

Managerial And Structural Comparison Between Iranian And Persian Gulf Stock Markets

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Abstract: Iranian and Persian Gulf countries stock markets have similarities. Both are developing markets and low experienced. Besides, both of them are petroleum based markets. So organizational and managerial comparison between these markets helps markets not only increase strengths and opportunities but also decrease weaknesses and threats. The main purpose of this paper is to compare structural and managerial differences between Iranian and Persian Gulf (Saudi Arabia, United Arab Emirates and Qatar) stock markets. The conceptual model is based on Mintzberg organizational structure which consists of five segments. These markets have similarities on supervision board but have differences in other parts. In order to compare managerial differences between these markets we use SWOT analysis. We use managerial criterions in order to compare strengths and weaknesses between these markets. Besides we use relationship with international financial markets and experience of stock markets in order to compare threats and opportunities. In the field of strengths and weaknesses Persian Gulf countries overtake in all criterions. On the other hand in the field of threats and opportunities Persian Gulf countries overtake only in the criterion of relationship with international financial markets. Then We can divide problems of Iranian Stock market in two segments: external and structural problems and intra-organizational or internal problems. At last we suggest procedures in order to receive an efficient and effective organizational and managerial structure.

Key words: Organizational structure, Henry Mintzberg, Persian Gulf countries.

INTRODUCTION

Iranian Stock Exchange (ISE) is still in its early stages of development compared to other stock markets around the world. A key principle for having a successful stock exchange within the economic framework of Iran is to establish a coherent and dynamic organization, working based on up-to-date administrative regulations. Stock exchange goals are realized when an efficient organization is in place and to have an efficient market we need a structural base on our objectives. Establishment of stock exchange in each country is closely connected to national identity of that country. Stock exchange is governed according to legal and financial regulations. Competition among different types of securities increases when proper laws and regulations are in place. On one hand, uniform regulations in stock exchange improve coherence and relations with markets in other countries. ISE and stock exchange in other Persian Gulf states are among the emerging and developing ones. On the other hand, economies of most Persian Gulf states are based on a single product (*i.e.* oil) and, more importantly, these countries are often similar in terms of cultural and religious structure. As Al-Ghorairi (2010) notes, countries of the region may employ their accumulated oil-and-gas-wealth to stimulate and support the development and expansion of financial sector services and this in turn has helped the economy to grow and private business to flourish. Al-Ghorairi also points out to limitations inherent in economy of the region countries: small population and requirements for foreign labor. In a study on financial markets in countries of the Persian Gulf region, El-Hedi Arouri, Lahiani and Belallah (2010) found that stock returns in these countries significantly react to oil price changes, besides the relationship between oil prices and stock markets in these markets are nonlinear and switching according to the oil price values. According to Simpson (2007), financial markets in oil-exporting states of the Persian Gulf are in desirable economic conditions but are poor in efficiency in terms of financial market structure and coherence and agreement over laws and regulations. In addition, the UAE has the best conditions when it comes to reforming financial markets and openness required in market for attracting foreign investments. According to Ahmad Al-Suwaidi (1991), in financial markets, management plays the most critical role in attracting customers, employing capable staffs, and creating an advanced financial system. However, given the particular religious and cultural environment in these countries, managers face unique conditions which present religion as an important factor for attracting customers. As John Simpson (2007) notes, human behavior in financial systems is a combination of political,

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social, and cultural factors reflected in opinions of scholars and experts. Low efficiency in financial markets is to some extent caused by unusual human behaviors creating information asymmetry; therefore in these markets prices do not uncover all information and this indicates the need for managers with required expertise in stock exchange markets. Adel Abdulaziz Al-Barak(1993) believes that Saudi Stock Market faces structural issues caused by poor structure, lack of managerial experience in related fields, managers neglect and ignorance, inability in predicting markets conditions, poor decision making, and above all, poor experience in market estimation and setting corporate policies. With regard to particular cultural and religious conditions more or less present at the same level in countries studied by Siddiqi (2005), he believes that the mobility and flexibility observed in Saudi financial market are associated with unusual conditions such as those observed in Ramadan and Hajj period. In his opinion, countries of the region experience bubble prices and periods of intermissions due to their particular religious settings. The markets in the region are integrated. Qatar and the UAE are among those countries that not only maintain potentials for attracting foreign direct investments, but also have actualized these potentials in a proper manner. Despite its high potentials, Saudi Arabia fails to attract foreign investments, at the level done by the UAE and Qatar, due to its inappropriate laws and regulations. According to Orman and Bolbol (2003), if these markets are capable of attracting foreign investments, foreign direct investment may positively affect the growth of financial markets. They argue that internal financial reforms have priority over policies intended to develop foreign investment. ISE must, among other things, determine fair value for stocks and securities based on supply-demand mechanism. ISE issues reports on stocks and their prices as well as financial status to inform investors. In regard to management and structure of stock markets, many scholars and experts believe that micro-investors do not care for management and managerial structure or recent changes in prices; rather on their decision for buying stocks, they focus on financial measures such as rate of return and price-earning ratio. When identifying macroeconomic variables, ISE experts believe that in Iran, managerial and structural elements with key roles in price index fluctuations are more important in success or failure of a organization compared to macro-environment elements. Efficiency of financial markets in general, and stock markets, in particular, depends on information efficiency and the level of fluidity affects efficiency of capital markets. There are common factors contributing to inefficiency of managerial structures of the stock exchanges in the region. The most significant factor is information inefficiency. According to Kamal Naser and Ahmad Al-Hussaini(2006), information disclosure is expressed based on corporate social disclosure. Corporate social disclosure is associated with firm size, measured by firm market capitalization and business risk measured by leverage and corporate growth. In other words, larger companies with higher levels of growth and leverage are more likely to disclose social responsibility information, since they are more exposed to public opinion and more influenced by political pressure than smaller companies. With regard to information disclosure, Muhammad Hossein and Helmi Hammami (2009) explain that determinant factors in information disclosure include age, size, and complexity of company as well as assets in place, and other profitability variables are not significant in explaining the level of information disclosure. Regarding information disclosure, all stock exchanges studied here are inefficient. These countries lack proper guidelines required for preparing financial statements.

