

## Measuring Transparency and Disclosure in the Egyptian Stock Market

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### Abstract

Disclosure and Transparency in the stock market is an important requirement for the proper functioning of market forces. Inadequate information may lead to responses that do not reflect the principles of economic rationality, thus threatening economic growth and causing economic inefficiency. In this context, the study addresses the importance and role of disclosure and transparency in the Egyptian Stock market, relying on an inductive and statistical approach in addition to questionnaires that elicit firm views regarding transparency and disclosure in the stock market. Transparency and disclosure are measured for a representative sample of Egyptian companies in accordance with relevant legislations; the sample involved all firms comprising EGX30, which includes the 30 most active firms in the Egyptian Stock market.

### 1. Introduction

Transparency and disclosure are considered among the main pillars in the market economy system and its efficient interactions; whereas there is a strong relationship between the extent of information availability and the effective economic behaviour that increases the economic efficiency in the society. The reason is that the information is the main method of taking decisions based on right economical basis whether by the producer, consumer or government. In addition, transparency and disclosure are considered as the essence of competitive sovereignty in the market; therefore the absence or lack of information could lead to a reaction that is contrary to correct economic decisions, thus the economic efficiency will reduce and that in turn will threaten the economic development and growth. The availability of information for all parties will lead to a market mechanism that is successful in performing its duties. The importance of transparency increases especially in the stock market, (the academic economy definition for the financial market efficiency is that the stock price reflects all the available information). Information illuminates people's lives and widens their perspective, and settles the development roles. Expanding the informative base in Egypt and making it available will help change the structure and performance of the Egyptian economy including the stock market efficiency that will lead to achieving the targeted development. The research problem is that transparency and disclosure availability levels and quality are low in the Egyptian stock market; whereas it is reflected in the following:

- The companies' lack of commitment to the transparency and disclosure roles according to the roles that is set by the financial audit institution and the Egyptian stock market. The Audit institution does not apply strict sanctions on the offending companies in order to protect the stakeholders' interests.
- The transparency and disclosure levels in Egyptian stock market are less than the developed stock markets. In as much the Egyptian stock market is one of the emerging stock markets, this is considered a hindrance against reaching a high level of specialised effectiveness.
- The lack of accurate knowledge regarding the available investment opportunities and the accurate risk evaluation and returns according to each activity.

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- The occasional slow spread of information, which will give the chance for the insider information to get benefit from private information.
- The propagation of confidential information phenomena inherited from the closed economy eras; that created a general pattern for the different managerial levels to avoid publishing any data that is not related to national security. That is illustrated in the lack of commitment for some registered companies in the stock market to publish their balance sheets according to the law; although this is the minimum transparency level in the stock markets; whereas some may think that the transparency will reduce the company's competitiveness position, and this is against the economic theory.
- According to the main features of transparency and disclosure problem in the Egyptian stock market; there is a need for application studies for measuring the transparency levels in the Egyptian stock market to identify the reasons and solutions for poor transparency and disclosure levels.

Research objectives:

1. Offer a theoretical framework to illustrate the transparency and disclosure role and importance in the Egyptian stock market.
2. Develop the governance framework for the transparency and disclosure in the Egyptian stock market.
3. Measure the transparency levels for a representative sample for the Egyptian companies acceding to the transparency standards in the Egyptian legislation.

Research importance:

1. Analyse the transparency and disclosure issue that is considered the main economic base for achieving the stock market efficiency; whereas the increase in the transparency level will increase the stock market efficiency that will be reflected on the optimal allocation of resources in the society that will increase the economic growth and standard of living.
2. The availability transparency and disclosure is the basis in taking investment decisions whether for companies or stakeholders in the stock market; thus it is important to make the information available in a fast accurate way with a low cost; whereas the lack of transparency features will reduce information availability.
3. Accurate knowledge for the extent of transparency in the Egyptian stock market may contribute in pressuring and providing more transparency to achieve stock market efficiency.

The research is divided into seven sections in addition to the introduction, the second section presents the methodology of the study; the third section discuss the theoretical framework of the study, followed by the forth section presenting the previous studies, while the fifth section is devoted for deliberating the transparency and disclosure development in the Egyptian stock market, followed by the sixth section that measures the transparency level for a sample of companies, finally the seventh section includes the conclusion and recommendations.

