEs and other constituents in EMs.

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Appendices

Appendix (A): A Chronological List of the Laws and Regulations Governing the EGX Operations Before the Enactment of the CML

No.	Respective Laws and Regulations	Description	Date
1	A Khedive Edict for Borsa Regulations	Concerning Borsa's operation, its governing body, the brokers, and the listing and delisting of securities on Borsa, amongst other things.	8 November 1909
2	A Khedive Edict for Borsa Regulations No. 1 of 1910	Amending a few provisions in the Khedive Edict issued on 8 November 1909.	25 April 1910
3	A Khedive Edict for Borsa Regulations No. 2 of 1912	Amending a few provisions in the Khedive Edict issued on 8 November 1909.	27 March 1912
4	Decree No. 10 of 1910	Concerning the General Regulations for the Future Goods Exchange	10 August 1916
5	Decree No. 3 of 1933 Approving the General Regulations for the Securities Exchanges	This Decree regulated the Borsa members, committees, its governing body, the brokers' requirements and obligations, the listing and delisting rules for securities, the disclosure obligations of listed companies, and sanctions and penalties, amongst other things. This Decree also cancelled the Khedive Edict for Borsa issued on 9 November 1909 and its two amendments.	1 January 1934
6	Law No. 326 of 1953 Concerning the Trading of Securities	This Law required that any dealings in securities be undertaken by a broker who shall also guarantee the validity of the sale. The Law also stated that any dealing made contrary to this requirement shall be null and void. Furthermore, the sanction for violating this requirement is a fine of no less than EGP 50 and no more than EGP 200.	2 July 1953

7	Law No. 161 of 1957 Concerning the General Regulations of Stock Exchanges	This Law repealed the 1933 General Regulations for the Securities Exchanges. This Law regarded the Stock Exchanges as public juristic. It regulated conditions for membership of Stock Exchanges, its committees, governing body, broker's requirements, procedures, and requirements for the registration of securities in the Stock Exchanges, including documents and information necessary for the listing application, the listing requirements, the disclosure obligations of listed companies; the delisting procedures and, and how transactions are concluded. The Law also tackled the auditors' requirements, dispute settlement, sanctions, and penalties.	13 July 1957
8	Industry and Trade Minister Decree No. 46 of 1958 Concerning the Internal Regulations for the Stock Exchange.	This Decree was issued further to Law No. 161 of 1957. It tackled the counter, i.e., the place where the sale and purchase transactions take place, its working days and hours, the subscription and entrance fees, the due commission from purchasing and selling securities, the brokers' role and competence, dispute settlement (the arbitral tribunal), death of brokers and its effect, and securities settlement room, and the shared trust for brokers and agents.	15 May 1958
9	The Economics Minister Decree No. 232 of 1977 Concerning the Listing of and Transactions in Securities Denominated in Foreign Currencies.	This Decree stipulated that securities denominated in foreign currencies, as well as those denominated in foreign and Egyptian currencies, could be registered on the Egyptian Stock Exchange. It	13 October 1977

		further mandated that foreign investors must utilise foreign currency for the purchase of shares listed on the Egyptian Stock Exchange. Additionally, it specified that broker fees are to be paid in the prescribed foreign currency under the specified commission rates.	
10	Law No. (121) for the Year 1981, amending the General Regulations for Stock Exchanges.	This Law repealed Law No. 326 of 1953. It also amended some provisions of Law No. 161 of 1957. Amendments included those relating to the constitution of the governing body of the Stock Exchanges, listing requirements, disciplinary sanctions, fees, and requirements for brokers.	22 July 1981
11	Capital Market Law No. (95) for Year 1992	This Law repealed Law No. 161 of 1957. It addressed the issuance of securities, Stock Exchanges, and listing securities through them, as well as brokerage companies and the conditions for carrying out brokerage activities. Additionally, it covered investment funds, securitisation companies, the Egyptian Federation of Securities, the Financial Supervisory Authority, dispute settlement, fees, sanctions, and penalties.	22 June 1992

Appendix (B): An Explanation of the Primary Obligations Imposed on Listed Companies under the CML, the 1994 Rules, the 2002 Rules, and the 2014 Rules

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I. Introduction

This Appendix explains the legal and regulatory framework for listing and delisting securities on the EGX under the CML, the 1994 Rules, the 2002 Rules, and the 2014 Rules. To this effect, the Appendix presents the sequence of changes introduced to the listing and delisting rules to improve and reinforce the CG standards.

This Appendix is organised as follows: Section II explains the main rules applicable to the listed companies under the CML and its amendments, which constitute the general regulatory framework governing the capital market. Section III addresses the listing and delisting rules issued by the competent regulatory authority from 1994 to 2021. This section is further divided into three sub-sections: (a) the 1994 Rules, (b) the 2002 Rules, and (c) the 2014 Rules. Section IV then concludes.

II. The CML[1]

For the sake of revitalising the capital market operations, Egypt promulgated, in June 1992,[2] the Capital Market Law ("**CML**") to regulate all aspects related to the capital market, including the procedures and requirements for issuing and offering securities in public subscriptions.[3] CML further regulates the incorporation requirements and activities of securities intermediation companies, including those involved in the promotion and underwriting of securities, the clearing and settlement of securities, venture capital activities, brokerage services, and the management of investment funds.

It was published in the Official Gazette on 22 June 1992 to be enforceable as of the following day of its publication, i.e., 23 June 1992.[4] Thus, the temporal scope of the CML started on 23 June 1992.

As the motivation of this study is to identify the impact of legal rules on the attractiveness of companies to be listed or remain listed in the EGX, the following parts will only focus on the legal rules affecting the listing and delisting decisions, namely the crucial legal and quantitive obligations, costs and incentives for listed companies will be examined.

A. Issuance and Trading of Securities

CML first requires any firm willing to list its shares to divide its capital "into nominal shares of equal value".[5] Before issuing securities, the respective company shall notify the Capital Market Authority

[1] The CML has cancelled and substituted the Law No. 161 of 1957 regarding the General Regulations of the Stock Exchanges. It also cancelled all the other regulations that might be countervailing its provisions.
[2] The year of 1992 was a critical time for the development of the EGX as Egypt started to revitalize its performance following a stagnant condition since 1950s.
[3]The CML has been subject to subsequent amendments. Yet, the relevant provisions of these amendments will be presented in due course.
[4] CML, Article 5 of the Issuing Articles.
[5] CML, Article 1.

("**CMA**"),[6] which has seven days to respond to this notification.[7] If no response or objection is received, the company can proceed with the issuing procedures as per the applicable regulations.[8]

CML further necessitates preparing a prospectus to be approved by the CMA before offering any securities to public subscription. This prospectus should also be published in "two widely circulated daily newspapers, one of which at least should be in the Arabic language."[9]

Moreover, certain mandatory information should be included in this prospectus. The scope of the required information is enlarged if the company is newly incorporated before offering securities to the public through subscriptions.[10] Therefore, no listing of securities will be possible without the issuance of a prospectus.

B. Listing Requirements and Schedules[11]

The listing of the shares on EGX (*previously* the CASE) is made upon the issuing company's request, subject to the approval of the EGX.[12] To this effect, the CML has offered two different listing schedules: official and unofficial schedules.

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[6] Currently, the Financial Regulatory Authority.

[7] This period was initially three weeks upon the promulgation of the CML and reduced to seven days as per CML's amendments by virtue of Law no. 17 of 2018 dated 14 March 2018.

[8] CML, Article 2.

[9] CML, Article 4. The prospectus must be filled as per the templates enclosed by the CMA.

[10] CML, Article 5. It provides "The prospectus of a company at incorporation should disclose the following information: - A. purpose and duration of the company. B. issued and paid up capital of the company. C. characteristics of the shares being offered, advantages and the terms of offer. D. names of founders, capital subscribed by each and payment in kind, if any. E. the company's plan for the use of proceeds of shares sale and expected results. F. places where the Authority's certified prospectus could be obtained. G. any other information as defined by the Executive Regulations. Other types of prospectus should, in addition to the information stipulated in the preceding paragraph, disclose the following:- A. business history of the company. B. names of the board members, directors and responsible officers and their experiences. C. name and ownership percentage of each shareholder of nominal shares who owns more than five percent of the company's shares. D. a brief of audited financial statements of the last three years, or for the period from the date of company incorporation whichever is less; prepared in accordance with the disclosure rules stipulated in the Executive Regulations and using the forms provided by the Authority." Additional information should also be included in the prospectus according to Articles 42 and 43 of the Executive Regulations of the CML.

[11] These listing schedules were removed from the CML by viture of Law No. 123 of 2008 issued on 9 June 2008 which made the listing and delisting of securities subject to the EGX's discretion in light of the rules and provisions adopted by FRA.