In the area of information efficiency, ISE performance in information disclosure is far more behind the performance of stock markets in developed countries. According to Siddiqi (2005), fluidity of stock markets plays role in market efficiency and randomness of variations in stock prices. While lower levels of fluidity in stock markets results in systematic variations in prices, low information efficiency has undesirable effects on price indices in regional markets. Besides he argues that the issues of low level of liquidity trading can be tackled with several alternatives like introduction of derivatives, continuous trading hours, more advanced and specific indices and control of insider trading. There are methods that can be used to increase level of fluidity to achieve efficiency. In this paper, we compare ISE with stock markets in Saudi Arabia, the UAE, and Qatar. In this issue Mohamed A.Ramady(2010) states that Saudi stock market has weaknesses in number of listed companies, foreign investment, floating stock available for investment and correlation with other markets and has strengths in independent brokers and research houses, technology, size, liquidity, transparency, compared to other developing stock markets. But in this paper ISE is compared to these markets in terms of weaknesses, strengths, opportunities and threats and finally, several approaches will be proposed to improve managerial performance and structure of the markets. The markets basically attempt to achieve three goals: increase in market size and depth, transparency and disclosure, and stable price indices.

2-Research Methodology:

This chapter compares ISE with stock markets in Persian Gulf states. All of which maintain growing financial markets indicating deficiencies and problems in managerial and structural issues. According to Abdulaziz Al-Ghorairi (2010), financial markets in developed countries, like Hong Kong and Singapore, experience high levels of efficiency in terms of managerial structure, particularly in regulatory frame, a clear legal structure, and physical infrastructures with well developed communications, transport, telecommunication services. On the other hand, Persian Gulf states, mostly centered on Qatar, are facing issues in laws and

regulations, information transparency, and corporate governance. Siddiqi (2005) points out that the regional markets in Persian Gulf states are small, have interdependent return, and are mostly inefficient. Mintzberg divides organization into five sections: supervision board, support staff, middle line, techno structure, and operating core. Those organizations that standardize their operation through decentralization and empower operating core have professional bureaucracy. In such institutions, expertise is based on personal skills rather than task assignment and defining special roles. In this structure, power is held by the operating core. People with basic skills are required by organization and have relative independence. Another power-retaining section is support staff. Professional bureaucracy is capable of matching onto constant and complex environment and large organizations using high technologies. In such organizations, operating core is directed by specialists and coordination is implemented through skill standardization. ISE has a structure which is based on professional bureaucracy with great emphasis on its operating and support sections.

3-A Comparison Of Organizational Structure In ISE With Stock Exchanges In Selected Persian Gulf States:

According to Mintzberg, organizational structure is composed of five sections. In the following section, we explore each section in ISE.

3-1-Supervision Board Section:

This section includes senior managers and is composed of three managerial bases and an executive organization. As seen in figures 1 and 2, the three managerial bases are ISE Council, as the highest level decision making body which supervises good performance of ISE Establishment Act; Securities Approval Board, as a body which is responsible for making decision on approving or rejecting requests by companies who want to enter ISE; and ISE Arbitration Board, which is responsible for resolving disputes between customers and agents. ISE Stockbroker Organization operates as executive organization.

A similar structure and procedure exists in Persian Gulf state stocks market. In Saudi Stock Exchange where CMA supervises capital market, sets regulations, and oversees the stock market (similar to ISE Council). Saudi Stock Registration Company and Saudi Stock Arbitration play roles similar to those defined for their counterparts in ISE, while executive part is taken by a company known as Tadawul. Supervision board in the UAE and Qatar stock markets have structures similar to that of ISE with decision making bodies exactly the same as those defined for ISE. Therefore, the differences in organizational structures may not be attributed to differences in Supervision board.

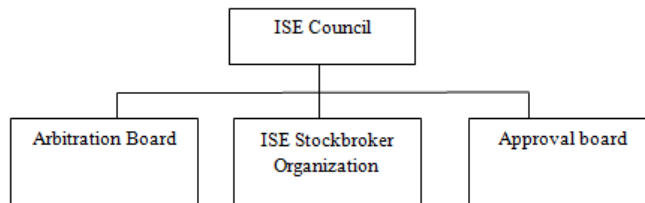


Fig. 1: Structure of Supervision board in ISE

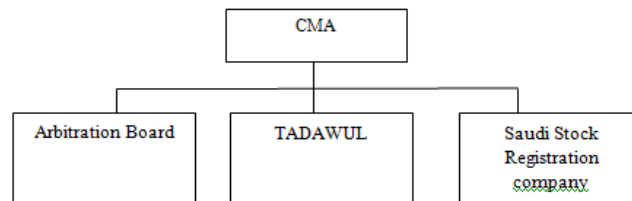


Fig. 2: Structure of Supervision board in Saudi Stock Market

3-2-Operating Core Section:

This section is directly related to missions and objectives of the organization and includes stock brokers and forums.