## 2. Methodology

The research applies the quantitative approach which is generally located in the positivist social sciences paradigm, which mainly reflects the scientific method of social sciences (Jennings, 2001; Creswell, 2003). The positivist paradigm espouses a deductive approach to the research process. It thus begins with theories and hypotheses on a particular phenomenon, collects data from the real-world site and subsequently analyses the data statistically to reject or support the initial hypotheses (Blanche and Durrheim, 1999; Welman and Kruger, 2001). Researchers who implement a deductive approach draw on theory to direct the design of the study and the subsequent explanation of their results (Neuman, 1994). The aim is to verify or test a proposed theory, rather than to construct one. Therefore, it can be seen that the identified theory proposes a framework for the whole study, also serving as an organising model for the research hypotheses and for the whole data collection process. Whereas the theoretical part reviews the previous studies and the theoretical framework; while the practical part depends on a field study based on the questionnaire forms for most of the broker companies to identify the transparency level in the stock market through selecting a sample of companies that include the thirty companies in the EGX30 indicator including the most active 30 companies in the Egyptian stock market; this is to measure the transparency and disclosure degree in the companies included in the sample. The measuring process depends on the three transparency elements that are included in the Egyptian legislation for the companies registered in the Egyptian stock market; whereas a mark is given for each element of the transparency elements for each company. The marks for all the companies according to each element subsequently determine a certain percentage for the transparency and disclosure extent for each element.

Finally the general average for transparency is obtained and determined the total mark for the transparency degree in the Egyptian stock market. In addition, the study measures the transparency for each sector. Setting the score depends on the questionnaire methodology through asking the chairmen of the financial broker companies in the Egyptian stock market as a neutral institution between the investors and companies; as well as accurate follow up for the information in the Egyptian stock market during year 2014. The score in the questionnaire forms is set between 0 and 4 as follows: 0= not applicable, 1= weak, 2= good, 3 = very good, 4 = excellent, the mathematical methods are used to determine the relative ratios.

### 3. Theoretical Framework of the Study

Transparency and disclosure are considered the basis for making investment decisions whether on the general or partial level. Transparency is considered the system, base and procedures that regulate and allow information disclosure; transparency reflects the foundation basis, however disclosure represents the information that has been published (Jahanhad *et al*, 2014). Transparency represents obtaining all the rights for the citizen in participating and affecting the decision making process through obtaining the information. Disclosure could be divided on into three types: comprehensive disclosure, preventive disclosure, and educational disclosure or media disclosure. Koptls and Craig (1998) defined transparency as" the governmental publications about the financial policy and the business sector information and the future plans as well as the cost and governmental activities returns and future forecasts". On the total level, the government performance in managing the economic policies depends on the extent of providing accurate information; because optimal economic policies depends on the governmental ability to achieve the targets that will maximise the general benefits for the whole society. These governmental procedures are limited to qualitative procedures which aim to change some economic rules and laws. As well as quantitative procedures represented by working to change some economic objectives such as increasing the investment volume or growth rate. It is clear that the lack of accurate information will directly lead to poor economic environment that will prevent achieving of the targeted economic policies and reduce economic growth. Therefore information became the base for building modern societies and become a main part in the modern entrances in the economic growth (Hajian and Rostam, 2014). Studies indicated that more than half of the total domestic output in the economic corporation and development organisation countries depends on the knowledge production and distribution.

The information availability will lead to informing the consumer about the market circumstances and will expand the knowledge database in the society and develop the consumer's taste; thus it will be reflected on the competitive sovereignty by expanding the choice circle for the consumer resulted in an improvement in the quality of life for the consumer. This will be reflected on the consumer's sovereignty and control in the volume and type of production which lead to optimal allocation for resources and increase the economic growth (Schultz, 2002). The domestic and international information will integrate for the competitive sovereignty that will establish a pressuring force, cataleptic and motivated to develop the production system and prepare the economic feasibility study and encourage innovation and creativity; as well as reveal the available investment chances, risk evaluation, returns for different activities and segregation between sectors and activities that have relative advantages. This will accordingly increase the ability to avoiding crisis and expecting it before it happens in addition to disposing of unsystematic risks and reduce the systematic risks. Whenever the information and analysis are increased and provided, the possibility of a warning system that could predict the crisis and deal with it increases. On the partial level, the segregation between management and ownership increased the need for transparency and disclosure; hence transparency became an intrinsic right for owners and capital. The availability of information for all parties leads to a success in the market mechanism to perform its tasks. The producer takes the decision according to the economic environment indicators analysis such as the national income, interest rate and demand volume whether in the present time or in the future in addition to the sector indicators for the industry that the project belongs to such the profitability and growth ratios. In addition, the investor needs information about the international developments and circumstances under the huge changes in the information and communication technology and the open economy between countries affects most countries. The accurate analysis is related to acquiring the right information since false information will lead to a lack of creditability in the information source and to futile decisions. (James and Martinsson, 2014).

