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# An investigation of the roles and responsibilities of the board of directors in the Libyan banking sector

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**Abstract**

Since the financial crisis of 2008, corporate governance (CG) has been the focus of much attention in the developed countries. One of the main priorities of governments in these countries has been to implement CG mechanisms that will improve the practice and effectiveness of boards of directors. But while much has been written about CG in developed countries, developing countries represent relatively untravelled territory in terms of CG research. Libya is the largest oil producer in Africa and its oil revenues form a steady stream of income for the country. However, the country ranks low in terms of international measures of governance. As an Islamic state, with a population that is approximately 97 per cent Sunni Muslim, the prevailing culture, systems, rules and regulations are all profoundly influenced by Islamic precepts. Indeed, the Central Bank of Libya (CBL) has taken steps towards developing a dual system of conventional and Islamic banking. As such, CG and boards of directors (BODs) in the banking sector are highly influenced by Shari'ah law and Shari'ah supervisory boards (SSBs).

This research aims to examine the practices, roles and responsibilities of BODs in the Libyan banking sector (LBS) and to identify the factors that facilitate or hinder boards in carrying out these roles and responsibilities. Achieving this overarching aim will help bridge a gap in knowledge in terms of the roles and functions of Libyan boards of directors. To this end, the research investigates boardroom norms in the banking sector in the context of the board's strategic, service and control and monitoring roles. The main goals of this research are to contribute to current literature and to provide insights that can be applied to corporate governance practice in Libya and, more broadly, the country's economic development.

The study adopts a pragmatic paradigm to address its central research questions. A mixed-method approach was employed: quantitative data was collected by means of a questionnaire survey, while semi-structured interviews were conducted to qualitatively explore the social processes that shape the roles of boards. 227 questionnaires were distributed to 16 Libyan banks (6 public, 6 private and 4 Libyan/foreign). 24 semi-structured, in-depth interviews were then conducted with board members from each bank in the sample; interviewees included chairmen, CEOs and independent non-executive directors. The analysis revealed that a number of key international CG regulations and structural features are already in place in the LBS.

Drawing on the work done by other researchers in developed economies and the results from this research, the researcher developed a framework to explain board roles in general and how they operate in practice in the LBS. The findings indicate that BODs are perceived as playing an important strategic role and that most Libyan directors enjoy this role more than the control and service roles. The framework pays particular attention to the internal and external factors that impact upon board performance such as board size, CEO duality, board independence and board diversity. The impact of SSBs is also explored, shedding more light on the roles and responsibilities of the BOD in the context of the Islamic banking system.

This study contributes to both theory and practice, providing some useful insights that will bolster the CG literature on developing countries and improve our understanding of BOD roles. The findings also support the Libyan government's reformist agenda, the aim of which is to create a more attractive and effective investment environment.

بسم الله الرحمن الرحيم

**In the name of Allah, most gracious, most merciful**

**Dedication**

**This PhD is dedicated to my dear father, the late Mohammed Shalba**

**(1944 - 2014).**

**After a long battle with a disease, my dear father passed away in December 2014. This thesis would not have been possible without his constant support and motivation. I will be eternally grateful to him for the constant support that he provided. He has also been invaluable to my research, being the key person to help me gain access to the Libyan banking sector. All words seem inadequate: I cannot thank him enough.**

**"Father – thank you for being there. We love you and miss you. Allah grant mercy upon your soul."**

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**Participated Conferences**

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## List of Abbreviations

| Abbreviation | Full term |
|---|---|
| *BOD* | Board of Directors |
| *CBL* | Central Bank of Libya |
| *CEO* | Chief Executive Officer |
| *CG* | Corporate Governance |
| *EM* | Executive Management (Manager) |
| *ESDFC* | Economic and Social Development Fund Corporation |
| *GDP* | Gross Domestic Product |
| *GM* | General Manager |
| *GPC* | General People's Congress |
| *IBFIM* | Islamic Banking and Finance Institute Malaysia |
| *IFC* | International Finance Corporation |
| *IFSB* | Islamic Financial Services Board |
| *INED* | Independent Non-Executive Director |
| *LAAA* | Libyan Accountants and Auditors' Association |
| *LBS* | Libyan Banking Sector |
| *LCB* | Libyan Commercial Bank |
| *LSAI* | Libyan State Audit Institution |
| *LSM* | Libyan Stock Market |
| *Management* | Refers to the CEO and other members of staff who perform Management functions. |
| *MENA* | Middle East and North Africa |
| *NED* | Non-Executive Director |
| *OECD* | Organization for Economic Cooperation and Development |
| *SOX* | Sarbanes-Oxley Act |
| *SSB* | Shari'ah Supervisory Board |
| *UK* | United Kingdom |
| *USA* | United States of America |
| *WB* | World Bank |
| *WTO* | World Trade Organization |