[12] CML, Article 16. It provides "Listing of securities on the stock exchange shall be made upon the request of the issuer. Listing and delisting of securities on the stock exchange shall be decided upon by the stock exchange, and according to the conditions set by the Board of the Authority. Listing shall be in two types of lists:- A. Official List: for the listing of the following securities: 1. Shares of public subscription companies which meet the two following conditions: a) Nominal shares offered to the public shall not be less than 30% of the total company shares. b) Subscribers to the offered shares should not be less than l50 subscribers, even if they are non-Egyptians. In case trading of company shares results in the reduction of the number of shareholders to less than l00, and for more than three consecutive or separated months during the fiscal year of the company, the shares shall be considered delisted by law and transferred to non-official list of the stock exchange. 2. Bonds, financial notes, and other securities offered to the public by joint-stock and limited by shares companies, provided that they fulfill the conditions stated in items (a) and (b) of the previous paragraph. 3. Securities issued by the Government and offered to the public. 4. Shares and other securities of the Public Sector Companies, and the Public Business Sector

For listing on the official schedule, the following requirements must be met:[13]

(a) The minimum number of shares offered must not be less than 30% of the company's total shares; and
(b) The number of subscribers must be at least 150, regardless of their nationality.

On the other hand, listing on the unofficial schedule is much easier and requires less stringent listing requirements regarding the trading volume and the number of stakeholders. This schedule was accessible for any securities lacking the above two conditions for registration on the official schedule.[14] It was also possible for securities listed on the official schedule to be transferred to the unofficial schedules if, during the trading of securities, the number of shareholders became below 100 for three consecutive months or distinct months during the fiscal year.[15]

Therefore, listed companies were mainly required to maintain the minimum required percentage for free float and the number of shareholders to be and remain listed in the official schedule of the EGX.

C. Ongoing Disclosure Obligations

The CML obliges listed companies to submit semi-annual reports about their activities and operations, including information reflecting their actual financial situation, to the CMA.[16] The listed company should also submit to the CMA, for its review and examination, a copy of its budget, financial statements, board of directors' reports, and the auditor's report before holding the general assembly meeting.[17] In addition, the company is required to publish a summary of the above reports and financial documents in two widely circulated newspapers. The company is further obliged to immediately

Companies. B. Non-official List: on which the following securities shall be listed:- 1. shares and other securities which do not meet the listing conditions of official lists. 2. foreign securities."
[13] CML, Article 16.
[14] Ibid.
[15] Ibid.
[16] CML, Article 6. It provides "[E]very company offering securities for public subscription is required to provide the Authority with its semi-annual activity and progress reports, disclosing data and information revealing its actual financial position. The company's balance sheet and other financial statements, should be prepared in accordance with the accounting standards and auditing principles as specified, or referred to, by the Executive Regulations. The company should notify the Authority a month prior to the general assembly meeting of its balance sheet and other financial statements as well as reports of the board of directors and that of company's auditor. The Authority may examine the aforementioned documents, or entrust other specialized agencies to carry out such an examination. It shall notify the company with its remarks accordingly specifying necessary amendments to these documents. If the company does not comply with such a notification, the Authority shall publish its remarks and required amendments at the expense of the company and in accordance with the procedure stipulated in the following paragraph. The company shall publish an adequate summary of its semi- annual reports and annual financial statements in two daily morning and widely circulated newspapers, one of which at least is an Arabic newspaper. Every company should disclose immediately any contingent fundamental conditions which would affect its business or financial position and publish an adequate summary thereof in two daily morning and widely circulated newspapers, one of which at least is an Arabic newspaper."
[17] Ibid.

disclose any exceptional and material events that might impact its business or financial situation and publish a summary of these events in two widely circulated newspapers.[18]

Furthermore, the listed company and its auditors are obliged to provide the CMA with any needed information and documents to verify the data included in its prospectus, periodic reports, and financial statements.[19] In this respect, the CMA monitors the company's compliance with the disclosure requirement and might publish its comments on the company's reports at the latter's expense if the company fails to consider those comments.[20] The company must also publish its semi-annual reports and annual financial statements in two daily newspapers, with at least one in Arabic.

D. Regulatory Protection to Shareholders

The CML requires any shareholder who intends to acquire more than 10% of the listed company's shares to inform the company of two weeks' notice before the shares' purchase. Within one week of receiving this notice, the company shall notify all shareholders owning at least 1% of the company's capital. Otherwise, this transaction will be considered null and void without prejudice to any other applicable sanctions. The same regulations also apply if a board member or any of the company's employees intends to acquire more than 5 % of the company's shares.[21]

Furthermore, upon the request of shareholders owning at least 5% of the company's capital, the CMA is authorised to suspend, after examination and upon justified reasons, any decision issued by the company's general assembly if this decision is unfairly issued in favour of, or to the determinant of, some shareholders, or granting an undue benefit to board members or others.[22]

A new obligation has also been imposed on the listed companies, as of June 2008, whereby persons who retain information about the financial position of the listed companies, the results of their activities, or any other information that might impact the respective companies are prohibited from trading on

[18] Ibid.
[19] Article 7 of the CML.
[20] Article 6 of CML, World Bank, ' Report on the Observance of Standards and Codes (ROSC): CG Country Assessment: Arab Republic of Egypt' (September 2001) 35081
[21] Article 8 of the CML, which provides "Any shareholder who wishes to acquire more than ten percent of the nominal shares of the capital of any company offering its shares for public subscription shall notify the company at least two weeks before the transaction. The company shall inform every shareholder, who owns no less than one percent of its shares, of this intention within one week of receiving the notification. Violation of the provision of paragraph one of this article shall result in the cancellation of the transaction. This is without prejudice to the questioning of the violator of this provision. The provisions of the preceding paragraphs shall apply in case a board member, or any of the employees of the company, wishes to acquire more than five percent of the nominal shares of the company. The stipulated procedure in this Article should be followed before any transaction results in the increase of ownership percentages indicated in paragraphs one and four. The Executive Regulations shall stipulate the rules governing such transactions and the procedures governing notification and announcement processes." This article was later amended by viture Law no. 17 of 2018 referring all the matters relating to the protection of minority shareholders rights in case of manadotory tender offer to the Executive Regulations of the CML.
[22] CML, Article 10.

these securities before the disclosure of such information to the public. Those persons are also prohibited from disclosing this information by any means.[23]

E. Listing Tax Incentives

Since the promulgation of the Tax Income Law No. 157 of 1981, and to stimulate the IPO activity in Egypt, companies listed on the stock exchange were granted tax exemption, irrespective of the listing schedule. This tax exemption was equivalent to the deposit rate set by the Central Bank of Egypt for bank deposits during the relevant fiscal year.[24] In other words, this exemption was equivalent to a deposit rate of three months, paid by the Central Bank of Egypt, on the paid-up capital.[25] This tax advantage remained effective and applicable until 9 June 2005.[26]

In addition to this primary tax exemption, securities listed on the official schedules are also eligible for further tax incentives, which exempt them from stamp duty tax at the time of issuance and annually.[27] Additionally, dividends on shares were exempt from income tax.[28]

Moreover, listed securities were generally exempt from capital gains tax. However, if they were sold at a price exceeding their purchasing price, this price difference would be subject to a 2% capital gains tax and would be paid by the seller.[29] This exemption from the capital gain tax was removed as of 1 July 1996.[30]

F. Listing Costs and Fees

The CML also regulates the fees that the listed companies must pay against their listing and the services provided by the EGX. The listing fees were EGP 5,000 and EGP 3,000 for registration on the official and unofficial schedules, respectively.[31] The determination of brokerage fees and the maximum amount of due fees for EGX's services is reserved for the competent minister's decision. Remarkably, CML exempts the listing of securities issued by the states from all types of fees.