The availability of disclosure is affected by the extent of commitment legislation for the institution's existence, and commitment to apply the law, and the capital market efficiency and development, in addition to the extent of corporate development and the stockholders awareness. Therefore, pressure for more transparency and disclosure is needed as it achieves the interests of both the stockholder institutions at the same time. The disclosure must be rapid and accurate and with a low cost. The increase in disclosure on the total level has a strong relationship with the increase in disclosure on the partial level. The disclosure levels are represented for the institution as stated by (Hameed, 2005): *comprehensive disclosure*: refers to the minimum level of information that must be disclosed, and the contents that must be included in the financial statements to avoid being misleading while taking the investment decision. *Fair disclosure*: provide the information that is sufficient for the concerned parties needs in a way that ensure equitable treatment for all users, this will lead to fair competitiveness (WEF 2012). *Total disclosure*: the financial statements include all the information to illustrate the facts which lies in providing a clear demonstration for the institution, in addition to providing the information that is necessary for the basic analysis. The disclosure and transparency degree depends on the supporting laws and legislations in addition to the operational practices and the degree of the institution commitment to the law that is linked to the level of financial audit institution of forcing the law and punishing the uncommitted companies. In addition the availability of information must be fast, accurate, and with a low cost (World Bank, 2012).

A lot of forms appeared to disclose information whether financial or other economical, some of them are:

- A. Financial disclosure form (ROSCs): it is issued by the international monetary fund and it is a financial disclosure code for the good information that cover four groups of the financial transparency practices, data insurance, med-ranged balance, balance sheet execution reports and detecting the financial risks (Hameed, 2005).
- B. Governance indicator: the governance principles were introduced by the economic cooperation and development organisation, in 1999. The organization issued five principles for governance evaluation. In 2002 the ministerial meeting for the organisation called for evaluating the principles issued in 1999 and for developing these principles, many institutions participated in this evaluation such as, the international monetary fund (IMF), the international bank and the international institution for financial papers committee. In 2004, the economic cooperation and development institution issued the modern governance principles that included disclosure and transparency in addition to the stockholders rights, the equitable treatment, the role of stakeholders or other parties linked to the company, and the board of directors' responsibilities (World Bank, 2012).
- C. The national office for economic research indicator in the USA, it offers three types of indicators namely, prior events indicator, present indicators and future events indicators. The prior events indicators include several indicators, the most important of which is the number of new companies, building licenses indicators, and the new orders for the consumption products, the change ration in the liquid assets, sales development, machines importing, and balance between supply and demand on money. The present indicator includes the industrial production indicators, the industrial and commercial sales and the individual income. While the future events indicators comprise the industrial and commercial reserve development, the average time of remaining in business, the labour cost per produced unit, the industrial and commercial loans volume, and the change in the interest rate on loans(World Bank, 2012).

#### Importance of Transparency and Disclosure

The transparency and disclosure importance lies in providing prediction ability equity and creation of equal chances for investors in a way that will support the positive investment climate. Transparency is important because it increases the information that will lead to the making the right investment decisions, whereas the lack of this information for some investors could prevent them from taking the right decision. In addition, the lack of this information will lead to an imaginary increase in prices and in speculation, hence it will create a type of fluctuation that might lead to a mess in the market performance. As a result it could be said that transparency leads to minimising the rumours effects, and to prevent the speculation brokers from using the information that is not available for others. The most important advantages of transparency and disclosure are as follows:

- Identifying the items values that are included in the financial statements.
- Decreasing the prices fluctuation for financial papers to ensure financial stability.
- Making the participants respond positively for the news in the market, which will make the price as near to the real price as possible which reflects the future of the institution.
- Prediction based on real information.
- Eliminating the Asymmetric information phenomena.

- Limiting the market tendency to focus on a few numbers of registered companies in the stock market.

The financial engineering spread, it is a mixture between mathematics, statistics and accounting that took the form of complicated mathematical formula sometimes, for the purpose of evaluating the risk levels and the return. Next it should judge the selling and purchasing decisions or keep the financial assets. Participants in the stock market are working based on a solid mathematical formula for the selling and purchasing times. Expressions like beta, Gama and Sigma and others became popular between participants. The results of these formulas are not reliable if the available information is incorrect or not transparent. Transparency rules help in identifying the stock market performance trends in an accurate way; hence they facilitate analyzing the causes of what is happening in the stock market. Therefore, transparency facilitate determining the strategies that deal with the instability. The best way to prevent the internal information leakage is to make it available for all participants in the stock market in an equitable, unbiased way such as in the German stock market; which will achieve equitable profits for all. In addition, the huge financial effect that might follow any change (even if a small one) in the stock market indicator could reflect the real sector in the society. Most of the time each financial crisis is transformed into an economical crisis and this is due to transporting the crisis effect From the stock market to the production system because of the spread of pessimistic forecasts; this will increase the unemployment rates and economical recession cases. Therefore, it is important to be committed to happen transparency and disclosure rules (Frankel, 2005)