**Glossary of Arabic and Islamic terms used in the thesis**

| | |
|---|---|
| **Al Qur'an** | **The holy book of Muslims, consisting of the revelations made by God to Prophet Muhammad (peace be upon him).** |
| **Fatawa** | Plural of fatwa. Religious verdicts by scholars; refers to the whole corpus of Islamic jurisprudence. |
| **Hadith** | The sayings, deeds and reactions of Prophet Muhammed (peace be upon him), as narrated by his companions. |
| **Mudharabah** | A contract between the capital owner/financer and investment manager. Profit is distributed between the two parties in accordance with the ratio agreed at the time of the contract. |
| **Murabahah** | Sale at a specified profit margin. The term, however, is now used to refer to a sale agreement and sells them at an agreed marked-up price. |
| **Musharakah** | A contract where the parties undertake to provide and manage capital jointly and to share profit and loss. |
| **Shari'ah** | Refers to the corpus of Islamic law based on divine guidance as given by the *Qur'an* and the *Sunnah* and embodies all aspects of the Islamic faith, including beliefs and practices. |
| **Sunnah** | Is the most important text in the Islamic faith after the *Qur'an.* It refers to the prophet's (peace be upon him) example as indicated by his practice of the faith. |
| **Takaful** | An alternative to the contemporary insurance contract. A group of persons agree to share risk by collecting a specified sum from each. If anyone in the group incurs a loss, the loss is met from the collected funds. |
| **Zakat** | The amount payable by a Muslim on his net worth as part of his religious obligations, mainly for the benefit of the poor and the needy. |
| **Maqasid al-Shari'ah** | Objectives of the Shari'ah. |

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# Chapter 1: Introduction

## 1.1. Background and Research Problem

Over the last few decades, a series of high profile scandals and financial crises have propelled corporate governance to the forefront of economic debate. The collapse of a number of supposedly reputable institutions, such as the Bank of Credit and Commerce International in the 1980s and Barings Bank in 1995 (Smerdon, 1998), has highlighted the shortcomings in existing corporate governance systems, or aspects thereof, in developed countries, but the impact of these financial scandals has also been felt in developing countries (Bremer and Elias, 2007) .

The OECD (2004) defines corporate governance (CG) as the system by which business corporations are controlled. This system specifies how rights and responsibilities are to be distributed among the various stakeholders in the corporation (e.g. the board, managers, shareholders and others) and spells out the rules and procedures for making decisions on corporate affairs. The OECD's definition is widely accepted, but the literature also offers a broad continuum of alternative definitions, from the purely economic, shareholder-oriented to the purely stakeholder-oriented (Maassen, 2002). Supporters of agency theory – the framework used in this research – see corporate governance as a function of the relationship between agents and principals (owners or shareholders).

The ongoing debate about the relative efficiency of corporate governance in developed market economies such as the USA, UK, Germany and Japan has led many to ask: What is the "right" corporate governance mechanism? (John and Senbet, 1998). At the same time, the apparent departure from the legal provisions by (and subsequent collapse of) several leading financial institutions have prompted some to call for more stringent controls over the roles and responsibilities assigned to boards of directors and their relationship with management. Stiles and Taylor (2001, p.1) point out that the lack of accountability of top management has intensified the impression that boards of directors are largely "rubber stamps for management", while Keasey et al. (1997) identify the problem as arising from the separation of beneficial ownership and executive decision making in joint-stock companies. According to Brennan (2006), the role of the board of directors is to act as trustees for the stakeholders: to formulate strategy, facilitate the acquisition of resources and monitor top managers' activities through the chief executive officer. How effective this will be depends on a number of factors, such as board composition and quality.

As the perceived importance of corporate governance has grown in both developing and developed economies, it has become the subject of an expanding body of literature. However, as yet, only a few of these studies have focused on CG in banks (e.g. De Andres and Vallelado, 2008; Caprio et al., 2007). These studies acknowledge that CG is made particularly difficult in financial institutions because of their opacity, complexity and high level of regulation. Furthermore, boards in these organisations must not only monitor managers efficiently, but also be able to offer them independent and valuable advice.

Chahine and Safieddine (2008) argue that banks in developing countries play a key role, not just as resource providers but, also by encouraging effective corporate governance in other companies. One report on corporate governance in Morocco, Egypt, Lebanon and Jordan found that companies in these countries depend heavily on banks for financing (Saidi, 2005). As stakeholders (by lending them money) or shareholders (by investing in their stock), the banks then play an active role in ensuring the implementation of appropriate codes and/or standards and enhancing internal and external corporate governance strategies in these companies. Chahine and Safieddine (2008) illustrate this by describing how Lebanese banks have become:

> "…highly involved in a set of their corporate clients' internal corporate governance mechanisms. Lebanese banks sit on or advise on the composition of the boards of directors. They insist on more quality requirements concerning their corporate clients' auditing and disclosure practices beyond the limited regulatory requirements." (p.259)

## 1.2. Justification for Choosing Libya's Banking Sector

Although Libya possesses the largest oil reserves in Africa, producing 1.6 million barrels of oil per day (around 94% of the country's foreign exchange) (EIA, 2012; CBL, 2010; Pratten and Mashat, 2009), many Libyans live in relative poverty. The weakness of the economy was exacerbated by international sanctions in the nineties, but since these were lifted by the UN in 2003 (with the US following suit in 2004)

(Varoudakis et al., 2006), the Libyan government has enacted a number of economic reforms to strengthen the role of the private sector and reduce Libya's dependence on oil as its main source of wealth. Despite all these changes, however, economic activity remains very weak (League of Arab States, 2005).

The banking sector is one of the most important sectors to have benefited from the reforms, since the changes here have in turn helped other sectors to achieve the government's economic goals. The most significant of these reforms has been the decision to allow foreign banks to operate in Libya, which has brought new expertise and modern banking operations into the country (Libyan State Law No. 1, 2005). The arrival of the Libyan Stock Market (LSM) in 2006 represented another crucial change in the Libyan economy. These changes are expected to support the banking sector, the investment environment and the internal and external oucomes that regulate business in Libya's banks and financial institutions.