The listing fees were then increased to EGP 50,000 for listings in the official schedule and EGP 30,000 for those in the unofficial schedule.[32] Later on, the CML unified the listing fees to be EGP 50,000 for

[23] CML, Article 20(bis) added by virtue of Law No. 123 of 2008 issued on 9 June 2008.
[24] Article 120 of the Tax Income Law No. 157 of 1981 issued on 7 Sepetmber 1981.
[25] World Bank, ' Report on the Observance of Standards and Codes (ROSC): CG Country Assessment: Arab Republic of Egypt' (September 2001) 35081
[26] Article 120 of the Tax Income Law No. 157 of 1981 was canceled by virtue of Law No. 91 of 2005 issued on 8 June 2005 with an applicable date as of 10 June 2005.
[27] Stamp duties tax was abolished by virtue of Law no. 11 of 1995 as of 1 January 1996.
[28] Article 11 of the CML. This article was wholy removed by virtue of law no. 123 of 2008 amending the CML promulgated on 9 June 2008.
[29] CML, Article 11. This paragraph of the Article was abolished by Law No. 89 of 1996.
[30] Law no. 89 of 1996 amending the CML on 30 June 1996.
[31] CML, Article 24.
[32] CML, Article 24 as amended by Law No. 143 of 2004 on 17 June 2004.

all schedules.[33] It then became a percentage equivalent to 0.002% of the listed companies' capital, with a maximum annual amount of EGP 500,000.[34]

III. EGX's Listing and Delisting Rules

Aiming to boost EGX activity and protect the conflicting interests of relevant stakeholders, the CMA began incorporating CG requirements into EGX's listing and delisting rules.

Following the promulgation of the CML in June 1992, the listing of securities was governed by the provisions of the CML until 31 March 1994, when the CMA enacted specific listing and delisting rules. In addition to the constant changes introduced to the listing and delisting rules, these rules underwent two significant overhauls in 2002 and 2014.

This section will thus articulate the development path of the listing and delisting rules to identify the impact of this path on the development and attractiveness of the EGX. While the EGX has been subject to three fundamental listing and delisting rules adopted in 1994, 2002, and 2014, the subsections below address the principal regulations and provisions that may have influenced companies' decisions to go public, remain public, or go private.

A. The 1994 Listing, Continued Listing, and Delisting Rules

Following the promulgation of the CML in 1992, the CMA issued the first distinctive rules for listing, continued listing and delisting on the EGX. The CMA board approved these rules on 5 March 1994, effective as of 1 April 1994 (the "**1994 Rules**").[35] Thus, until 1 April 1994, the rules and provisions of the CML explained above were the only applicable rules for the listing and delisting of securities.

This section covers the following points: (a) the primary listing requirements; (b) the continuing disclosure obligations; (c) the major rules protecting shareholders' rights; (d) the delisting events and procedures; and finally (e) the status of the companies listed before the issuing date of the 1994 Rules.

a. Primary Listing Requirements

Following the CML's provisions, the 1994 Rules provided for the listing of securities on different listing schedules, i.e., official and unofficial, depending on whether specific listing requirements were met.[36]

For securities to be listed and traded on the official schedule, the company must offer at least 30% of its nominal securities for public subscription, and the number of subscribers must be at least 150, regardless of whether they are Egyptian or non-Egyptian.[37]

[33] CML, Article 24 as amended by Law No. 123 of 2008 issued on 9 June 2008.
[34] CML, Article 24 as amended by Law No. 27 of 2014 issued on 3 April 2014.
[35] CMA Board Decision No. 3 of 1994 dated 5 March 1994.
[36] The 1994 Rules, Section (1).
[37] The 1994 Rules, Section (1)(a)(1/1/1).

On the other hand, the unofficial schedule would include securities that have not fulfilled or are not fulfilling these requirements, as long as the listing conditions of the unofficial schedule are met.[38] Additionally, securities listed on the official schedule would be moved to the unofficial schedule if the number of their shareholders decreased to less than 100 for three consecutive months or three separate months within one fiscal year.[39] Furthermore, the amount paid for the issued securities should be at least 50% of their nominal value.[40]

Thus, the 1994 Rules followed the same listing regulatory policy adopted by the CML regarding the availability of different schedules for listing and the imposition of the minimum required percentage of free float and shareholders. Nevertheless, the 1994 Rules imposed further requirements for listing shares on both schedules: (i) the shareholders' equity rights should not be less than the paid amount of the company's issued capital (i.e., the paid-up capital), and (ii) to be listed on the unofficial schedule, the paid amount of the issued securities' value should not be less than 50% of its nominal value.

b. Disclosure Obligations

Unlike the CML, the 1994 Rules have distinguished between the official and unofficial schedules regarding the disclosure requirements.

For securities listed in the official schedule, the 1994 Rules necessitated the compliance of the disclosure obligations enshrined in the CML, which required, at that time, listed companies to submit semi-annual reports about their operational performance and financial position, plus any other additional disclosure requirements provided in their prospectus, the Executive Regulations of the CML and their associated decrees.[41]

Moreover, the 1994 Rules required the immediate disclosure of any significant and material events that might impact the company's activities or financial position.[42] A summary of these events must also be published in two daily newspapers, with at least one in the Arabic language.[43]

In addition, the companies are required to comply with the other disclosure rules mentioned in their prospectus, as well as the Executive Regulations of the CML and their associated decrees.

c. Rules Aiming to Protect Shareholders

To protect the shareholders' rights whose securities are listed in both the official and unofficial schedules, the 1994 Rules necessitated that their rights should not be less than the company's paid-up

[38] The 1994 Rules, Section (1)(b)(1/1).
[39] The 1994 Rules, Section (1)(b)(1/2).
[40] The 1994 Rules, Section (1)(b)(1/3).
[41] The 1994 Rules, Section (1)(a)(2).
[42] Ibid.
[43] Ibid.

capital.[44] Additionally, for the official schedule, the chairperson of the board of directors must prepare a reasoned report, endorsed by the financial auditor, if the company is willing to retain net profits as a reserve.[45]

On the other hand, companies whose shares are listed on the unofficial schedule should prepare their financial statements in accordance with international accounting standards and publish at least the budget and the financial statements for a financial year, not less than 12 months.[46]

d. Delisting Events and Procedures

Concerning the delisting regulations, the 1994 Rules provided general delisting rules that applied to securities listed on the official and unofficial schedules, as well as specific delisting events for each schedule.[47] Generally, delisting may be imposed on listed companies, whether in the official or unofficial schedule, if there has been no trading in the securities for one year,[48] or if the listing was based on falsified information.[49]

Securities listed on the official schedule would be moved to the unofficial schedule if the number of shareholders dropped below 100 for three consecutive months or three distinct months within a single financial year.[50] Additionally, delisting would occur if the shareholders' equity rights fell below the paid-in amount of the issued capital for two consecutive financial years.[51] However, the delisting would occur for the unofficial schedule if the shareholders' rights fell below the paid amount of the issued capital for three consecutive financial years.[52]

Besides the above delisting events, the company would be delisted if it failed to meet specific CG requirements, which varied depending on the listing schedule. A company would be subject to delisting from the official schedule if it did not comply with its disclosure obligations within the designated timeframe. In the event of default, delisting would take effect after receipt of a three-month ratification notice.[53]

On the other hand, for the unofficial schedule, the company would be delisted if it failed to prepare and publish its financial statements within the designated timeframe following receipt of a three-month notice of ratification.[54]

[44] The 1994 Rules, Section (1)(a)(3) and Section (1)(b)(1/4).
[45] Ibid.
[46] The 1994 Rules, Section (1)(a)(3) and Section (1)(b)(1/5).
[47] The 1994 Rules, Section (2).
[48] The 1994 Rules, Section (2)(1/1).
[49] The 1994 Rules, Section (2)(1/2).
[50] The 1994 Rules, Section (2)(2/1).
[51] The 1994 Rules, Section (2)(2/3).
[52] The 1994 Rules, Section (2)(3/1).
[53] The 1994 Rules, Section (2)(2/2).
[54] The 1994 Rules, Section (2)(3/2).

To sum up, concerning listed securities on the official schedule, the delisting would be imposed by the EGX if (i) there was no trading for one year (trading between related parties and insiders was allowed to satisfy this condition);[55] (i) the listing was based on incorrect information; (ii) the shareholders' rights became less than the paid-up capital for two consecutive financial years; or (iv) the companies failed to comply with the disclosure obligations after receiving a three-month notice to rectify their violations.

In addition, the listed securities would be delisted from the official schedule and moved to the unofficial schedule if the number of shareholders remained less than 100 for three consecutive months or three separate months within one financial year. In all cases, although the CML did not regulate the delisting of securities from the EGX, the 1994 Rules regulated only involuntarily delisted securities and thus did not regulate voluntary delisting, which occurs when a listed company voluntarily exits the EGX. Moreover, the 1994 Rules did not specify the procedural mechanism by which the EGX would decide on delisting.

e. The Existing Listed Companies' Compliance

The 1994 Rules included a provisional rule whereby all securities listed at the enforceable date of the rules would be automatically listed in the unofficial schedule.[56] The respective company would then have six months to fulfil the listing requirements of the official or unofficial schedules according to the 1994 Rules. Otherwise, the company would be delisted.[57]

B. The 2002 Listing, Continued Listing, and Delisting Rules

The 1994 Rules remained valid and applicable until August 2002, when more comprehensive new listing and delisting rules were enacted (the "**2002 Rules**").[58] The 2002 Rules were more stringent and included additional CG requirements to establish investor confidence and trust in EGX's performance.