3-3-Middle line Section:

Middle line connects Supervision board to operating core and includes board of directors and heads of departments.

3-4-Techno Structure Section:

This section is composed of experts and specialists who provide policymakers with information required for making decision. Techno structure in ISE includes issuers and participants section and research & business development section. Issuers and participants section consists of issuers department, members department and listing departments. Research & Business development section consists of R&D department, planning department and training department.

3-5-Support Staff Section:

This section indirectly facilitates operations in the organization. This section in ISE includes financial departments, IT department and administrative department.

As seen in figures 3 and 4, there are differences between the structures of stock exchanges studied here regarding the structure of other divisions. The UAE Stock Exchange outperforms other stock exchanges in middle line, operating core, support staff and techno structure sections. However, ISE lacks the complete structures required for these divisions.

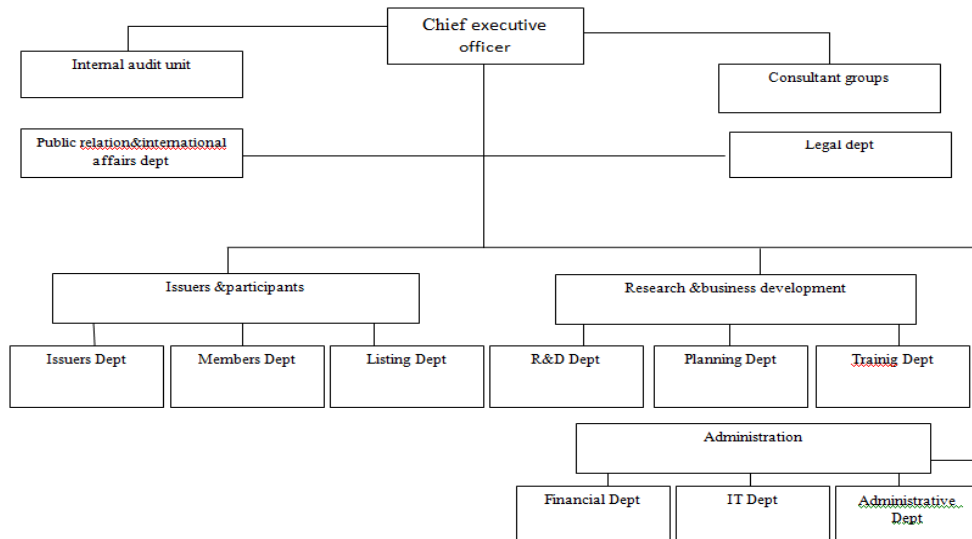


Fig. 3: Organizational structure for ISE

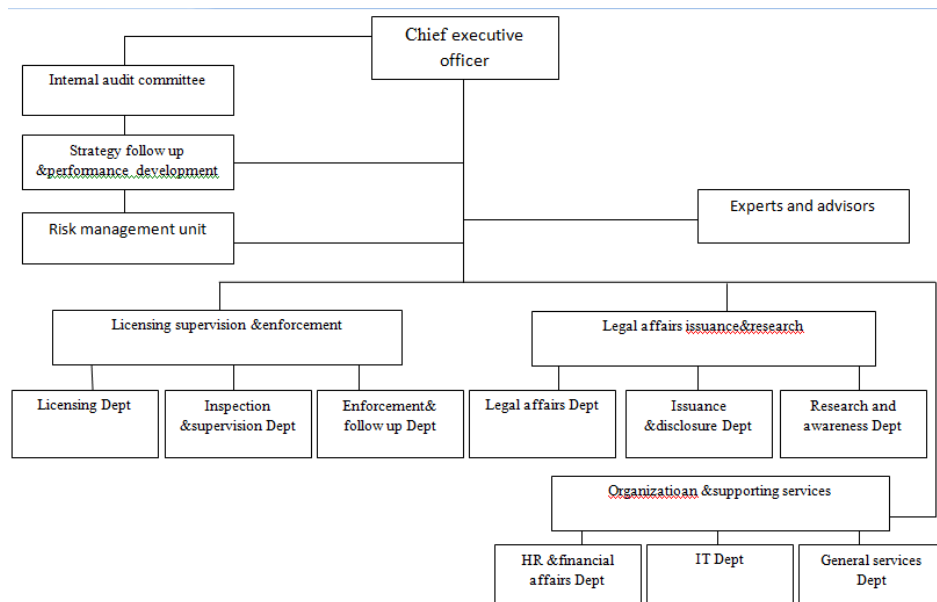


Fig. 4: Organizational structure for stock exchanges in the Persian Gulf states

Results:

Organizational structure Comparison of ISE with other stock exchanges in the Persian Gulf states reveals that:

a) Like ISE, Persian Gulf states have two separate divisions for their techno structure sections, Techno structure section in ISE is divided in to issuers & participant section and Research & business development section. On the other hand Techno structure section in Persian gulf states is divided in to licensing, supervision & enforcement section and legal affairs, issuance and research section. As it is clear techno structure in the organizational structure of Persian Gulf states are more specialized and more efficient, on the other hand although the number of departments in these markets are the same, in Persian gulf states departments are more specialized and more efficient.

b) No particular department exists in ISE for information disclosure, but in the Persian gulf states issuance & disclosure department is a division for information disclosure.

c) Unlike ISE, That Issuers & participant section only follow Brokers, members and financial & market services and list them. In Persian Gulf states Licensing, supervision & enforcement section not only do these tasks, but also inspection, market control & trading surveillance, enforcement and follow up complaints and violation are another tasks of Persian gulf states stock market.

d) In the stock exchanges of the Persian Gulf states, auditing committees are in charge of professional auditing procedures, while in ISE, no professional division exists for this purpose.

e) In the stock exchanges of the Persian Gulf states, in order to manage the stock markets to move in a monotonous way and manage risks, they set strategy follow up & performance development and risk management unit, while in ISE, no professional division exists for this purpose.