Although the financial sector in Libya is playing an increasingly important role in the country's economic growth and in shaping its developmental policies, it remains underdeveloped compared with banking sectors elsewhere in the Middle East and North Africa (MENA) region (Saidi, 2005). According to the World Economic Forum (Chami et al., 2012, p.17), "Libya had better macroeconomic conditions [in 2010] than the regional average, reflecting primarily its record of large fiscal surpluses and low debt". However, it ranked low in terms of international measures of governance. This is a matter of concern, since it has been suggested that under-performance and unstable banking activity can slow economic growth (Ehtawsh, 2012; IMF, 2013).

This can be exacerbated in countries such as Libya, where financial markets are often weak. Realising that the effectiveness of the banking sector is closely tied to the effectiveness of the Libyan economy as a whole, experts are calling for banking market reform as part of a wider strategy to improve the Libyan economy (Ehtawsh, 2012). Bank failure "can result in systemic crises with adverse consequences for the economy as a whole" (Fethi and Pasiouras, 2010, p.189), as has been seen in a number of countries. Libyan banks – both public and private – are still unsophisticated by international standards in terms of their strategies and operations, but since effective corporate governance is crucial to the improvement of Libya's financial systems, CG is high on the agendas of the government and public and private banking institutions

(Bengdara, 2007). As Brennan (2006) points out, preferential lending by government-owned banks to prioritised sectors of the economy in the name of industrial and development policy or to politically favoured borrowers is widespread, but this often leads to conflicts of interest when the politicians' objectives are incompatible with the aim of maximising public economic welfare. Good corporate governance is crucial to improve the country's financial systems, but as yet, the Libyan government has done little to support it at the policy level.

Libya is soon to join the World Trade Organization (Porter and Consultants, 2010), making it even more essential for the country to improve corporate governance if it is to minimise the risk of corporate failure and attract investment. According to the IMF's Country Report (2008) and AFDB Economic Brief (2011), the Libyan authorities have already made good progress, particularly in bank restructuring and privatisation. However, corporate scandals continue to raise questions about governance in the country. There is no doubt that one of the most important tasks facing the Libyan banking sector at present is the creation of supportive structures and conditions to improve the practice and efficiency of corporate governance in the sector. According to Larbsh (2010, p.247):

> "Research on corporate governance in developing economies is still limited and has only recently become a major focus of attention for academics, international organisations and governments…the role and responsibilities of the Board of Directors and the obstacles to disclosure and transparency in Libya might be a fertile field of future research."

## 1.3. Research Aims and Questions

This study aims to examine the practices, roles and responsibilities of boards of directors in the Libyan banking sector and to identify those internal and external factors that facilitate or hinder boards in performing these roles and responsibilities effectively. These aims may be broken down as follows:

1. To explore the actual/current practices, roles and responsibilities of boards of directors in the Libyan banking sector.
2. To study the perceptions of board members concerning their roles and responsibilities.
3. To identify the internal and external factors that affect boards' performance of these roles and responsibilities.

4. To ascertain how boards of directors feel they contribute to efficient corporate governance in the Libyan banking sector.

A thorough literature review (see Chapters Two, Three and Four) highlighted the key knowledge gaps in terms of CG practice in the Libyan financial sector. This led to the development of the following research questions:

1. What are the international corporate governance regulations regarding the roles of the board of directors and how does practice in the Libyan banking sector reflect or diverge from these regulations?
2. How do boards of directors perceive their roles and responsibilities as contributing to efficient and effective corporate governance?
3. What are the factors that facilitate or hinder boards of directors in carrying out their roles and responsibilities in the Libyan bank sector ?
4. What internal corporate governance mechanisms do board members see as contributing to efficient corporate governance in Libyan banks?

## 1.4. Methodology and Methods

To address the research questions, a pragmatic approach was adopted. A mixed-method approach combining both qualitative and quantitative research methods allowed triangulation of the findings (Stiles and Taylor, 2001). The data was collected via two methods: questionnaire survey and semi-structured interviews.

The findings of the literature review guided the design of the questionnaire, the aims of which were to provide insight into the nature and characteristics of boards of directors in the sample companies and to elicit the attitudes of different groups towards current practice. The literature review encompassed previous studies pertaining to corporate governance in a range of countries, such as the USA and UK, and guidelines issued by professional bodies. Particular attention was paid to the new Libyan State Law No. 1, (2010), issued by the Libyan government, and to other legislation incorporating elements of the Corporate Governance Code (2010). Data was also collected from a number of archival sources, including companies' annual reports and articles of association, bank memoranda, and publications from Libya's Central Bank, private sector publications and government publications. Conceptual analysis was employed to compare the findings with current practice among BODs in the Libyan banking sector.

The questionnaire was administered in person to board members, financial managers, internal auditors, members of sub-committees, board secretaries and research and development staff. These groups were purposively selected. The questionnaire employed a range of question formats, including Likert scales, and the results were analysed using SPSS.

The data gathered via the questionnaire was used to frame the questions for the semi-structured interviews. These were conducted in the second stage of the research to confirm the results obtained from the questionnaire survey and to obtain more specific information about corporate governance practices in the Libyan banking sector. They allowed deeper exploration of the roles and responsibilities of the board of directors in the Libyan context and of the differences between the private and public banking sectors. Open-ended questions allowed the respondents to reveal their perceptions without constraint. Libya's banking industry consists of sixteen operating banks, each of which is obliged by law to have a managing director/CEO (who may or may not serve on the board), a chairman of the board, from three to five executive directors (depending on the size of the board) and from three to five non-executive directors. In-depth interviews were conducted with board chairmen and managing directors of all sixteen banks, with the Deputy Governor of the Central Bank of Libya and with representatives from the other surveyed groups. The interviews were transcribed and analysed thematically using Nvivo software.