In this respect, and following the same explanatory classifications used in the above sections, this section tackles the following issues: (a) the general listing requirements, (b) the listing schedules, (c) the ongoing disclosure obligations, (e) the delisting events and procedures; and (f) the existing listed companies' compliance to the 2002 Rules.

a. General Listing Requirements

At the outset, the 2002 Rules necessitated the satisfaction of specific primary listing requirements for all types of securities to be listed on the EGX.[59] These requirements were:

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[55] World Bank, ' Report on the Observance of Standards and Codes (ROSC): CG Country Assessment: Arab Republic of Egypt' (September 2001) 35081
[56] The 1994 Rules, Section (1).
[57] Ibid.
[58] New Listing and Delisitng Rules were enacted by the FRA (previously CMA) on 18 June 2002 with an effective date as of 1 August 2002 for the new listings.
[59] The 2002 Rules, Article 3.

a) Securities should be dematerialised, i.e., deposited as per the Central Depository and Registration System.
b) There should be no restrictions on the trading of securities.
c) The listing should be for the total number of issued securities.
d) The company should submit an undertaking whereby it would pay a compensation amount equivalent to EGP 5,000 if it fails to disclose any event that has caused harm to its shareholders and investors.[60] This condition was replaced in September 2008 by the necessity of concluding a contract between the EGX and the applicant company to regulate their respective rights and obligations, including any financial penalties that the company would pay to the EGX for violating the listing rules and procedures or the contract's provisions.[61]

In addition, the company willing to offer its shares to the public was also required to release certain information and documents about its operations and activities with its listing application.[62] They included, among other things, the following:

- Summary of the existing contracts or agreements concluded between the issuing company or any of its affiliates with board members or managers.
- Summary of the substantial contracts concluded by the company during the two years preceding its listing application, with a declaration of the amounts paid or received by the company or its affiliates.
- The company's capital structure and the names of the shareholders who hold more than 5% of the company's capital.
- The transactions made between the company or its affiliates with shareholders, altogether with a declaration that these transactions were performed in the same manner as dealing with the public.

The 2002 Rules also imposed further disclosure obligations on companies willing to be listed. The company was also required to disclose additional information about the members of its board of directors, which included, amongst other things, their qualifications, the powers granted to them, and their shareholding percentage in the company or any other company, if this percentage exceeded 5% of the company's capital. [63] Additionally, a disclosure should be made if board members or managers were contributing, directly or indirectly,[64] to the company's capital. Furthermore, the company should submit

[60] The compensation amount will be doubled if the violation is repeated within 6 months of the occurrence of the first violation. This is also without prejudice of Article 65bis of the Capital Market Law added by law no. 142 of 2004.
[61] The CMA Board Decision No. 94 of 2008 dated 22 September 2008.
[62] The 2002 Rules, Article 4.
[63] Ibid.
[64] Indirect contribution refers to the relatives' contribution until the second degree.

a list of the relatives of board members and managers up to the second degree, as well as any related group that owns at least 5% of the company's capital.

Furthermore, the 2002 Rules required the constitution of an audit committee in all listed companies, whose members should be at least three, with expertise in the company's activities.[65] Listed companies were also required to adopt the committee's recommendations within 15 days. Otherwise, the committee's chairman could report the company's failure to the EGX and CMA.[66]

b. Listing Schedules

The 2002 Rules continued to divide the listing schedules into official and unofficial schedules, which were further divided into two sub-schedules. This section only describes the listing requirements of the official schedule no. (1) for being designed to list the private companies willing to trade their shares in the EGX.[67] In this respect, to be allowed to list, the company must offer at least 30% of its nominal shares for public subscription, and the subscribers must be at least 150 persons, even if those persons are all non-Egyptians.[68]

Besides the above legal requirements for the securities listing, certain other financial conditions should be met:[69]

1- The company should have issued three financial statements before the listing application,
2- The issued capital should not be less than EGP 20 million and should be fully paid,
3- The net profit, before tax deductions, for the fiscal year preceding the date of the listing application should not be less than 5% of the paid-up capital,
4- The shareholders' equity for the last fiscal year preceding the listing application is not less than the paid-up capital, and
5- The number of issued securities is at least 2 million shares.

In this vein, the 2002 Rules required the continuous fulfilment of the conditions referred to in 2, 3, and 4 above for the company to remain listed.[70]

The listing requirements for the unofficial schedules are less stringent and target the securities that did not fulfil the listing requirements for the official schedules.[71] For a company to be listed in the unofficial schedule no. (1), the securities offered for public or private subscriptions should not be less than 10%

[65] The 2002 Rules, Article 7.
[66] Ibid.
[67] The official schedule no. 2 was limited to the securities offered by states and state-owned enterprises, which are outside the realm of this thesis.
[68] The 2002 Rules, Article 9(1).
[69] The 2002 Rules, Article 9(2).
[70] Ibid.
[71] The 2002 Rules, Article 10.

of the total issued securities, and the number of subscribers should not be less than 50 persons, even if those persons are all non-Egyptians.[72] In addition, the following financial standards should be met:[73]

1- The company should have issued two financial statements before the listing application,
2- The issued capital should not be less than EGP 10 million and fully paid,
3- The net profit, before tax deductions, for the fiscal year preceding the date of the listing application should not be less than 5% of the paid capital,
4- The shareholders' equity for the last fiscal year preceding the listing application is not less than the paid capital, and
5- The number of issued securities is at least 1 million shares.

Finally, the unofficial schedule no. (2) was designed for the listing of securities that do not fulfil or keep fulfilling the listing requirements for the official schedule 1 and 2, and the unofficial schedule 1, subject to the fulfilment of the following conditions:[74]

1- The company should have issued at least one financial statement before the listing application, according to the applicable laws and requirements;
2- The issued capital should not be less than EGP 5 million and fully paid;
3- The net profit for the fiscal year preceding the date of the listing application should not be less than 1% of the paid capital;
4- The shareholders' equity for the last fiscal year preceding the listing application is not less than the paid capital; and
5- The number of issued securities is at least 500,000 shares.

Moreover, for a company to remain listed in the unofficial schedule no. (2), the requirements referred to in points 2, 3, and 4 above must be fulfilled continuously.[75]

Finally, the above differentiation between the official and unofficial schedules was abolished in September 2008, whereby these schedules were replaced by two new listing schedules: one for Egyptian securities and the other for foreign securities.[76] For the listing of Egyptian securities, the following conditions should be satisfied:

(a) The company should offer at least 10% of its nominal shares for public or private subscriptions,
(b) The subscribers should not be less than 100 persons after the subscription,
(c) The free float percentage should not be less than 5% of the total shares of the company,
(d) The number of issued securities is not less than 2 million shares,

[72] The 2002 Rules, Article 10(First).
[73] Ibid.
[74] The 2002 Rules, Article 10(Second).
[75] Ibid.
[76] The CMA Board Decision No. 94 of 2008 dated 22 September 2008, Article 8.

(e) Besides the above legal requirements for the securities listing, certain other financial conditions should be met,
(f) The company should submit the financial statements for a full financial year preceding the listing application, provided that these statements were prepared as per the Egyptian accounting standard, reviewed by a registered auditor at the CMA and verified by the general assembly of the company,
(g) The issued capital should not be less than EGP 20 million and should be fully paid,
(h) The net profit, before tax deductions, for the fiscal year preceding the date of the listing application should not be less than 5% of the paid-up capital, and
(i) The shareholders' equity for the last fiscal year preceding the listing application must be at least equal to the paid-up capital.