4-A Comparison Of Managerial Structure In ISE and Stock Exchanges In The Selected Persian Gulf States:

SWOT matrix may be used to compare managerial structure in ISE with those employed by stock exchanges in the Persian Gulf states. Variety of measures may be employed to examine strengths, weaknesses, opportunities, and threats. First, we use magnitude of variations and base volume as limitations on price indices and stocks free float as a measure of market fluidity and efficiency to examine weaknesses and strengths of stock exchanges; and then, the markets are compared in terms of management. To explore opportunities and threats, we can focus on the connections between these stock exchanges with the international financial markets as well as their experiences.

4-1-Magnitude Of Variations As Limitation On Stock Price Indices (Strengths And Weaknesses):

We first compare magnitude of variation as limitation on stock price indices. Magnitude of variation in ISE has hindered prices adjustment and resulted in non-real prices. On the other hand, this reduces liquidity and the volume of transactions and increases the volume of transactions during the turn of markets. Stock experts suggest that variation percentage should be lifted from 4% to 5% under the close supervision of ISE Organization in order to increase fluidity. The best way is to liberate the market so that sellers and buyers come to transactions at the same moment. In stock exchanges of the Persian Gulf states, magnitude of variation is higher and no limitation exists to disturb the stock equilibrium price. On the other hand, Naeem Muhammad and Sami Khedhiri (2008) criticized the behavior of markets in the Persian Gulf states and examined the volatility in the UAE market. They found that changes in volatility pattern and irregular behavior of financial markets in the recent years are the result of new regulations which allow investors to participate in the UAE financial markets without limitations. This creates a high level of unpredicted volatility. Given that magnitude of variation is used as limitations on stock price indices, it can be said that stock exchanges in the Persian Gulf states outperform ISE in this field.

4-2-Free Float (Strengths And Weaknesses):

Free float is another measure of fluidity and efficiency in stock markets. It has significant effects on fluidity of stock markets which, in turn, influences efficiency of financial markets. There are numerous examples of how free float influences market efficiency in developed countries. According to Kalok, Cheong Chan, and Fong (2002), Hong Kong Government intervened in the stock market and significantly reduced the free float in 1998. Volume of stock transactions significantly fell in Hong Kong market in 1999. The intervention also affected market fluidity. The connection between increase in price impact of trade and the percentage of government holding (reduction in free float) has not been established. According to Siddiqi(2005), market efficiency in Tadawul is higher for larger shares and stocks with greater number of transaction. Non-simultaneous and alternate transactions have adverse effects on variations in stock prices and numerical values of price indices. Free float has a small share in ISE since public agencies and organizations hold shares of the most major companies in Iran. A review of shares in Iran reveals that a major part of factory shares are held by a few large organizations such as Social Security Organization, Melli Bank, Retirement Fund, and bank investor companies. However, in stock exchanges of the Persian Gulf states, most shareholders are persons and there is large volume

of free float. Saudi Stock Exchange is managed by small investors. According to a report prepared by Samba Financial Groups in November 2009, 88% of the transactions were performed by small investors followed by companies (7%), investment funds (1.5%), members of Persian Gulf Cooperation Council (3%), foreign residents in Saudi Arabia (0.2%) and other members (1.2%). Given the high levels of free float in the Persian Gulf states, the stock exchanges in these countries have a better performance in this regard compared to ISE.

4-3-Supervision Board (Strengths And Weaknesses):

For the supervision board, we compare management styles used to direct main divisions. To be financially independent, the supervision board needs to find a way to cover expenses of ISE Council without using government resources and by relying on a percentage of value created by operations in market. To make independent decisions, the council members must be full-time members with no occupation in other government bodies. For having political independence, the stock exchange should be given power in policymaking. ISE and ISE Council are not financially independent. They receive financial support from the government. However stock exchanges in the Persian Gulf states cover their expenses by taking out a part of values created by operation in the market. Members of ISE Council are not employed on full-time basis while in the Persian Gulf states they are employed on full-time basis. Finally ISE is not an independent body fully directed by member agents; rather, its activities are limited by the influence of the Guardian Council, while in the Persian Gulf states, stock exchange is an independent body liberated from controls of other agencies over its activities. This comparison shows that the supervision board and management style in stock exchanges of the Persian Gulf states outperform ISE.

4-4-Stock Exchange Management (Strengths And Weaknesses):

To compare stock exchange management in the selected countries, we focus on two major aspects: dominated by capital or banking network and efficiency. As far as the former is concerned, ISE is largely dominated by buyers from the government and banking network in Iran dominates capital network. However in the Persian Gulf states except for Saudi stock market, stock exchanges are managed and controlled by companies and financial institutions, which along with the central banks, set regulations to govern stock exchanges. According to Awwad Saleh(2000 financial market in Saudi Arabia is based on banking network, and influenced by large institutions. For the latter aspect, ISE managerial structure is inefficient. Managerial structure in ISE has unnecessary and inefficient departments. In ISE Managerial structure has extensive hierarchies resulting in increased expenses and friction between different entities. Despite these high levels of expenses resulting from inefficient managerial structure in ISE, ISE still lacks significantly important divisions such as HR department and professional auditing committee. On the other hand Persian Gulf states have an efficient managerial structure. This comparison shows managerial advantages of stock exchanges in the Persian Gulf states over ISE.