## 1.5. Main Findings and Contribution of Thesis to Knowledge

Drawing on the review of the relevant literature, the results of the empirical study and the researcher's observation, the following are the study's main findings:

1. Libyan banks have already incorporated a number of key international CG principles into their own practice, despite the fact that CG is still seen as a new concept for Libya and one that requires more attention.
2. This study has developed a framework that is more relevant to an emerging market such as the LBS. Furthermore, this theoretical framework has been empirically tested.
3. BODs and executive managers in most Libyan banks have so far paid insufficient attention to the improvement of corporate governance, and there are still CG failings within the banking sector.
4. The board is perceived as playing an important strategic role. Most directors enjoy this role more than the control and service roles.
5. The effect of internal and external factors such as board size, composition, diversity and structure are issues of significant concern for boards in the LBS. Ownership structure has a strong, direct effect on board roles in all three

sectors, and the involvement of foreign partners has had a significant effect on the development of board roles and corporate governance in the LBS.

6. Islamic law has a major effect on corporate governance practice and BOD decisions. These decisions must take into account the wish of traders and clients that transactions be conducted according to Islamic law.
7. The weakness of the legal framework and the accounting profession, low levels of disclosure and transparency, and an unstable managerial environment are the major impediments preventing BODs from carrying out their roles effectively.
8. The Shari'ah committee has influence on executive management and supports the board's three roles by giving guidance and preparing control reports. It facilitates the application of governance principles. Most Islamic bank managers in the sample explained that Islamic banks work in the same way as commercial ones, but provide products and services which conform to Islamic rules.

The main contribution of this study is that it is one of the first to attempt to examine board roles and the factors affecting board performance in the Libyan banking sector. The link between board composition and firm performance has been examined exhaustively in western literature (Baranchuk and Dybvig, 2009), but less corporate governance research has been conducted in Islamic countries such as Libya, making these countries a potential arena for investigation (De Andres and Vallelado, 2008; Bremer and Elias, 2007). It is hoped that this study will open the door for more research in this area, and that the findings will not just be of interest to the Libyan academic community, but that they will also help Libya in its journey to becoming a market economy. It has been argued that as the factors shaping the mechanisms of corporate governance vary from country to country, so too will the resulting CG framework (El Mehdi, 2007; Hussain and Mallin, 2002; Okike, 2007). This is the theoretical basis of the current study, which contends that corporate governance in Libya cannot be explained using frameworks designed for other countries. By focusing on the specific context of the LBS, the study addresses a gap in the corporate governance literature, but this also enables it to examine the discrepancies between theory and practice.

Finally, the study seeks to give some insight into CG provision within the Islamic banking system. In recent years, many Libyan banks have introduced Shari'ah supervisory boards (SSBs) into their systems to ensure that all activities and transactions are in harmony with Shari'ah precepts (Islamic laws). However, little attention has been given to the impact of these supervisory boards on the performance of boards of directors, either in general or specifically in Libya. The current study, therefore, seeks to enrich the corporate governance literature by looking at how SSBs support the board of directors in its role as an internal CG mechanism.

## 1.6. Personal Perspective

Before embarking on an academic career, the researcher worked as a manager at one of Libya's major banks and sat on boards in both public and private companies. In more than ten years as a board member, the researcher encountered several governance-related challenges. These experiences have led him to look for ways to apply theoretical perspectives to practical experience and have been a critical motivation for this study.

## 1.7. Overview of the Research

The first chapter introduces the background to the research and outlines the research problem before discussing the study's aims and presenting the research questions. The methodology and methods that were applied are briefly discussed. The chapter then discusses the various ways in which the study aims to contribute to our understanding and knowledge. It concludes with a summary of the structure of the thesis.

The literature is reviewed in Chapters Two, Three and Four. Chapter Two describes the development of the Libyan business environment and banking sector and discusses the role of private and public banks in the Libyan economy. This chapter also outlines the legal framework governing CG and the board's role in the LBS.

Chapter Three focuses on the definitions and theories of corporate governance and describes the main CG models that have been developed in accordance with the OECD Principles: these are the Anglo-American model (the unitary system) and the German model (the dual system). The chapter then discusses corporate governance in developing countries and from the Islamic perspective.

Chapter Four focuses on the roles and responsibilities of corporate boards. It defines the BODs' service, control and strategic roles and considers the internal and external factors that are reported to affect board effectiveness.