The 2008 Rules also permitted the listing of companies that fail to satisfy the first three conditions referred to above, provided that the company undertakes to satisfy these conditions within three months of the listing date. Otherwise, the listing will be considered null and void.[77]

Furthermore, in any event, the first four conditions should be maintained throughout the company's listing on the EGX. In the event of a violation, the company may be granted an additional three months for rectification if it has not committed a similar violation within the previous three months. Otherwise, a delisting decision will be considered.[78]

c. Disclosure Obligations

The disclosure requirements under the 2002 Rules were more extensive, comprising various types of information and documents that were required to be regularly disclosed. The 2002 Rules also unified the ongoing disclosure obligations on all listed companies on the EGC, irrespective of the listing schedule.[79] Such disclosure requirements can be summarised as follows:

i. General Disclosure Duties

The 2002 Rules first prohibited the exacerbated disclosure and disclosure of information or data that does not reflect the company's actual position, maintaining that all the disclosed information should be accompanied by supporting evidence that the EGX might request.[80] It was also proscribed to disclose any information that might impact the company's financial position or status to financial analysts, institutions, or other parties without first revealing it to the public.[81]

[77] Ibid.
[78] Ibid.
[79] The 2002 Rules, Article 12.
[80] The 2002 Rules, Article 13.
[81] The 2002 Rules, Article 14

Additionally, the company shall inform the EGX immediately of any change in the information mentioned in the listing application, the annual reports of its board meetings, or any other actions taken by the competent governmental bodies against the company, if any of these events have an impact on the company's activities and financial position. [82] Listed companies were also obliged to submit the minutes of their ordinary and extraordinary general assembly meetings to the FRA and EGX.[83]

To avoid the arbitrary use of inside information that might impact the share price, the 2002 Rules required listed companies to inform the EGX of their internal regulations that prevent board members, managers, or employees from conducting any transactions on the company's shares before and after the announcement of material information.[84] Furthermore, the company's board, management, and persons who could obtain undisclosed information to the public that might impact the share price shall not purchase or sell securities linked to this information.[85]

Furthermore, the 2002 Rules required the establishment of an audit committee in all listed companies, and the committee should comprise at least three members with expertise in the company's activities.[86] Moreover, listed companies must appoint a representative to communicate with the investors and the EGX.[87]

ii. Financial Disclosure

Listed companies were required to submit their annual financial statements to the CMA and EGX, along with the reports prepared by the board and auditors.[88] The financial statements must follow Egyptian auditing standards as per the templates provided by the CML's Executive Regulations.[89]

Furthermore, the annual and semi-annual financial statements, along with any complementary clarifications, the auditor's report, and CMA remarks, should be published in two widely circulated newspapers, at least one of which should be in Arabic, within one week of being certified by the general assembly.[90] In addition, as of September 2008, listed companies were required to publish their financial

[82] The 2002 Rules, Article 18. These events included Any changes to the Articles of Associates, Changing the auditors, Change in the chairman of board of directors, any board members of main mangers, The capital structure including the shareholdings percentages that exceed 5%.
[83] The 2002 Rules, Article 16.
[84] The 2002 Rules, Article 19.
[85] The 2002, Article 28.
[86] Article 7, the 2002 Rules. They can be chosen from the non-executive board members or other qualified members if the board has no sufficient members. This committee should perform its activities separate from the management of the company. The company should apply the recommendation of this committee within 15 days. Otherwise, the committee chairman could report the company's failure to the stock exchange and CMA.
[87] The 2002 Rules, Article 15.
[88] The 2002 Rules, Article 20.
[89] The 2002 Rules, Article 21.
[90] The 2002 Rules, Article 22.

statements for the first and third quarters, along with associated clarifications, the auditor's report, and EGX's remarks, on EGX's website for three days.[91]

iii. Immediate Disclosure

The 2002 Rules strictly obliged listed companies to immediately and promptly disclose any exceptional and material event that might impact their activity, financial position, or share trading. [92] The company should also ensure that the disclosure of these events is complete and accurate, reflecting the truth, and that no information has been omitted that might impact the content of these facts or information.[93]

Furthermore, the company's board, management, and persons who could obtain undisclosed information to the public are prohibited from purchasing or selling securities that are linked to this information.[94]

d. Delisting Events and Procedures

The 2002 Rules unified the delisting events and did not distinguish between companies listed on different listing schedules. The 2002 Rules also regulated the voluntary delisting procedures for the first time.

i. Compulsory Delisting

Listed companies would be compulsorily delisted if any of the following events happened: (a) the listing was made upon falsified information; (b) if one of the listing requirements is lost; (c) if there was no trading on the securities for six consecutive months; or (d) if the company failed to pay the listing fees or violates any of its undertakings provided to the EGX.[95]

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[91] The CMA Board Decision No. 94 of 2008 dated 22 September 2008, Article 23.

[92] The 2002, Article 23. These events included, amongst other things, the following events:

a) Any change in the ownership structure led to an increase or decrease of shareholdings of board members by 5% of the capital.
b) Any new issuance of bonds, mortgages, or warranties related thereto.
c) Any decision resulting in the reimbursement or cancelation of an issued securities.
d) Any change in the financing structure and the company's financial position might lead to its obligations exceeding its equity rights and any restrictions impost of the borrowings available to the company.
e) Any change in the investment policies such as opening or closing new branches, adding new activates, liquidating branches, or existing activities.
f) The agreement to purchase or sell investments or shares in the company to or from any board members, auditor or managers, including their relatives, until the second degree.
g) The entry of strategic investors to purchase a stake in the company's security.
h) Filing judicial lawsuits or issuance of court decisions against the company concerning its activities, any of board members or manages.
i) Any administrative decision by the government might impact the companies' activities and any change, withdrawal, or cancellation of these decisions.

[93] The 2002, Article 23.

[94] The 2002, Article 28.

[95] The 2002 Rules, Article 34.

Besides the criminal sanctions for failing to comply with the disclosure requirements,[96] the company may be delisted if it fails to immediately disclose any material event that could affect its operations or financial position. In all cases, the 2002 Rules permitted companies to appeal the delisting decision before the CMA within 15 days of its notification.[97]

In addition, in September 2007, the CMA Board added two additional reasons for involuntary delisting. A listed company would then be delisted if (i) it violates any of the listing and delisting requirements and fails to rectify them within the period specified by the EGX, or (ii) it violates the listing and delisting requirements that could not be rectified three times within 12 months.[98]

A year later, in September 2008, the CMA introduced additional reasons for involuntary delisting while reiterating the initial ones or tightening their requirements.[99] Although it kept the non-trading of securities for 6 months as a delisting ground, it added that trading between related groups would not be considered trading for this requirement.[100] It added that the listed company's violation of the contract concluded with the EGX would lead to involuntary delisting.[101]

Moreover, the EGX's listing committee was vested with the authority to delist a listed company if it failed to meet the minimum percentage of net profits and shareholders' equity for two consecutive years after the listing date.[102]

Additionally, for the first time, the 2008 Rules regulated the procedures by which listed companies could challenge delisting decisions. In this context, the company has 15 days from its notification date of the delisting decision to request reconsideration of this decision from the EGX Board. The board has to decide on this request within 15 days.[103]

If the EGX Board dismissed the reconsideration request, the company could file a petition before the CMA Board within 15 days of the EGX decision. If the CMA refuses the petition, the company can appeal the CMA decision before a specific petition committee.[104]

Lastly, the 2008 Rules introduced a new provision that allowed the delisted company to rejoin the stock exchange upon fulfilling certain conditions.[105] These conditions vary depending on whether the delisting was due to failure to satisfy disclosure obligations or for any other reason. If the delisting was pursued due to the company's failure to fulfil the disclosure obligations, the company is entitled to

[96] The CML, Article 63.
[97] The 2002 Rules, Article 34.
[98] CMA's Board Decision No. 74 of 2007.
[99] The CMA Board Decision No. 94 of 2008 dated 22 September 2008, Article 34.
[100] Ibid.
[101] Ibid.
[102] Ibid.
[103] Ibid.
[104] Ibid.
[105] The CMA Board Decision No. 94 of 2008 dated 22 September 2008, Article 35.

submit a new listing application once the listing requirements are met, including submitting financial statements for two consecutive years following the delisting date.[106] On the other hand, if the delisting was voluntary or involuntary due to the company's violation of other listing requirements, the company may seek a new listing upon satisfying the listing requirements and submitting financial statements for one year following the delisting date.[107] However, on 29 October 2009, CMA added another rule granting the listing committee the discretion to relinquish the above requirements.[108]

ii. Voluntary Delisting

Besides the involuntary delisting, the 2002 Rules permitted voluntary delisting upon the company's request and the satisfaction of specific requirements:[109]

a. A decision by the extraordinary general assembly meeting is issued with a majority of 75%,
b. No objection is received from any shareholders within a month of the decision date. If there is an objection, those who objected have the right to sell their shares to the company with the highest trading price in the month preceding the delisting decision, and
c. There is no objection from any party with a mortgage over the shares to guarantee the company's debt or any of its shareholders within a month from the decision date. If an objection exists, the shares are sold at a high price.