The market crisis could happen due to several reasons; the most important reason is the lack of transparency and disclosure in addition to the bad risk choice and outside transferring for money. The market become unable to direct the money efficiently to those who have better investment chances, a lot of crisis in the financial market are established due to what is known as the bubble phenomena; in which the bubble is created when the asset prices increase in a way that they become more than their actual air value, and this increase is unjustifiable (Mishkan, 2000); this is what happens when the purpose of the asset purchase is the profit generated from the increase in its price and not its because ability to generate income. In this case, the asset and financial papers collapse is a matter of time when there is a strong trend to sell this asset, its prices start to fall. Thus, the panic cases start to appear and the prices collapse and this effect extends to affect other stocks whether in the same sector or in other sectors; This illustrates the importance of transparency and disclosure that will reduce the financial crisis changes because the decision is based on the information. The modern explanation for the financial crisis is what was raised by the "game theory" in what is known as "coordination games" in the financial markets; in which, the economic analysis tools ensured the positive relationship between the decisions made by the economic ring players (speculators, investors and others). The investors, most of the time, take the decision based on other investors' decisions or predictions of what they will do. In other words, the decision to purchase an asset could be because of a prediction that this asset's value will increase and it will have the ability to generate a high income. However, in some cases, the investor could make the same decision expecting other investors to make the same decision, and then the image will be different. Some mathematical forms that used the currency crisis analysis such as "Paul Croogman" form confirmed this behavior. For example, the fixed exchange rate system could preserve stability for a long time, but it could face a fast collapse because of the prediction factor by others that the exchange rate will fall, and then the price will start falling and maybe actually collapse.

#### **4. Previous Studies**

Most of the practical and theoretical studies confirmed the importance of transparency and disclosure in increasing the financial market efficiency and the companies; which will lead to an improvement in the efficiency of resources allocation and an increase in the economic growth rates. These studies also confirmed that the increasing level of transparency will decrease the corruption and monopoly levels in the society. Harnced (2005) study issued by the international monetary fund about the financial transparency and the economical results indicated that there is a relationship between the transparency and the economic performance; it also indicated that the countries that has high transparency levels has better economic growth rates (Hameed,2005). In addition, it confirmed that the countries that has high transparency levels has less corruption levels and has better credit evaluation. The study provided financial transparency indicators according to the international monetary fund rule for the approved practices supplied from the forms that has been published about the financial transparency in the report on the observance of standards and codes (ROSCs).

The indicators cover four groups from the financial transparency practices, and these are: data guarantee, setting midterm balance sheets, balance sheet executive reports, announcing the financial risks. Popa, Blidi EL, and Bogdan (2009) discussed transparency in Romania as one of the developing country that has recently started applying corporate governance, and is considered very important in reaching efficiency in the capital market activity. The research focused on the companies working in the Bucharest stock market to reveal the social responsibility information for the companies. The results showed that the social responsibility information disclosure for the companies is very weak and does not include the annual reports for the companies which reduces the capital market efficiency. Bouvard, chaigneau and de motta(2012) study focused on the optimal transparency theory especially in the financial system in which the financial institutions are exposed to the credit risk. The research argued that the transparency could support the financial system, especially during a crisis. The optimal transparency level depends on the country's economy and the increase in the institutional transparency. Mendonca, Galvao and loures' (2010) study discussed the difference between the real estate mortgage crisis effects on countries and the transparency role in reducing the crisis effect. The transparency indicator "Regulation and Transparency Index (RIT)" depended on comparing 37 countries, the stock market indicator for the developed economies, the new industrial countries' economies and the developing economies. In addition, the Brazilian market punctuality analysis results showed a relationship between the regulations and transparency levels in achieving a higher return and reducing the stock market fluctuations and this was during the real estate mortgage crisis. Furthermore, the Brazilian case success in facing the crisis was due to the integration between the strong financial system regulations and the market punctuality. Transparency is considered one of the main pillars for the strong and punctual financial system. Mollgaard and Overgaard (2001) reviewed the studies that discussed transparency's effects on the market and competition. The research proved that the improvement in transparency will detect the deviations and the agreements between the companies that are seeking monopoly; knowing that the competition is determined by the market characteristics.