4-5-Stockbroker Organization (Strengths And Weaknesses):

In this section we compare stock exchanges in terms of level of competition and types of investments made by stock markets. In ISE, majority of shares are held by public agencies. Stockbrokers are not interested in leveraging considerable amounts of capital since they cannot compete with large institutions. In the Persian Gulf states, stockbrokers have to deal with natural persons and therefore tend to make investments and enter competitions. Besides In ISE, stockbrokers are allowed to make transactions both as broker and market maker. But in the Persian Gulf states, trust in capital markets is more important that increasing liquidity and stockbrokers are prohibited from making transactions for themselves. The comparison reveals advantages of stock exchanges in the Persian Gulf states over ISE when it comes to stockbroker organization.

4-6-Connections With International Financial Markets (Threats And Opportunities):

To compare threats and opportunities, we first compare connections to international financial markets. According to Samba Financial Group (2009), investments by foreign institutions in financial markets increase depth of markets. This is the primary objective in developing regional financial markets. Such institutions can reduce volatility in stock markets by buying shares when their values fall. In addition, they prevent formation of bubbles. Their presence in the market brings about expectations for more strict supervision over financial markets as well as support for corporate domination over stock markets. According to Mohammad Orman (2003), foreign direct investments depend on financial development. In most Arab countries, internal economic reforms are given priority over policies for development of foreign direct investment. ISE is not linked to international financial markets and therefore global policies made to improve international markets have no effect on ISE. According to Samba Financial Groups Saudi Stock market is also to some extent inaccessible and Arab investors outside the oil-exporting countries in the Persian Gulf region hold 1% of shares while citizens of oil-exporting countries and foreigners hold 1.5% and 0.1% of shares, respectively. Among the countries in the

Persian Gulf region, the UAE and Qatar have more extended connection to international markets. This comparison shows that stock exchanges in the Persian Gulf states offer more opportunities than ISE does.

4-7-Shareholders Experience And Stock Market (Opportunities And Threats):

To compare opportunities and threats in ISE and stock exchanges in the Persian Gulf states, we compare shareholders experiences in these markets. ISE is older than stock exchanges in the Persian Gulf states. ISE was established in 1967. Although Saudi Stock Exchange started its operations in 1970, its activities were organized in 1985. Among the countries studied here; Qatar and the UAE began to organize their stock exchanges in 1997 and 2000 respectively. This comparison indicates that shareholders in ISE are more experienced than shareholders in the Persian Gulf states. Arab shareholders are inexperienced and normally create unusual price-to-earnings ratio since they ignore basic criteria in increasing wealth by taking appropriate level of risk when they just rush to buy shares under the influence of psychological elements of market. A young stock exchange not only creates psychological fear of market but also prevents issuance of stocks at proper times, and more importantly, these inexperienced markets lack experts and senior advisors who potentially provide advices on variations and risks involved in stock prices. This comparison indicates that when it comes to shareholders experiences, ISE offers more opportunities than those offered by stock markets in the Persian Gulf states.

5-Common Factors In Inefficiency Of Managerial Structure Of Compared Stock Exchanges:

Common factors in inefficiency of managerial structure of ISE and Persian Gulf state stock markets are motioned below:

5-1- Like stock exchanges in the Persian Gulf states, ISE lacks information disclosure and transparency. Most actors in ISE are public agencies experiencing lower levels of political pressure for information disclosure. Bruce Budd(2006) examined information disclosure in the UAE Stock Exchange and found that financial markets in the UAE conceal their inefficiencies and profit concealing underlying productivity inefficiencies, besides he argued that efficiency performance measures explained by structural factors. In his opinion, a data envelopment analysis indicates that despite the overall growing profits in stock markets, results reveal evidence of inefficiency in financial markets as a whole and stocks markets in particular.

5-2- Like stock exchanges in the Persian Gulf states, ISE does not have developed investment companies with a strong portfolio that can balance stock markets and prevent large variations in stock values through purchasing or selling stocks. Investment companies in these countries usually have different backgrounds. According to Awwad Saleh (2000), they do not have high levels of transparency and it is extremely difficult to access their documents.

5-3- Like stock exchanges in the Persian Gulf states, ISE lacks independent pricing institutions and determinant factors in value of a company, such as financial structure, level of risk, competitive advantage, management quality, operational efficiency, and profitability, are not given required considerations in these markets. Lack of independent pricing institutions, known as funding institutions or investment banks, result in variations in price indices. In the countries studied here, initial pricing is performed by stock exchanges, prices approve by approval boards and then pricing committees determine the base price.

5-4- Like stock exchanges in the Persian Gulf states, ISE experiences inefficiencies in terms of market makers and infrastructures of financial markets. Awwad Saleh(2000) argues that low levels of competition and poor structure of financial markets in Saudi Arabia stems from lack of market makers, leading to reduced liquidity in these markets. Some factors contributing to inefficiency of managerial structures in stock exchanges include lack of preventive measures acting as market makers, lack of proper infrastructures, inadequate level of professional advices and poor advising provided by companies, inaccurate information on stock exchanges, incorrect analyses, and above all, lack of diversity in financial institutions and instruments.

5-5- Like stock exchanges in the Persian Gulf states, ISE experiences inefficiencies in administration. Executive managers are in charge of administration in these public financial institutions and this deficiency results in inability in incorporating local capacities into stock exchanges. In addition, staffs of these financial markets do not have capabilities required for working in these markets. According to Ahmad Al-Suwaidi(1991), employees at stock exchanges of the Persian Gulf states lack required knowledge over direct investment in host countries, Furthermore, adequate regulations required for protecting these markets against offender customers are not in place.