Furthermore, the 2008 Rules allowed delisted firms to rejoin the EGC upon satisfying the listing requirements and submitting financial statements for one year consequent to the delisting date.[110]

e. The Existing Listed Companies' Compliance

The 2002 Rules granted the existing listed companies a one-year grace period for compliance with new listing requirements, i.e., until August 2003.[111] Otherwise, the defaulted companies would be delisted or moved to another listing schedule that reflects their status.[112]

C. The 2014 Listing, Continued Listing, and Delisting Rules

The 1994 Rules were the first listing, continued listing, and delisting rules for securities and other financial instruments in the EGX. These rules were entirely replaced and cancelled by the 2002 Rules, the first detailed and CG-oriented rules in the EGX. The 2002 Rules remained effective and applicable, albeit subject to numerous changes, until 31 January 2014, when newly designed rules for listing and

[106] Ibid.
[107] Ibid.
[108] CMA Board Decision No. 50 of 2009 dated 29 October 2009.
[109] The 2002 Rules, Article 35.
[110] The CMA Board Decision No. 94 of 2008 dated 22 September 2008, Article 35.
[111] Article 6, Issuance Provisions, the 2002 Rules. This grace period have been extended until 31 December 2003 according to CMA's Board Decision No. 45 of 2003.
[112] Article 5, Issuance Provisions, the 2002 Rules

delisting were enacted by the FRA, with immediate implementation as of 1 February 2014 (the "**2014 Rules**").[113]

The 2014 Rules, which remain applicable to date with some changes, are well-organised, comprehensive, and detailed. It includes stringent, more concrete, and extensive requirements for listing and delisting financial instruments on the EGX, as well as protecting investors. For the sake of consistency, this section follows the same order as the earlier sections with slight changes, addressing the following: (a) the general listing requirements, (b) the conditions for continued listing, (c) the disclosure requirements, and (e) the delisting events and procedures.

a. General Listing Requirements

Chapter 2 of the 2014 Rules outlines the general requirements for listing securities on the EGX. As explained earlier, the present analysis is limited to the listing conditions for securities issued by private companies that are willing to trade their shares on the EGX. It thus excludes the listing of securities issued by state-owned enterprises, foreign companies, and holding companies. In this respect, the 2014 Rules include general listing conditions for all securities, as well as specific conditions for shares issued by private companies, the subject of the present study.

Firstly, the general conditions for listing any securities, including those issued by private companies, can be summarised as follows: [114]

a) The securities are registered according to the central depository and registration system.
b) No restrictions are imposed on the trading of securities.
(a) The listing should encompass all issued securities of the same type.
(b) The issuing company must create a website to publish all the needed documents and information. Alternatively, the company may disclose such information on a website dedicated by the EGX for this purpose.
(c) The submission of the listing application and its appendices by the issuing company's legal or by an authorised listing agent at the EGX.
(d) A conclusion of a contract with the EGX to regulate all the obligations of the issuing companies and the consequences in case of any violations.

[113] On 22 January 2014, EFSA issued new listing rules to be applicable as of 1 February 2014. EFSA Board Decision No. 11 of 2014 dated 22 January 2014
[114] The 2014 Rules, Article 6.

In addition to the above general requirements, private Egyptian companies willing to list their securities must abide by the following conditions:

a) The publicly offered shares must comprise at least 10% of the company's total shares listed on the market. A company is considered to have fulfilled this condition if the shareholding structure at the time of listing included the ownership of at least 10% of its capital by various shareholders other than the founders and principal shareholders. It is also required that none of the 10% shares are pledged.
b) The number of shareholders shall be at least 300.[115]
c) The percentage of tradable shares shall be no less than either 5% of the total shares of the company or shares that have a book value of EGP 10 million.
d) The number of tradeable shares that are offered shall be no less than 5 million shares.
e) The issuing company shall submit financial statements for the two financial years preceding its listing application.[116]
f) The capital issued by the issuing company must be fully paid and must be at least 50 million Egyptian pounds or its equivalent in foreign currency.[117]
g) Before deducting the applicable taxes on the financial year preceding the listing application, the company's net profit is not less than 5% of the capital paid due to the listing.
h) An undertaking that the total shares reserved by the primary shareholders are no less than 65% of the company's capital.[118]
i) Submitting a report about the company's activities, administration structure, previous activities, and the governance policy that it will follow after its listing.

The 2014 Rules further allow the listing of securities that do not fulfil the first two conditions referred to in (a) and (b) above if the company undertakes to satisfy them within 6 months from the listing date

[115] In addition, the shares owned by each shareholder shall not be more than (1/1000) of the total shares of the capital of the company that has been offered, and the shares' value shall also be no less than a book value of five thousand Egyptian Pounds

[116] The financial statements shall be prepared in accordance with the Egyptian Accounting Standards. They shall have been audited according to the Egyptian Auditing Standards through one of the auditors that are registered in the Authority's record and have been authenticated by the General Assembly of the Company and certified by the competent administrative authority.

[117] This percentage is determined in light of the last annual financial statements, or the last periodical financial statements annexed by a comprehensive auditing report by the auditor and approved by the company's General Assembly, provided that the shareholder's rights in the last annual or periodical financial statement, before the date of the application for listing, shall not be less than the issued capital.

[118] If the total preserved shares are less than 25% of the shares of the company's issued capital, it is for the members of the Board of Directors and the Founders to complete the 25% in a time frame that is no less than two financial years from the date of offering in the stock market, or from the date of listing for companies that have offered their shares for public subscription in the market before listing, provided that the previously mentioned percentage must be preserved in an increase of the company's capital for the same period, except for free shares.

of its securities. However, no trading will take place over those securities during this period, and the listing will be deemed null and void if these two conditions are not met in the designated period.

b. Conditions for Continued Listing

The 2014 Rules necessitate the continued fulfilment of specific listing conditions for the company's shares to remain listed. These ongoing requirements concern the minimum number of shareholders, the percentage of tradable shares, and the minimum number of shares required for listing on the exchange.[119] If any of these conditions are not met within three months, the EGX may grant the company another deadline to fulfil them. If the company disregards the EGX's request, the EGX will order the delisting of the company's shares. Hence, in this case, the delisting of the defaulting company was at EGX's discretion. However, this provision has been amended so that the non-fulfilment of these minimum requirements will lead to the delisting of the breaching company.[120]

Furthermore, companies in which the free float or liquidity rate is less than the percentage determined by the 2014 Rules may proceed with the applicable procedures for subdividing shares. The company can follow this procedure annually without requiring approval from the FRA or EGX.[121]

c. Disclosure Requirements

The listed companies are strictly required to disclose certain documents and information throughout their listing on the EGX. The primary needed information and documents are as follows:[122]

a) Any changes in the data provided at the time of listing or any information mentioned in the disclosure report for listing purposes.
b) Any court judgment rendered against the company or its shareholders that might affect the company's financial position, shareholders' rights, trading prices, or the dealer's investment decisions.
c) Providing the EGX with disclosures, data, or information before their publication or announcement.[123]
d) The company is also prohibited from sharing any data or information that affects its situation or financial position before being disclosed to the public. The company is further prohibited from sharing any data or information that is incompatible with the requirements. In all cases, the company's actual situation shall be disclosed fully and sufficiently, supported by relevant documents.

[119] The 2014 Rules, Article 10.
[120] Article 10 of the 2014 Rules was amended by the FRA Board Decision No. 96 of 2017 Dated 25 July 2017.
[121] The 2014 Rules, Article 49.
[122] The 2014 Rules, Article 28.
[123] The stock market shall publish it as soon as it is received, under the responsibility of the sending entity, and it shall be published in accordance with the procedures that are followed by the stock market.

i. Shareholders and Related Parties' Dealings

The 2014 Rules require every shareholder and their related parties to disclose the sale or purchase of 5% of the company's shares when their shareholding percentage falls below 5% of the company's capital.[124] Moreover, if this percentage reaches 25% or more of the company's capital or voting rights, the shareholder must disclose their future investment plans and directions regarding the company's administration.

Additionally, these disclosure requirements apply if board members, employees, or their related parties purchase or sell 3% or more of the company's capital.

ii. Periodic and Immediate Disclosure Reports

Listed companies are required to disclose their shareholders' structure and numbers, as well as the composition of the board of directors, quarterly.[125] Additionally, the company shall inform EGX immediately of any changes in the data that might affect the company's financial situation, such as those relating to the articles of association, board members, capital structure, and the company's contribution to the capital of other companies by a percentage equivalent to or exceeding 10%.[126]

iii. Disclosure of Material Events

Listing companies are obliged to disclose any material information or events immediately,[127] which includes the following matters:

(A) Any proposed issuance of new bonds, guarantees, or mortgages related thereto.
(B) Any decision results in the recall or cancellation of previously issued registered financial securities.
(C) Any proposed change in the financing or capital structure that exceeds 5% of the shareholders' equity and any restrictions imposed on the amount of borrowing available to the company.
(D) Any contracts worth more than 5% of the last fiscal year's revenues.
(E) Cash dividends, free stock dividends, or both.
(F) Decisions related to changes in the nominal value of the company's shares.
(G) Any proposed agreement that leads to the entry of strategic investors to buy a share of the company's shares.
(H) Initiating lawsuits against the company related to its activities, its board of directors members, or one of its managers, or any judgments rendered regarding its activities.