## **5. Transparency and Disclosure Development in the Egyptian Stock Market**

This section discusses the transparency and disclosure in the Egyptian stock market through two aspects: study the regulations and the decisions related to the disclosure and transparency, evaluating the extent of applying it in the Egyptian stock market. The financial market aw number 95 in 1992 and its amendments forces companies to disclose their financial statements during the period that does not exceed 90 days for the annual statements and 45 days for the quarter statements during the end of the financial period. Since issuing the financial market law, several regulations and decisions have been issued to support the transparency; they could be summarised as follows (commerce and industry ministry, 2010)

- Investment minister decision number 243 in 2006 regarding issuing the new Egyptian accounting standards in accordance with the international standards.
- Investment minister decision number 12 in 2007 regarding the purchase offers for the purpose of acquisition for full transparency purposes, preventing the stock price manipulation and using the insider information, considers equity and equal chances between the financial papers owners and investors regarding to the available information and suitable chances and timing.
- Issuing law number 123 in 2008 establishing a register for accounting auditors who are permitted to audit the companies working in the financial securities sector.
- Investment minister decision number 166 in 2008 to approve the Egyptian auditing and inspection standards, to be applied while revising the annual financial statements or during auditing the quarterly financial statements for the corporate companies under legislation number 159 in 1981.
- The board of directors of the institution on 21st February 2012 issued a decision to amend the register rules and continue to register and remove the financial securities.

This decision commits the companies registered in the stock market to establish an electronic website for each company to publish its annual and periodic financial statements, As well as its supplementary reports and accounting audit reports and other data and information that the stock market specify. The decision includes a time limit for the companies to establish the electronic website; it will end by the end of March, 2013. It is notable that the financial and non-financial data must be published through the company's website and it does not exempt the company from the legal responsibility for sending these disclosures during the specified legal periods.

Transparency and disclosure are linked with what will be applied regarding the transparency in the scoop governance applications; this is started since issuing decision number 11 in 2007 regarding the governance executive rules for the companies working in the financial securities sector; by the Egyptian stock market committed the companies to apply the governance and this became a condition for registering or removal. The core of governance principles is a set of the rules to achieve transparency, justice and equity among investors (OECD, 2004). The corporate governance concept includes the legal and foundation rules that control the relationship between the institution departments on one side and the stock holders and other stakeholders such as the consumers, suppliers, employees and shareholders on the other side. The following are the most important principles:

- General commitments:
  - The company must notify the stock market about any important events.
  - The company must be committed to the internal audit that prevents leaking of the insider information.
  - The company must be committed to preparing the financial statements according to the Egyptian accounting standards that is in accordance with the international standards.
  - The company must be committed to providing the institution with the shareholders structure and establishing the board of directors.
- General assembly commitments:
  - Providing the institution with the meeting minutes for the general assembly in a period of 10 days after the meeting.
  - The chairman for the board of directors is committed to invite the general assembly for approval the financial statements after approving it within three months of the financial year date.
  - The company is committed to provide the Egyptian capital market authority (ECMA) with a statement about the dividends before five days prior to the distribution date.
- Treasury stocks commitments:
  - Obtain the general assembly approval and notify the ECMA.
  - Insider transactions disclosure commitments.
  - The insiders must notify the ECMA about any stock exchange transactions on their company's stocks before executing or obtaining any approvals.
- Financial statement commitments:
  - Provide the ECMA with the annual statements during a maximum of 90 days after the end of the financial year. In addition to the quarterly statements in a maximum of 45 days after the end of the period.

On the other hand; according to the central registration and deposit law, the great ration of the stocks ownership must be disclosed. Where by the beneficiaries owners' data must be recorded in the registry that has been prepared in the clearing company and the company can obtain it from the registered owners. This registry must remain confidential except for the financial securities issuers and the approved agencies in the limit of their interest regarding the registered data. This registry must be presented in the annual general assembly meeting. The shareholders have the right to revise the annual general assembly meeting minutes that includes an attachment specifying all the registered owners' names and the number of the stocks obtained by each. This information is available for the investments' and companies' sector association in the general investment and holding companies institution. The ECMA asked the companies to issue a financial statement guide that includes the method that the investor should use in reading these statements and understanding the accounting ratios. In addition to issuing the investor's guide that includes the knowledge of reading the financial statements, information and its sources; in addition to a summary for the rules and mechanism of stock exchange in the Egyptian stock market.

#### Regulations Evaluation and the Extent of Applications in the Egyptian Stock Market

On the regulation evaluation side, advantages and disadvantages will be illustrated in table (1). They specify most of the strengths and weaknesses in the regulations and decisions in transparency and disclosure. According to table (1) the weakness points in transparency and disclosure regulations and decisions are more concerned with the quantity and the contents. This leads to a gap in the companies' commitments to transparency; which will affect the efficiency level in the stock market performance and the making of the investment decisions.