5-6- Like stock exchanges in the Persian Gulf states, ISE does not have access to professional stockbrokers and lacks proper supervision over their performance. Stockbrokers are overwhelmed by a large volume of tasks. They are not given access to accurate financial and economic information on companies approved into stock exchanges. In addition, no entity has available professionals who could enforce supervision over financial status of stockbrokers.

5-7-Like stock exchanges in the Persian Gulf states, ISE experiences deficiencies in the private sector. As Abdulaziz Al-Ghorairi(2010) noted, private sector in the Persian Gulf states is small and plays a limited role in the growth and expansion of the economy. Performance of the private sector and non-oil activities has been linked to government oil programs and intervention in terms of subsidized loans, input prices and equity injections, bail out and preferences in government procedures.

5-8-Like stock exchanges in the Persian Gulf states, ISE has capital markets which are small in size. Small size of capital markets relative to size of economy is a major contributor to inefficiency and variations in stock exchange in Iran and the Persian Gulf states, leading to potential formation of bubbles in stock exchanges which lack capacity required to obtain economic resources.

6-Approaches To Improvement In Managerial Structure In The Persian Gulf States (Increased Opportunities, Decreased Threats)

The Persian Gulf states studied here have taken several approaches to improve managerial structure, increase opportunities, and reduce threats. These approaches include the following:

6-1-Integrating Stock Exchanges In The Persian Gulf States To Create Diversity In Financial Markets:

According to John Simpson(2007a),member of Persian Gulf states are the most developed countries in the Middle East with regard to attempts made to improve economic structures. In the past decades, these countries have continually pursued regional integration. During this period, there are evidences indicating integration of the UAE financial markets with other markets in the member states of the Persian Gulf Cooperation Council. The UAE financial market had the most significant influence on financial markets in Saudi Arabia and Qatar. One approach adopted by the member states of the Persian Gulf states is to have a common currency. A common regional currency will give the member state a power to take uniform position toward dollar. Another approach is to establish a joint commercial council which extends commercial ties among the members. The next approach is to found a mutual fund with foreign countries. In this regard, Qatar is trying to establish a mutual fund with Finland and Malaysia. And finally, developing an Arab stock exchange, headquartered in the capital of the UAE, may provide a mechanism to adopt uniform policies in the area of foreign currencies and economy of Arab states. It should be noted that ISE does not benefit from integration of stock exchanges.

6-2-Integration In Terms Of Anti-Fraud Actions And Standardization Of Financial Laws And Regulations To Integrate Financial Markets In The Persian Gulf States:

The Persian Gulf states has suggested establishment on an international arbitration center for companies in stock exchanges. Dubai International Financial Center intends to found an arbitration center for UAE companies. This center is governed based on a joint venture by the London Court of International Arbitration and is intended to resolve disputes arising among trade and service sectors in the UAE. This reduces the risk of fraud and financial corruption It should be noted that ISE does not benefit from integration in terms of anti-fraud actions and standard financial laws and regulations.

6-3-Appling Economic Advantage Of Islamic Methods To Direct Stock Exchanges And Develop Islamic Financial Markets:

According to Ahmad Al-Suwaidi(1991),one method considered by the Persian Gulf states is to make use of Islamic methods in directing commercial transactions, small firms base their work upon financial systems of Islamic markets, since in such systems actors form partnership and assume responsibility for transactions. In addition, the traditional financial system combines experience, long-term commercial ties, modern financial and loaning systems and advanced technology along with competent staff with required experience in the field of customer satisfaction to achieve success, flexibility and security. Due to their vast experiences and use of modern technology in international trade, public agencies and oil companies are connected to traditional financial system. Despite the presence of large number of oil companies and public agencies in the Persian Gulf states, most investors in the region prefer financial systems of Islamic markets that work based on Islamic principles. However, ISE does not benefit from development of Islamic financial markets.

6-4-Investment In New Technologies To Stabilize Markets And Improve Managerial Structures:

As Shereef Ellaboudy (2010) notes, oil revenues may be put into more efficient and effective use by implementing financial policies and new investments. The Persian Gulf states have made investments in new technologies. For example, Saudi Stock Exchange has developed plans for restructuring the market, introducing new products such as tradable funds and improving players skills. The UAE Stock Exchange has adopted new products, such as derivatives, and infrastructures and real estate Investment Company to improve existing technologies. However ISE does not benefit from investments in new technologies.

7-Problems And Barriers Faced by ISE:

Analysis of ISE and comparison of stock exchanges in the Persian Gulf states with ISE indicate that ISE has a poor performance. ISE is facing several issues that can be categorized into two groups: external and structural problems and intra-organizational or internal problems. In general, inefficiencies in ISE may be divided into two categories:

7-1-External factors which include external pressure and threats, participation of non-professional actors in the stock exchange, instable and changing monetary and financial regulations, crisis in major companies in ISE, varying policies made by government, government's dependence on revenue from oil exports, participation of corporations in the stock exchange for short durations and distribution of limited resources over large number of companies.

7-2-Internal factors which include outdated regulations, lack of information on market stimuli that occur over time, and intra-organizational issues such as inefficient managerial structure and inadequate application of instruments used by other stock exchanges.