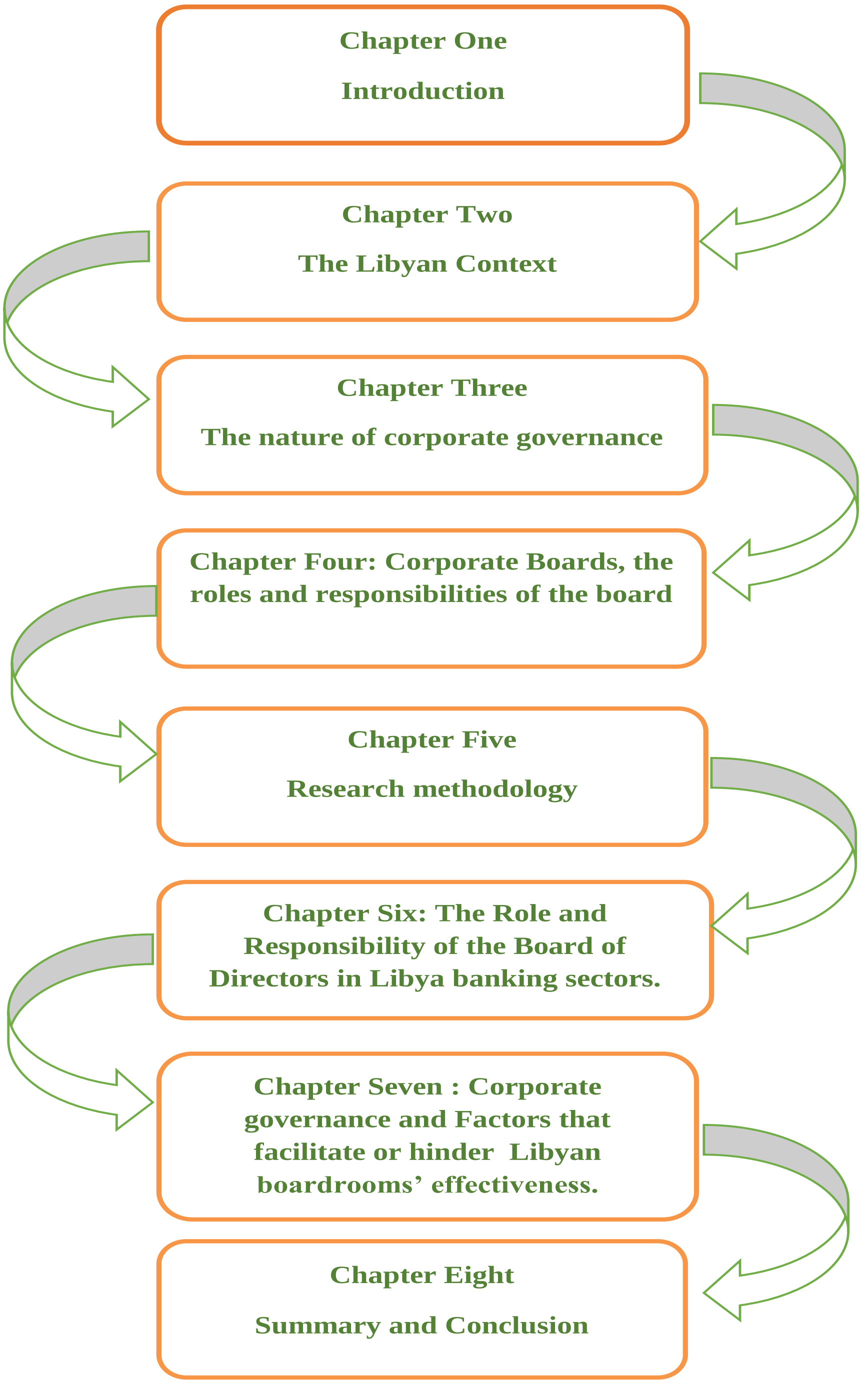
Chapter Five describes the methodology and methods that were deployed to answer the research questions. It discusses the various data collection methods, including the selection of the population sample, the design, piloting and administration of the questionnaire survey, and the interviews.

Chapter Six is allocated to the descriptive analysis of the results of the questionnaire survey and interviews. This section focuses specifically on the first two research questions; it examines the extent to which current international guidelines regarding the board's strategic, control and service roles are reflected in practice in the LBS, and it highlights how board members perceive the BODs' role and responsibilities in terms of control, service and strategy. Any differences between the private, foreign and public banking sectors are highlighted and discussed.

Chapter Seven aims to answer the first, third and fourth research questions by examining the factors that facilitate or hinder the BODs' performance of its roles and those internal corporate governance mechanisms that board members feel contribute to efficient corporate governance in the LBS. The chapter also discusses the respondents' perceptions regarding some of the issues that emerged in the experimental data.

Chapter Eight summarises the findings and compares them to the findings discussed in the literature review. The chapter acknowledges the limitations of the study and discusses its contribution to knowledge and its implications for professional practice and policy. The model of board roles is also presented in this final chapter. It concludes with a number of recommendations and suggestions for future research.

**Figure 1-1 Structure of the thesis**



# Chapter 2: The Libyan Context

## 2.1. Introduction

Before discussing the theoretical framework of the study, it is important to give an insight into its context. The main purpose of this chapter is to assess the extent to which current board practice in the Libyan banking sector reflects international corporate governance guidelines. The chapter presents an overview of Libya's economic environment, including the development of economic reform in the country, before focusing specifically on the banking sector. The chapter describes the ownership structure of the sector, the development of the banking system and the development of Islamic banking in Libya. It concludes by discussing the legal framework as it relates to CG in the sector, and the extent to which this reflects international CG principles.

## 2.2. General Background

Before the discovery of oil, Libya was one of the world's poorest countries (Altunisik, 1995). The Libyan economy was agriculture-based until the early 1970s, when the government began the drive towards economic development (Agnaia, 1997). The economy, which is centrally managed, relies on the oil sector as its main source of income – the country has virtually no other resources (Selway, 2000). According to Chami et al. (2012), oil revenues account for about 90% of total revenues for the government. Despite the discovery of oil, however, many Libyans continue to live in relative poverty. Libya's socialist transformation, which took place in the eighties, accumulated serious economic problems for the country; economic activity became paralysed and living standards for many were low. The majority of the population depended on the state for salaries and pensions from the public treasury. The economy was further damaged by international sanctions in the nineties. Since these were lifted in 2003 (with the US following suit in 2004) (Varoudakis et al., 2006), the Libyan government has enacted a number of economic reforms to strengthen the role of the private sector. Despite all these changes, however, economic activity remains very weak and there are still restrictions on the transfer of funds into and out of Libya (League of Arab States, 2005).