This will lead to an increase in the financial securities price fluctuations in the Egyptian stock market and an increase in the prices for non-profitable companies and a reduction in the prices of profitable companies with a bright future. In addition the comparison between transparency and disclosure regulation and decisions in the Egyptian stock market with the developed countries or emerging markets will illustrate some core differences that could explain the difference in the transparency levels between the developed countries and Egypt. The most prominent differences are:

- The high sanctions for the violated companies result from either the fine amount or the type of sanction. In some countries the sanctions could reach a non-liberate sanction level and is considered a non-honorable crime such as in the USA.
- The wide range of information that should be disclosed; which covers all the basic analysis.

**Table (1): Strength and Weaknesspoints in the Disclosure Regulations and Decisions in the Egyptian Stock Market**

| Strength points  | Weaknesses points   |
|--|---|
| <ul style="list-style-type: none"> <li>- Companies are committed to disclosure and transparency rules and violations will be subject to sanctions.</li> <li>- Companies are committed to apply the governance regulations.</li> <li>- Violations will be subject to financial fines and not criminal records.</li> <li>- Companies are committed to publish the statements on the electronic website.</li> </ul> | <ul style="list-style-type: none"> <li>- The disclosure period that reached 90 days for the annual statements and 45 days for the quarterly reports are a long period that could cause information leakage. Generally, this period does not exceed 30 days in most markets and in some it reaches only 15 days.</li> <li>- The sanctions are low for the financial statements publish delay even after doubling it in year 2008 , were it won't be more that 30 thousand pounds; the company could pay this amount from the returns of the non-disclosure benefits.</li> <li>- The information is limited for the financial statement and the substantial information without analysis.</li> <li>- Companies are not committed to publish information about the company's economical and technical performance.</li> <li>- Companies are not committed to publish information about the future plans that is supposed to be executed or the predictions built upon information in a scientific way.</li> <li>- Most of the commitments are issued by decisions and not regulations; therefore the degree of commitment by law is stronger and has a continuous effect.</li> </ul> |

Source: prepared by the researcher.

- The auditing associations are committed to apply sanctions; however the financial auditing associations in Egypt and the stock market sometimes do not apply the stated sanctions in the regulations for the violating companies; this encouraged the companies, registered in the stock market, to not disclose or publish the financial statements.
- The companies in most countries are committed to publish all the information on the internet which will reduce the cost of obtaining the information and allow fast access. However, Egypt issued a decision that commits the companies to publish the financial statements on the Electronic website of the company in 2014.
- The investors in developed countries rarely resort to the judiciary system because the auditing associations are doing its auditing tasks; however, in Egypt the number of investors who resort to the economical court is high because the financial auditing institution are not doing their role which creates a negative investment environment and limit the stock market investment (IFC, 2009).

The weakness of the Egyptian regulation for the transparency and disclosure is clear when compared to its with other systems in the developed countries or some of the emerging markets; therefore while applying on the total and partial levels; the ration for the partial economy and the efficiency of the investment portfolio will decrease and the price fluctuations will make it worse. However on the total level the optimal allocation of resources will decrease which will reduce the economic growth rate.

## 6. The Analysis

The transparency percentage in the Egyptian stock market depended on the questionnaire forms for most of the broker companies to determine the transparency degree in the stock market through selecting a sample from the companies that included in the EGX30 indicator. This included the most active 30 companies in the Egyptian stock market. The purpose of this was measuring the transparency and disclosure degree in the sample companies in 2014.



Determining the score for the form depended on the chairmen of the financial intermediates in Egypt as they are considered as neutral and intermediate institutions with the necessary daily developments in the stock market. The measuring process depends on the transparency elements that are included in the Egyptian legislations for the registered companies in the Egyptian stock market and these are three elements: a score will be given (from 0 to 4) for the extent of the elements' availability in the company; they are as follows: 0= not applicable; 1= weak; 2 = good; 3=very good; 4= Excellent. The transparency elements score will be summated for all companies to determine the total transparency score for the Egyptian stock market. The study will measure the transparency for each sector as well.

Sample:

- Number of companies: the disclosure score questionnaire was measured for thirty companies which form the EGX30 indicator.
- Number of questionnaire forms: 116 which represent the broker companies that were used in the questionnaire.
- Score: from 0 to 4 according to the disclosure score as follows: 0= not applicable; 1= weak; 2 = good; 3=very good; 4= Excellent.
- The maximum score for each transparency element = 13920 score (4X30X116).