7-1- ISE Structural And External Problems:

7-1-1-ISE Reliance On Banking System:

a major problem faced by ISE is reliance of financial structure on banking system. Interests on banking deposits have advantages over rate of return for stocks that direct financial resources to the monetary sector.

7-1-2-Low investment in ISE compared to GDP:

a bottleneck in ISE is insignificant share of investments in ISE compared to GDP, which arises due to insufficient savings and mistrust in stock exchanges.

7-1-3-Lack Of Planning And Investment To Establish Executive Agencies Required In ISE:

another external obstacle faced by ISE is lack of an institution like those present in developed countries to supervise stock exchange, activities of companies, behavior of stockbrokers, and enforcement of laws and regulations.

7-1-4-Incomplete, Ineffective, And Inadequate Regulations:

ISE is a susceptible market which requires full enforcement of a comprehensive set of laws and regulations. ISE is inefficient in terms of applying laws and regulations.

7-1-5-Short-Term Outlook In Dealing With Issues:

inaccurate insight on stock exchange in Iranian economy, short-term outlook and improper managerial structure hinders attempts to achieve a long-term vision on ISE in Iranian economy.

7-1-6-Multiple Positions Held By Managers And Policymakers in ISE:

since ISE policymakers are engaged in variety of sensitive positions, they do not find time required to focus on their responsibilities in ISE. In addition, some critical positions in ISE have lost their practical sense.

7-1-7-Absence Of Foreign Investments:

currently, the most significant problem faced by companies present in ISE is insufficient resources. For problems mentioned earlier, foreign investors are reluctant to make investments in ISE.

7-1-8 Information Inefficiency And Its Impacts On Unstable Indices:

information in ISE is of poor quality and accessible only to limited groups. Stock prices are unstable since they do not reflect all information available in ISE. Although a considerable volume of information on production and decision made by assemblies is disclosed, however, there is significance information inefficiency in terms of production lines, costs of fundamental repairs, managers capabilities, production technology and foreign markets.

7-2-ISE Internal Problems:

7-2-1-Inability In Eliminating Limitations On Increasing Liquidity in ISE:

limitations such as magnitude of variation have reduced liquidity in ISE, leading into formation of long queues of buyers and sellers. Fear of abrupt spikes in indices and failed transactions cause managers to hesitate in removing such limitations.

7-2-2-Improper Risk Management:

some of the current managers are a part of market risk. With their improper decisions, they intensify investment risks in ISE. Lack of managers with required expertise in economy and finance and adequate skills in making proper decisions is quite obvious in ISE.

7-2-3-Lack of control over ISE:

ISE lacks required system for control over market and market information. Inefficient supervision has resulted in uncontrolled relations between stock prices and economic performance.

7-2-4-Lack Of Competition Between Stockbrokers And Small Shareholders:

Due to internal problems when queues are formed, stockbrokers and those with access to transaction systems benefit in ISE and leapfrog small shareholders or those with poor competitive advantages, due to their lack of access to this system.

7-2-5-Absence Of Market Makers in ISE:

given that market makers reestablish equilibrium in stock market, increase market depth, and bring prices close to real values by buying and selling stocks, absence of serious attempts for presence of market makers in ISE has resulted in lack of confidence and large variations in stock prices.

Discussion:

8-Thesis Suggestions:

8-1-Suggestions For Improving Organizational Structure Of ISE (Suggestions For Increasing Strengths And Decreasing Weaknesses)

Here are some suggestions to improve organizational structure of ISE by increasing strengths and decreasing weaknesses:

8-1-1-Reducing Unnecessary Hierarchy And Increasing Efficient Sections In ISE:

Reducing hierarchy not only saves money by eliminating a part of costs in organizational structure of ISE, but also largely eliminates friction between different entities.

8-1-2-Setting Up A Specialized Department For HR & Financial Services In ISE:

We recommend establishment of a department for HR & financial services in ISE in order to specialize the support-staff section in ISE

8-1-3-Developmet Of A Issuers & Participant Section:

ISE should Develop a Issuers & participant section to do the specialized tasks includes: inspection, market control & trading surveillance, enforcement and follow up complaints and violation.

8-1-4-Launching a department for information disclosure in ISE in order to increase the liquidity and efficiency of stock markets:

In order to increase the liquidity and efficiency of stock markets it is suggested to launch a department for information disclosure. In Persian Gulf states this department is separated and professional and divided from Legal affairs, issuance & research section.

8-1-5-Forming a professional auditing committee in ISE:

ISE should establish a close connection with auditing committee to develop auditing principles. Stock advisors should be selected from legal and economic experts.

8-1-6-Forming a unit to move in a monotonous way and manage risks in ISE:

ISE should establish a unit to manage the stock markets in a monotonous way and manage risks, as stated before Persian gulf states establish strategy follow up & performance development and risk management unit in order to gain the mentioned missions.

8-2-Suggestions for eliminating limitations on indices in ISE (Suggestions for increasing strengths and decreasing weaknesses):

Unlike the Persian Gulf states, ISE has several limitations caused by fear of unpredicted spikes in indices. Here are some suggestions for eliminating such limitations for increasing strengths and decreasing weaknesses:

8-2-1-Lifting up magnitude of variation from 4% to 5% under the close supervision by ISE:

Some approaches may be adopted to prevent spikes in indices. One of such methods is to determine a minimum for transacted stocks in order to intervene it in price indices and consider a waiting period for approved companies for calculating in ISE index. We also recommend using indices for companies with large volume of transactions. Heterogeneity in ISE calls for exclusion of companies with large transactions in calculation of ISE index.