The reform programme itself has not been without problems. As the legislation pertaining to economic activity has proliferated, problems have emerged; articles contradict each other or are ambiguous, making implementation difficult, and there are too many bodies trying to enforce them. More importantly, all this legislation has done little to ensure that companies provide their shareholders with accurate and timely data. Furthermore, Libyan banks – both public and private – are still unsophisticated by international standards in terms of their strategies and operations.

Since effective corporate governance is crucial to the improvement of Libya's financial systems, CG is high on the agendas of government and public and private banking institutions (Bengdara, 2007). Libya is also under pressure to improve CG because one of the ways it is seeking to overcome its economic problems is by opening its doors to investors from developed countries (Porter and Yergin, 2006). An effective CG system is vital to reassure both internal and external investors that they and their rights are fully protected.

### 2.2.1. Overview of the Libyan Environment

Located in north-east Africa, Libya covers an area of around 1.76 million square kilometres. Although possessing a relatively small population of around 6.2 million, Libya is the fourth-largest country in Africa (and approximately half the size of Europe) (Oxford Business Group, 2008; Pratten and Mashat, 2009). Chad and Niger are positioned to the south and south-west of Libya; Egypt and Sudan to the east; Algeria to the west; and Tunisia to the north-west. The majority of the population speaks Arabic. Unlike many other Arab countries, Libya is home to numerous religions, but the majority of Libyans (97%) are Sunni Muslim and members of the Malikite sect (Mashat, 2005). The culture is profoundly influenced by Islam, and there is a strong belief in personal privacy and family values (Oxford Business Group, 2008).

Libya's wealth lies in oil and gas production. As Figure 2.1 (EIA, 2012) shows, it possesses the largest oil reserves in Africa, producing 1.6 million barrels of oil per day (around 94% of the country's foreign exchange) (CBL, 2010; Pratten and Mashat, 2009). The country's close proximity to Europe makes its oil industry particularly attractive to international companies. According to Mashat (2005), Libya is:

> "a developing country which has experienced dynamic changes over a short period of time. One of Europe's biggest North African oil suppliers and an active member of OPEC, crude oil at very low cost

might mean that this country possesses a significant world economic standing.” (p.11)

**Figure 2-1: African proved oil reserve holders, 2012**

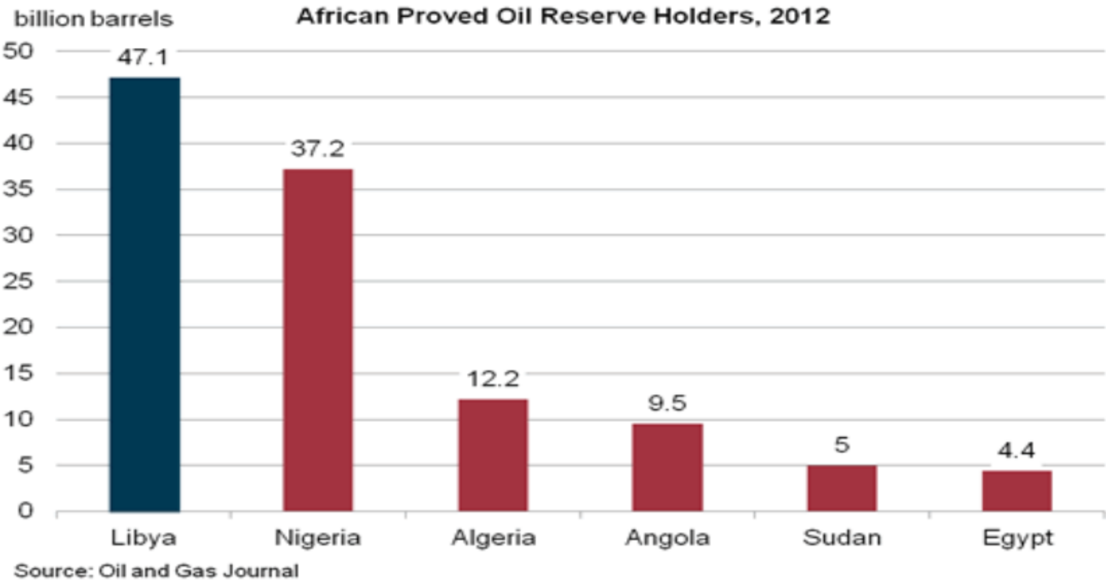
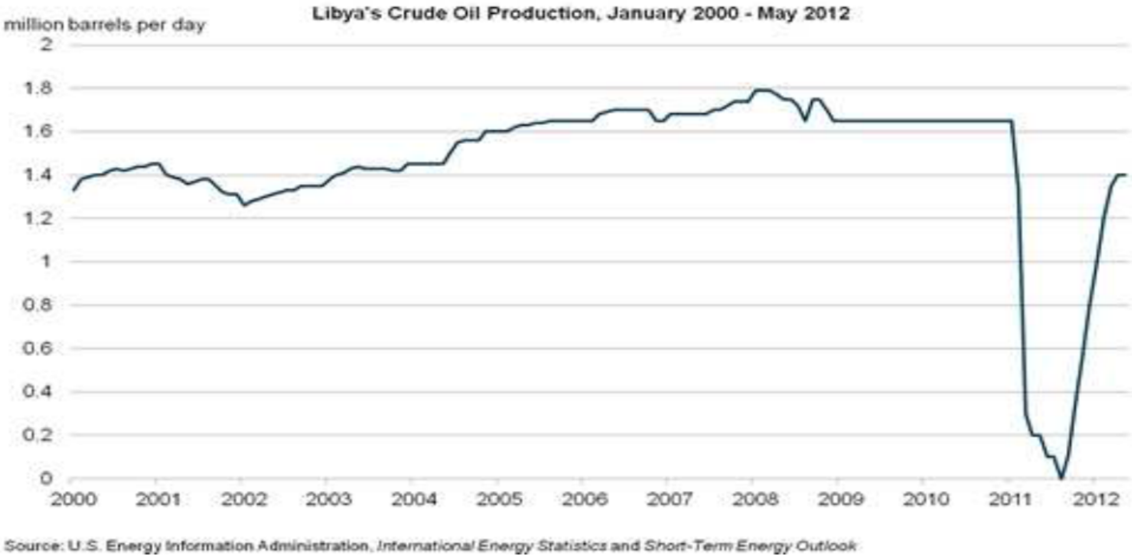