Questionnaire result:

The transparency disclosure score analysis gained from the scores clarify the following facts:

1. Publishing the annual and quarter financial statements =  $9960/13920 = 71.6\%$
2. Disclosing the substantial events =  $8742 / 13920 = 62.8\%$
3. Notifying the stock market about the amendments in the main company's data =  $9090/13920 = 65.3\%$
4. Average transparency and general disclosure =  $71.6\% + 62.8\% + 65.3\% / 3 = 66.5\%$

**Table 2: Transparency ratio in the Egyptian Stock Market**

| Information  | Transparency ratio | Calculated transparency score | Maximum score |
|--|--------------------|-------------------------------|---------------|
| Publish the annual and quarter financial statements                        | 71.6%              | 9960                          | 13920         |
| Disclosing the substantial events  | 62.8%              | 8742                          | 13920         |
| Notifying the stock market about the amendments in the main company's data | 65.3%              | 9090                          | 13920         |
| Average transparency and general disclosure                                | 66.5%              | 27772                         | 41760         |

Source: prepared by the researcher using the statistical analysis for the questionnaire forms

The results are considered credible and accepted because evaluating the transparency and disclosure for the registered companies in the stock market depended on a neutral opinion and observation of for the stock market developments for the financial intermediate companies.

Results Meaningfulness Degree

Kruskal Wallis Test was used as a laboratory test in order to test the differences between the different sectors as relates to transparency elements.

**Table 3: Kruskal Wallis Test**

|            | Publish the annual and quarter financial statements | Disclosing the substantial events | Notifying the stock market about the amendments in the main company's data |
|------------|---|-----------------------------------|--|
| Chi-square | <b>18,030</b>                                       | <b>23,520</b>                     | <b>23,852</b>  |
| Df         | <b>11</b>   | <b>11</b>                         | <b>11</b>  |
| Asymp.Sig. | <b>0.081</b>  | <b>0.015</b>                      | <b>0.013</b>   |

According to the test the following points were apparent:

1. There is a substantial difference between different sectors in their concern about publishing the financial statements.
2. There is a substantial difference in statistical evidence at the level of 5% between the different sectors in their concern about disclosing the substantial events.
3. There is a substantial difference in statistical evidence at the level of 5% between the different sectors in their concern about Notifying the stock market about the amendments in the main company's data.

Transparency level according to the sector

The transparency is determined on the sectors level using the Kruskal- Wallis Test as a laboratory test to arrange the sectors according to the disclosure score.

Kruskal- Wallis Test

| rank   | Sector  | Number | average |
|--|---|--------|---------|
| Publish the annual and quarter financial statements                        | Banking sector  | 3      | 22.33   |
|  | basic resources sector                                  | 1      | 5.00    |
|  | Service sector and the industrial products and vehicles | 2      | 18.75   |
|  | Food and beverage sector                                | 2      | 4.50    |
|  | Biochemical sector                                      | 1      | 22.00   |
|  | Financial services sector                               | 6      | 14.00   |
|  | Real estate sector                                      | 4      | 12.88   |
|  | Home and personal appliances sector                     | 2      | 4.00    |
|  | Petroleum and Gas sector                                | 1      | 28.00   |
|  | Building and construction sector                        | 4      | 16.50   |
|  | Telecommunications sector                               | 3      | 26.00   |
|  | Tourism and entertainment sector                        | 1      | 9.00    |
|  | Total   | 30     |         |
| Disclosing the substantial events  | Banking sector  | 3      | 23.83   |
|  | basic resources sector                                  | 1      | 27.00   |
|  | Service sector and the industrial products and vehicles | 2      | 19.50   |
|  | Food and beverage sector                                | 2      | 9.00    |
|  | Biochemical sector                                      | 1      | 26.00   |
|  | Financial services sector                               | 6      | 4.17    |
|  | Real estate sector                                      | 4      | 13.75   |
|  | Home and personal appliances sector                     | 2      | 9.50    |
|  | Petroleum and Gas sector                                | 1      | 28.50   |
|  | Building and construction sector                        | 4      | 18.88   |
|  | Telecommunications sector                               | 3      | 23.00   |
|  | Tourism and entertainment sector                        | 1      | 11.5    |
|  | Total   | 30     |         |
| Notifying the stock market about the amendments in the main company's data | Banking sector  | 3      | 25.00   |
|  | basic resources sector                                  | 1      | 16.00   |
|  | Service sector and the industrial products and vehicles | 2      | 7.50    |
|  | Food and beverage sector                                | 2      | 9.50    |
|  | Biochemical sector                                      | 1      | 27.00   |
|  | Financial services sector                               | 6      | 4.50    |
|  | Real estate sector                                      | 4      | 16.25   |
|  | Home and personal appliances sector                     | 2      | 14.50   |
|  | Petroleum and Gas sector                                | 1      | 30.00   |
|  | Building and construction sector                        | 4      | 18.25   |
|  | Telecommunications sector                               | 3      | 25.00   |
|  | Tourism and entertainment sector                        | 1      | 14.00   |
|  | Total   | 30     |         |