[124] The 2014 Rules, Article 29.
[125] The 2014 Rules, Article 30.
[126] Ibid.
[127] The 2014 Rules, Article 34.

(I) Issuance of any decisions by the administrative authorities that affect the company's activities or any amendment, withdrawal, or cancellation of these decisions.
(J) Any business transactions with the related parties.

In this vein, the company must ensure that any data, facts, or information it reports are accurate and not misleading and that it does not exclude or hide anything that might affect the content of these data, facts or information.[128]

iv. Disclosure of the General Assembly's and Board's Decisions

The 2014 Rules require listed companies to disclose the decisions of general meetings immediately, and, at the latest, before the start of the first trading session following the meetings.[129] The meeting minutes should be submitted to the EGX within one week after being verified by the chairperson of the board of directors, and the minutes should be resubmitted within three days of being certified by the competent administrative authority.[130]

Likewise, listed companies must immediately disclose the board of directors' decisions concerning material events.[131] A report of the board of directors about the significant results of its operation should also be disclosed following the approval of the annual or quarterly financial statements.[132]

v. Disclosure of Financial Statements

Listed companies must publish a summary of the board of directors' report, the annual financial statements, any clarifications thereto, the auditors' report, and FRA's comments (if any) in two widely and daily distributed Egyptian newspapers; at least one is in Arabic.[133] If the company's general assembly makes any amendments to those statements, the company is obliged to publish a statement of those amendments and the amended financial statements. Quarterly financial statements and related reports shall be published on the EGX's website. A copy of annual and quarterly financial statements, along with the reports of the board of directors and the auditor, must be made available to the EGX.[134]

Moreover, the listed companies must prepare their financial statements in accordance with Egyptian accounting standards.[135]

[128] Ibid.
[129] The 2014 Rules, Article 31.
[130] Ibid.
[131] The 2014 Rules, Article 32.
[132] Ibid.
[133] The 2014 Rules, Article 35.
[134] The 2014 Rules, Article 46.
[135] The 2014 Rules, Article 45.

d. Delisting Events and Procedures

The 2014 Rules thoroughly regulate both compulsory and voluntary delisting, covering events and procedures that aim to protect shareholders' interests in the case of voluntary delisting. It also offers the possibility of relisting, provided specific requirements are met.[136]

i. Compulsory/ Mandatory Delisting

The EGX can decide to delist securities when certain violations of the listing requirements are committed. The violations can be summarised as follows:

(a) The listing was based on incorrect information.
(b) Non-fulfilment of the disclosure obligations after receiving a one-month notice from the EGX.
(c) No shares trading for six consecutive months. Trading transactions taking place between related groups or persons, and the simulated transactions[137] will not be considered as trading transactions for this condition.
(d) Non-payment of the listing fees.
(e) Violating one of the listing and continued listing requirements without rectifying it within the period designated by the EGX.
(f) The incidence of more than two non-rectifiable violations of the listing rules within 12 months.

In addition to the above delisting events, the EGX may order the delisting of securities if they fail to meet one of the two minimum criteria for net profit and shareholders' rights for two consecutive financial years after being listed.[138] The application of this delisting event becomes subject to the criteria adopted by the EGX and verified by the FRA.[139]

ii. Procedural Steps

Before deciding on the delisting of the securities, which remains subject to the EGX's discretion, the EGX must inform the chairperson of the defaulting company's board to invite the general assembly to convene to consider the reasons behind the company's failure to comply with the listing requirements that might lead to a compulsory delisting. If the company fails to invite the general assembly within one month of receiving the EGX's notification, the EGX can then write to the competent administrative entity to proceed with the invitation procedures.

Furthermore, the compulsory delisting decision should be reasoned and will only take effect fifteen days after its announcement on the EGX screens and the company's notification by registered letter. The FRA later amended the above provisions by its Decision No. 128 of 2020, whereby it became

[136] The 2014 Rules, Chapter Six.
[137] The simulated transactions were added by virtue of the FRA Board Decision No. 96 of 2017 Dated 25 July 2017.
[138] The 2014 Rules, Article 53.
[139] The FRA Board Decision No. 96 of 2017 Dated 25 July 2017.

sufficient only to inform the chairperson of the board of directors of these violations. If the company fails to rectify them within three months, the breaching company will be subject to delisting.

In all cases, and to protect the interest of shareholders, the FRA adopted a new provision whereby the breaching company will be obliged to purchase, within three months of being informed of EGX's decision to proceed with the delisting procedures, the floated shares whose shareholders are willing to sell or guarantee that a third party will purchase them. This purchase should be performed against a price that does not fall below the fair value of the securities as determined by an independent financial advisor.[140]

Moreover, if the company breaches one of the listing conditions, such as the required percentage of shares to be listed, the free-float percentage, the number of shareholders, or the number of listed shares, the EGX shall contact the breaching company within one month from the date of the breach.[141] In return, within two months of receiving the EGX's notification, the breaching company should inform the EGX of its time plan to comply with these requirements, provided that the implementation of this time plan does not exceed six months. If the company fails to respond to the EGX's notification or to satisfy these requirements within six months, the company's shares will be subject to compulsory delisting.[142]

Before issuing a decision for the compulsory delisting of the company's shares, a letter from the EGX must be sent to the company's chairperson.

iii. Reconsideration Request of the Delisting Decision

The 2014 Rules permit the filing of a petition with the EGX, requesting reconsideration of the delisting decision.[143] However, the submission of this petition is subject to specific regulatory requirements. First, this petition can only be filed by the company or shareholders holding at least 5% of the company's shares. Second, from a timing perspective, this petition should be submitted within 15 days of the delisting decision being announced on the EGX screens. Third, the EGX is required to decide on this petition in its board meeting following the submission of a satisfactory petition.

Furthermore, another petition can be submitted to the FRA if EGX dismisses the petition that has already been filed. This petition should also be filed within 15 days of receiving EGX's rejection decision.

[140] The FRA Board Decision No. 128 of 2020 Dated 16 August 2020.
[141] Article 53 bis added by the FRA Board Decision No. 96 of 2017 Dated 25 July 2017.
[142] Article 53 bis added by the FRA Board Decision No. 96 of 2017 Dated 25 July 2017.
[143] The 2014 Rules, Article 54.

iv. Voluntary Delisting Conditions

The 2014 Rules permit the voluntary delisting of the company's securities, subject to the fulfilment of strict conditions aimed at protecting stakeholders' interests. To this effect, the 2014 Rules require the satisfaction of the following conditions for the EGX to approve this decision:

(a) A decision by the extraordinary general assembly of the respective company approving the voluntary delisting. This resolution should be passed by shareholders holding at least three-quarters of the shares present at the meeting.
(b) There is no objection by any shareholder to the delisting decision within one month of its issuance.
(c) There is no objection by any other party to whom the company's shares are pledged as security for a debt owed by the company or one of its shareholders on the delisting decision within one month of its issuance.

In this context, if a shareholder objects to the delisting resolution, the objecting shareholder will be entitled to sell its shares to the company. The determination of the sale price will vary depending on whether trading in the securities is taking place. If there is trading in the company's securities, the sale will be made against:

- The highest trading price for the company's securities during the month preceding the date of the board of directors' invitation to the extraordinary general assembly to vote on the delisting of the company, or
- The average trading price for the company's securities during the three months preceding the board of directors' invitation to the extraordinary general assembly to vote on the company's delisting.

On the other hand, if there was no trading on the company's securities during the period specified above (i.e., one month or three months), the company will then be obliged to purchase the shares of the objecting shareholders according to the fair market value as set by an independent financial adviser listed on the FRA after being ratified by the company's auditor.

Additionally, if a party with a pledge right on the company's shares objects to the delisting decision, the objecting party will also be entitled to sell its pledged shares to the company, as per the applicable sale mechanism explained above.

Moreover, in March 2019, the FRA added a new provision regulating situations where a conflict of interest exists. In such circumstances, the FRA may limit voting on the voluntary delisting decision to the minority shareholders (free-floating shares) without voting from the principal shareholders and their related parties. Furthermore, in the event of material events or preceding dealings that may affect the

value of the company, and in response to the board of directors' invitation, the FRA may request that the company purchase the securities held by objecting shareholders at the fair market value set by an independent financial adviser listed on the FRA.[144]

An additional provision was added in June 2020 to regulate the delisting of securities after a mandatory tender offer has been executed.[145] According to the new provision, if there is a mandatory tender offer that results in the offeror or it is with its related parties owning at least 75% of the capital of the company, it will be sufficient that the board of directors decides to pursue the delisting procedures if the offeror's intention to delist the company was disclosed with its offer.