8-2-2-Increase The Free Float:

Free float in ISE is insufficient. It can be compensated by speeding up the privatization process by the government. We suggest calculating the index by taking into account a minimum corporate share held by the public. In this way excessive impact caused by insufficient stocks issued by companies can be prevented. Finally, stock exchanges may determine an upper limit for prices of stock held by each firm based on its profitability in previous terms and evaluation of future profits.

8-3-Suggestions for improving managerial structure in ISE (Suggestions for increasing strengths and decreasing weaknesses)

To improve managerial structure in ISE, increase strengths and decrease weaknesses, all parts of the managerial structure should have required efficiency. Here are some suggestions:

8-3-1-Independence Of The Supervision Board:

The supervision board should be independent in all aspects. To achieve financial independence, ISE Council expenses should be covered by a percentage of transactions made in ISE. To have independence in decision making, council members should participate on full-time basis without holding a position in other public agencies and to achieve political independence, ISE should be independent of other legal agencies.

8-3-2-Independence in management of ISE:

Firms and financial institutes should take control over the management of ISE which is currently controlled by buyers from government and public sector.

8-3-3-Improving Efficiency Of Stockbroker Organizations By Enabling Stockbrokers To Compete:

If stockbrokers gain more power for competition through improved efficiency of Stockbroker Organization, they will be encouraged for higher levels of investment in ISE.

8-4-Suggestions For Improving Managerial Structure In ISE (Suggestions For Increasing Opportunities And Decreasing Threats):

Here are some suggestions for improving managerial structure in ISE to increase opportunities and decrease threats:

8-4-1-Movement Toward An Internal Stock Exchange Integrated With International Stock Exchange In ISE:

This will accompany with attenuates of international financial system and its effect on increasing investment opportunities in the region.

8-4-2-Movement Toward Diversification In ISE:

Diversification in ISE not only includes privatization and reinforcement of private sector, but also requires elimination of structural impediments, stabilization of market in terms of market efficiency, development of financial market to meet local and religious demands and more importantly decrease the relationship between ISE and revenue from energy sector. A proper strategy to achieve this goal is to develop abundant gas resources to cover domestic demand as well as exports. In addition, Iranian financial market should gradually become independent of hydrocarbon industries and speed up the movement toward privatization.

8-4-3-Integration In Terms Of Anti-Fraud Actions And Standardization Of Regulations And Laws In ISE:

To standardize financial regulations and inspection of violations and corruptions a public entity independent of ISE Organization should be established.

8-4-4-Developing Islamic Financial Markets In ISE:

Islamic financial markets in ISE are required to establish modern institutions, employ professional staffs and advanced technology, and encourage investment institutions to develop financial methods based on Islamic principles and to reward employees who make innovations in methods used in unique and emerging markets.

8-4-5-Making Investment In New Technologies For ISE:

ISE can make use of new technologies to extend its ties with international financial markets. This will also improve managerial structure in ISE by creating more opportunities and eliminating threats. Finally, we recommend measures to encourage participation in ISE on the part of reputable corporations by holding conferences, workshops, and training courses, direct negotiations with corporations applying for participation in ISE and forming a committee to provide approved firms with some advantages. This is possible by direct marketing and attracting influential companies into ISE.

Conclusion:

We used Mintzberg model to compare ISE organizational structure with stock exchanges in the Persian Gulf states. In this model, an organization (*e.g.* stock exchange) is divided into five sections: supervision board, middle line, operating core, techno structure, and support staff sections. Our findings suggest that, despite similar structures observed in supervision board of the stock exchanges, there are differences when it comes to middle line, operating core, techno structure, and support staff sections. SWOT analysis is helpful in determining strengths, weaknesses, opportunities and threats in stock exchanges in order to compare managerial structures in ISE and stock exchanges of the Persian Gulf states. Different criteria may be used to examine weaknesses, strengths, threats and opportunities. First we examined strengths and weaknesses, we used magnitude of variation as a limitation on stock price indices and free float as a criterion for efficiency and fluidity. Our findings indicate advantages of stock exchanges in the Persian Gulf states over ISE in terms of magnitude of variation and free float. The next criterion to examine strengths and weaknesses was management style in stock exchanges. The findings also suggest that stock exchanges in the Persian Gulf states outperform ISE in this area. To identify threats and opportunities, we compared the stock exchanges in terms of experience and their connections with international financial markets. Stock exchanges in the Persian Gulf states outperform ISE in terms of connections with international financial markets. However, ISE is more experienced and offers more opportunities in this area than stock exchanges in the Persian Gulf states.

Throughout this chapter, we explored external-structural and intra-organizational obstacles faced by ISE. External-structural issues include external pressure and threats, participation of non-professional actors in ISE, unstable monetary and financial regulations, crises in major firms and corporations, changing public policies, governments dependence on revenue from oil exports, short-term participation by corporations, and distribution of limited resources over companies. Internal obstacles include outdated regulations and laws, lack of information on market stimuli occurring over time, intra-organizational issues, particularly inadequate application of instruments used by other stock exchanges and inefficient management structure. Finally, to deal with these problems, we proposed several suggestions including eliminating limitations on price indices as well as suggestions for improving managerial and organizational structure in ISE to increase strengths and opportunities and to eliminate weaknesses and threats.

To achieve an efficient managerial structure, senior managers in ISE should play key role in developing policies and regulation, objectives and missions, and in extending ties with beneficiaries outside the organization and between professionals within the organizations. Given the similarities between the countries studied here and the impacts of single-product economy (oil-based economy) on financial environments in these countries, our findings may be used to create an efficient managerial and organizational structure in ISE.

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