**Figure 2-2: The oil production stream in Libya, 2000-2012**




Source: EIA (2012)

### 2.2.2. Historical Development of Economic Reform in Libya

The reform programme since 2005 has been driven by the government’s decision to move away from its ownership role to that of a prudent regulator. With technical assistance from international institutions and private consulting firms, it is restructuring the entire economy, diversifying it away from oil and promoting the role of the private sector. It has, for example, reduced interest rates to encourage demand for loans by the private sector, encouraged domestic and foreign private investment, developed new tax and customs privileges for publically listed institutions and reduced taxes on imports (Twati and Gammack, 2006). The move towards privatisation and restructuring of the public sector has seen the transfer of company ownership from the state to employees and the general public. Investment promotion policies, civil sector engagement in all economic activities and the reduction of government expenditure are all part of the government's strategy to improve the effectiveness of the Libyan economy. Reflecting this shift in economic policy, a private investment boom is underway and the private sector's share in the economy is growing at a rapid pace. In 2009, Libya's integration into the global economy took a step forward when Standard & Poor and Fitch gave it investment ratings of A-stable/A-2 and BBB/stable respectively (CBL, 2010). Considerable progress has already been made in liberalising and opening up the economy, and the government is committed to accelerating and broadening the reform process in the years ahead (CBL, 2010).

The banking sector is one of the most important sectors to have benefited from the reforms, since the changes here have in turn helped other sectors to achieve the government's economic goals. The most significant of these reforms has been the decision to allow foreign banks to operate in Libya, which has brought new expertise and modern banking operations into the country (Law No. 1/2005). The arrival of the Libyan Stock Market (LSM) in 2006 represented another crucial change in the Libyan economy. These changes are expected to support the banking sector, the investment environment and the internal and external outlines that regulate business in Libya's banks and financial institutions. (External outlines include economic factors, the laws and regulations governing stock companies, and the accounting and auditing profession, while internal outlines refer to the practices and procedures applied inside the firm which derive from external outlines) and its articles of association. These articles determine the relationship between stockholders, the relationship between the stockholders and the firm, that between the firm and its board of directors and between the firm and external authorities.

### 2.2.3. The Libyan Stock Market

Developing countries are associated with low real income and low income per capita. As such, the expansion of capital is difficult. The stock market is one of the main tools for attracting the financial resources needed for economic development; it creates new investment opportunities, offers a range of financial resources and fosters an environment good for investment, thanks to privatisation and investment promotion policies. The first step towards setting up a Libyan stock market was the issuance by the Central Bank of Libya (CBL) of Decree No. 9 in 2004. Libya's stock market is still relatively small and new, but it should nevertheless help regulate the disclosure of accounting and financial information, improve control and therefore raise investors' trust, especially as it operates according to international accounting and auditing standards (until national standards can be issued). A new stock market law (No. 1/2010) was issued in 2010 with the aims of further facilitating registration, accelerating dispute resolution and increasing foreign participation. Overseeing the LSM is a national stock market commission, which is responsible for managing market transactions and protecting investors from fraud and deficient financial reporting.

### 2.2.4. Libya's Accounting Profession

In most developing countries, accounting practice is not aligned with modern accounting concepts either theoretically or practically. In their respective studies of accounting practice in Libya, Beitul-Mal (1990) found that accounting principles and procedures are not applied consistently even by similar companies, while Mustafa (2009) concluded that auditing procedures are applied only on figures other than accountability. Auditing operations focus on final budget and income statements, and auditing reports are adversely affected by the lack of domestic accounting and auditing standards. This results in incomplete and unreliable accounting information which is ineffective for analysis and decision-making purposes.

As the trend towards privatisation continues, investors in Libya are searching for predictable economic environments which offer trusted systems and low levels of risk. By putting pressure on boards of directors to improve accounting/auditing information and systems, shareholders are not only helping improve governance, they are also helping to raise the standard of performance of the accounting profession.

### 2.2.5. Ownership Structure

Prior to 1993, ownership structure in Libya was such that the government dominated the primary public utilities and services; since then, however, private companies have been allowed to enter various economic sectors, including the banking sector, and there are now 32 companies listed on the LSM. The majority of Libyan banks now have three groups of shareholders: the state, private block-holders and foreign/other Libyan banks (see Table 2.1). Libyan regulations mandate the disclosure of ownership where this exceeds 10% of the bank as well as board ownership.