In that case, the company is obliged to purchase the securities of the objecting shareholders who object to the delisting decision and refuse to accept the tender offer with the same price as the tender offer if they decide to sell their shares within six months of the execution of the tender offer. Otherwise, the pricing mechanism determined above will apply.

v. Compulsory Delisting as a Consequence of the Voluntary Delisting

The 2014 Rules introduce a new rule whereby the voluntary delisting decision might lead to a compulsory delisting decision by the EGX if it is not executed within six months of its issuance by the extraordinary general assembly.[146] In that case, if the compulsory delisting decision is taken, the respective company would also be obliged to acquire all the securities of the objecting shareholders.

vi. Relisting Application

Companies whose securities have been compulsorily delisted may submit a new listing application upon fulfilling the listing requirements and rules, along with the submission of their financial statements for the two fiscal years following the delisting date, if the delisting was made for violating disclosure requirements.[147]

Furthermore, the company whose securities are compulsorily delisted for violating the conditions of listing, other than disclosure requirements, or whose name is voluntarily struck off may submit a new listing application, provided that the listing requirements and conditions are met, after submitting its financial statements for the fiscal year following the date of delisting.

[144] The FRA Board Decision no. 34 of 2019 dated 19 March 2019 adding new provision to article 55 of the 2014 Rules.
[145] The FRA Board Decision no. 112 of 2020 dated 23 June 2020 adding new provision to Article 55 of the 2014 Rules.
[146] The 2014 Rules, Article 55.
[147] The 2014 Rules, Article 56

vii. The Existing Listed Companies' Compliance

The 2014 Rules further obliged existing listed companies to comply with the minimum required percentages for tradable offered shares and the free float percentage by 31 December 2014. Otherwise, the defaulting companies would be delisted.[148] On the other hand, the existing listed companies were exempted from the following obligations: (a) the minimum capital of the company required to list its shares and (b) the percentage of the retained shares by the primary shareholders. However, this exemption is without prejudice to the minimum required capital of the company and the percentage of shares that should be retained under the rules according to which the company's shares were listed.[149]

[148] The 2014 Rules, Article 57.
[149] Ibid.

Appendix (C): The EGX Application in Arabic

Appendix (D): The Original Data Received from the EGX

[Due to confidentiality restrictions, the dataset underlying this appendix is not publicly available but can be provided upon reasonable request]

Appendix (E): The EGX Dataset

[Due to confidentiality restrictions, the dataset underlying this appendix is not publicly available but can be provided upon reasonable request]

Appendix (F): The Invitation Letter to Potential Interviewees

Attn: []

Date: []
By Email/Hand

Re: Invitation Letter to Participate in An Interview-Based Research Study

Dear Sir/Madam,

By way of introduction, my name is Ahmed Abdelhakeem Mohamed, an Assistant Lecturer at the Faculty of Law, Cairo University and a PhD candidate at the Faculty of Law, the University of Hamburg, Germany. My PhD dissertation is titled *Corporate Governance Reforms and Delisting in Emerging Stock Markets: the Case of Egypt"* and is conducted under the supervision of Prof. Dr. Georg Ringe, a Professor of Law and Finance and the Director of the Institute of Law and Economics at the Faculty of Law, the University of Hamburg.

I am writing this letter to respectfully invite you to participate in a semi-structured interview designed to address specific hypotheses related to my PhD dissertation.

In this respect, please note that the primary objective of the thesis is to investigate the potential contribution and influence of corporate governance reforms on the attractiveness of stock exchanges in emerging markets, with a focus on the Egyptian Stock Exchange (the "**EGX**"). This thesis specifically examines the potential influence of corporate governance reforms incorporated into the listing and delisting rules for securities on the EGX on delisting events observed on the EGX from 2002 to 2021.

Analysing available quantitative data on the trends of listings and delistings on the EGX over the last 20 years has revealed a possible correlation between corporate governance reforms and delistings, accompanied by a decline in new listings. The objective of the thesis is thus to explore to what extent the corporate governance rules affect the companies' decision whether to remain (or go) public or private.

To further supplement the findings of the descriptive quantitative analysis, the researcher employs semi-structured interviews as a qualitative research method to explore this issue in more depth and account for any other possible explanations.

The outcome of this study is expected to be highly relevant to all stakeholders interested in stock markets or concerned with enhancing the performance of the EGX, including regulators, policymakers, investors, shareholders, board members, and other stakeholders in developing and emerging economies.

In this context, given your exceptional and stellar expertise, as well as your significant involvement in EGX regulations and operations, you are respectfully invited to participate in these semi-structured interviews. Your kind insights and information would help the researcher identify the root causes of the high number of delistings in the EGX.

Your kind participation in this interview-based research is voluntary, and you are fully entitled to abstain from answering any questions. In this respect, and unless you respectfully decide otherwise, please note that your valued responses and any other information and data received from your esteemed self will remain anonymous, confidential, and without any attribution to

your esteemed self. I would also be grateful to acknowledge your kind contribution to the thesis and other related scholarly publications if you would prefer.

Furthermore, please note that this interview is expected to last approximately 45-60 minutes and will be conducted at a time and in a format that is convenient for you (i.e., physical or virtual) in either English or Arabic, according to your preference. Moreover, it will be entirely at your discretion whether to allow an audio recording of the interview or not. The researcher is also pleased to send any written notes taken during the interview to you for consideration, if you kindly prefer.

I look forward to receiving your kind feedback and will be at your disposal should you require any further clarification on this matter. I am also prepared to provide you with any necessary references and documents.

Many thanks in advance for your time and consideration.

Sincerely yours,

Ahmed Abdelhakeem
Email: ahmed.abdelhakeem@ile-hamburg.de
Mobile (Egypt): [redacted]
Mobile (Germany): [redacted]

Appendix (G): The Consent Form of Interviewees

The Interviewee Consent Form

Dissertation Topic: Corporate Governance Reforms and Delisting in Emerging Stock Markets: the Case of Egypt
Researcher Name: Ahmed Abdelhakeem

Please tick the statements that apply:
(__) I confirm that I have received information about the objective of this interview and the particularities of the dissertation topic referred to above.

(__) I confirm that I have had the chance to ask questions and seek clarification from the researcher who has answered them.

(__) I confirm my acceptance to participate in this interview for academic and research purposes.

(__) I accept that the researcher takes notes of my elaborations during the interview.

(__) I accept that this interview is to be audio recorded.

(__) I want to be informed of the findings of this study. Please send them to me via the following email address: _____

(__) I want to remain anonymous.

(__) I accept disclosing my name and affiliations in this study, including the attribution of the statements made in this interview to myself. Please refer to me in the following manner: _____

Interviewee Name:	**Researcher Name**
Signature	**Signature**
Date	**Date**

Appendix (H): The Interview Questions

A. General Questions About Corporate Governance Regulations

1- How familiar are you with the international best practices of corporate governance?
2- To what degree do these international best practices influence the development of corporate governance regulations in Egypt?
3- How often are corporate governance regulations reviewed and amended by the EGX?
4- Does the EGX consult with stakeholders (e.g., executives, market consultants, industry associations) before introducing or amending the corporate governance regulations?
5- How would you describe/evaluate the EGX's implementation and enforcement of the corporate governance regulations?
6- What are the three significant challenges or complexities encountered by the listed companies in complying with the corporate governance rules?

B. Questions About Delisting From the Egyptian Stock Exchange

7- How familiar are you with delisting from the EGX?
8- In your opinion, what are likely the three most significant reasons that might have influenced companies to delist from the EGX?
9- In your opinion, what are likely the most common reasons that led the EGX to delist companies involuntarily?
10- In your opinion, what are likely the three most significant rules that companies did not or could not meet?
11- Do you think that changes in the EGX regulatory framework played a role in the delisting decisions?

C. Looking Forward Questions

12- In your opinion, what are the three common significant motivations for companies to list on the EGX?
13- What is the feedback of companies listed, or considering listing, at the EGX regarding the corporate governance regulations?
14- Are you aware of any corporate governance rules that companies listed on, or considering listing at, the EGX dislike? If so, what are these rules?
15- In your opinion, should the EGX offer incentives to encourage companies to list on the

exchange? If yes, what are the most needed incentives?

16- In your opinion, would the presence of different optional sets of corporate governance rules promote listings?

17- In your opinion, would the presence of dual-class shares promote listings?

18- Are there other comments or clarifications you would like to add regarding the matters discussed in this interview? Please clarify them, if any.