From the analysis results the transparency and disclosure levels for the sectors are as follows:

- For publishing the annual and quarter financial statements, the results show that the highest sector is the Petroleum and Gas sector; and the lowest sector is the Home and personal appliances sector.
- For disclosing the substantial events the results' show that the highest sector is the Petroleum and Gas sector; and the lowest sector is the financial services sector
- For notifying the stock market about the amendments in the main company's data the results show that the highest sector is the Petroleum and Gas sector; and the lowest sector is the financial services sector

## 7. Conclusion and Recommendations

The research measured the transparency through three main sections. The first section discussed the theoretical framework for the previous studies; it ensured the importance of the transparency and disclosure for the stock market efficiency, thus increasing the economic growth rate. The second section discussed the transparency and disclosure development in the Egyptian stock market through studying the regulations and decisions related to disclosure and transparency as well as evaluating the regulation and the extent of applying it in the Egyptian stock market. In addition to determining the strength and weakness points in the regulations and the company's weak commitment to regulations under the auditing association failure to enforce sanctions with the necessary firmness which lead to a decrease in the transparency and disclosure levels in the stock market. The third section discussed the transparency level for a sample of Egyptian companies and depended on measuring the transparency ratios in the Egyptian stock market by a questionnaire form sent to most of the broker companies. The purpose of the question was to measure the transparency levels in the stock market through selecting a sample of the companies that is included in EGX30 indicator which includes the most active thirty companies in the Egyptian stock market. In addition, measuring the disclosure and transparency levels in the companies included in EGX30 in 2014. Setting the scores in the questionnaire form depended on the chairmen for the financial intermediate companies in Egypt; as intermediate and neutral institutions with the needed daily development knowledge in the stock market. The measuring process depended on three transparency elements that are included in the Egyptian legislations for the registered companies in the Egyptian stock market and these are: Publishing the annual and quarter financial statements, disclosing the substantial events, and notifying the stock market about the amendments in the main company's data; where by a score for the extent of each transparency element availability was given for each company. The research reached some results; the transparency and disclosure ratios in publishing the annual and quarter financial statements reached 71.6%; disclosing the substantial events 62.8%; notifying the stock market about the amendments in the main company's data 65.3%; this concluded that the average general disclosure is 66.5%.

### Recommendations

- It is necessary for the government to provide the information free of charge and not to allow for some governmental agencies to sell the information; selling the information is not the government's task; however the government's task is to provide the information in a quick and accurate manner free of charges. Further more to it is necessary to provide the sector indicators for each industry, the economic growth indicators and the total domestic production

In a quarterly fashion. The quick disclosure of information prevents the using of the insider information which will be reflected positively on the efficiency and justice.

- The sanctions stated in the law must be applied on the violating companies that are not committed to disclosure. We should quickly start establishing companies under the stock market umbrella so they are responsible for providing the information and analysis about the companies registered in the stock market; as well as committing the brokering companies to provide analysis and data which is the main task for the brokering companies around the world. The Disclosure period of 3 months for disclosure is long and it should be limited to one month.
- Assign the research centres in the universities to perform the necessary analysis to develop the Egyptian economy indicators and the future expectation; whereas these analyses should be issued periodically on quarterly bases.
- Increase the surveillance over the accounting companies whether by the general institution for the financial market or from the accounting and auditors institution; with the necessity to establish an independent governmental institution such as the central bank to audit the accountants.

- Make use of the type of information provided by the governmental agencies in the developed countries; for example, the national office for economic researches in the United States of America provide three types of indicators and these are; the pre-incident indicators, the present indicators and the future indicators. The most important indicators that are suitable for the Egyptian economy circumstances from the collecting and publishing aspects are the following: the number of new companies, establishing and licensing indicator, sales development, machines importing, supply and demand on money indicator as well as the pre-incident indicators. However, the present indicators could be represented by the industrial production indicator and the individual income. The most future indicators are treasury development, labour cost per produced unit, commercial and industrial loans volume and the change in the interest rate for the loans. This is all done in addition to the importance of allowing the information to be available on the Internet without any costs.

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