Shleifer and Vishny (1997) argue that ownership structure is an important determinant of corporate governance practice. Where ownership is concentrated, for example, large owners are additionally incentivized to take an active interest in the firm and to monitor its managers (Pederson and Thomsen, 1997) – although Prowse (1998) suggests that large institutional shareholders may be lax about protecting their interests if they have governance problems of their own. On the other hand, tensions may arise between large shareholders and other stakeholders (exacerbating the agency problem). Highly concentrated ownership may also make important mechanisms of shareholder participation – such as voting during shareholder meetings – less effective. If general assemblies are perceived to be less democratic, this may have an impact on the attendance of other shareholders. This is likely to make reforming corporate governance even more difficult.

**Table 2-1: The ownership structure of Libya's commercial banks**

| Bank name | Private banks | State-owned | Mixed ownership | | | Total assets (bi LYD |
|---|---|---|---|---|---|---|
| | | | State-owned | Domestic investors | Foreign investors | |
| Al-Gumhouria Bank | | 100% | | | | 24.65 |
| National Commercial Bank | | 100% | | | | 11.11 |
| Sahara Bank | | | 55% | 26% | 19% | 10.15 |
| Al-Wahda Bank | | | 81% | | 19% | 8.39 |
| Commerce Development Bank | 100% | | | | | 2.27 |
| North Africa Bank | | 100% | | | | 1.78 |
| Al-Amman Bank | | | non | 60% | 40% | 0.78 |
| Al-Waha Bank | | 100% | | | | 0.60 |
| First Gulf Libyan Bank | | | 50% | non | 50% | 0.42 |
| Alejmaa Alarabi Bank | 100% | | | | | 0.29 |
| United Bank | 100% | | | | | 029 |
| Al-Wafa Bank | | 100% | | | | 0.18 |
| Mediterranean Bank | 100% | | | | | 0.12 |
| Arabic Commercial Bank | 100% | | | | | 0.09 |
| Alsaraya Bank | 100% | | | | | 0.09 |
| The Libyan Qatari Bank | | | 50% | | 50% | noon |
| Libyan Foreign Bank | | 100% | | | | 4.00 |

*Source: adapted from CBL (2012)*

## 2.3. Libya's Banking Sector

The banking sector makes a major contribution to the Libyan economy, but its reform is also helping other sectors to achieve the economic goals of the state. The reform of the Libyan banking sector (LBS) began in 1993, when the General People's Congress issued Law No. 1/1993, which dealt with banks, monetary issues and credit. This law allowed Libyan private banks and foreign banks to enter the Libyan banking market, in accordance with its terms and under the supervision of the CBL. This was followed in 2005 by Law No. 1/2005. This law facilitated the development of banking operations in Libya by encouraging more private banks to enter the market. Over the next few years, four of Libya's public banks became privatised, and the CBL issued its approval for foreign banks to open representative offices in Libya. As the country's economic reforms got underway, these early steps were designed to support the investment environment.

The last five years have witnessed a major transformation of Libya's banking infrastructure with further privatisations, mergers, initial public offerings and the opening of foreign banks – of the seventeen commercial banks currently licensed in the country, four have strategic foreign partners. A new CBL structure has now been finalised. This will bolster the monetary policy framework and banking supervision and also help in establishing an organisational structure.

### 2.3.1. The Central Bank of Libya (CBL)

The CBL is the supreme monetary authority in Libya. It is an independent financial institution wholly owned by the government. Government laws, most recently Law No. 1/2005, define the CBL's purposes as being to maintain monetary stability and facilitate the growth of the national economy. The CBL issues bank notes, monitors the banking system and oversees banking activity in general. As the government's bank, it shares responsibility for designing the country's monetary and fiscal policies. As the banks' bank, it issues loans to commercial banks and other credit institutions.

The CBL's role is to regulate credit and banking policy and supervise its implementation within the framework of the government's general policy. A programme of institutional reform has underpinned Libya's transformation; at its core is the development and restructuring of the banking sector. Since 2005, the CBL has been gradually liberalising the entire banking system with the aim of restructuring and modernising the commercial banks. An important component of the CBL's strategy has been to open the Libyan market gradually to foreign banks in order to develop the Libyan banking sector and improve its regional and international competitiveness (CBL, 2010).

### 2.3.2. Public Commercial Banks

The first public commercial banks were established in the late 1960s and early 1970s following changes to the political system in Libya. The credit market in Libya is heavily reliant on commercial banks, both public and private. Both types of bank provide traditional banking services such as the cashing of cheques made out to and by customers; services relating to documentary credits, documents for collection and letters of credit; and the issuance and management of instruments of payment, including monetary drawings, financial transfers, payment and credit cards and travellers' cheques. The bank's deposits represent the main financial resources in commercial banks.

### 2.3.3. Private Commercial Banks

Law No. 1/1993 on banks, cash and credit allowed for the first time the establishment of private banks in Libya. The introduction of private banks has raised the quality of banking services in Libya as competition has replaced the public sector monopoly. However, these banks are still in the early stages of growth and, as yet, account for only a small percentage of the volume of the Libyan banking market (CBL, 2006).

### 2.3.4. Libyan/Foreign Banks (Mixed Ownership)

Law No. 1/1993 allowed foreign banks to start activities in the Libyan market, although this was limited to the opening of representative offices only. Law No. 1/2005 went further by declaring (in Article 67-3) that the CBL may permit the establishment of banks with foreign capital. It may also permit foreign banks to hold shares in domestic banks and to open branches or offices in Libya according to the terms and conditions established by the Board of Directors of the CBL, providing the head office of the foreign bank has a specific nationality, the bank is subject to the supervision of the monetary authority in the country where the head office is located, and the capital allocated for the branch's activity in Libya is at least $50 million. After the issuance of Law No 1/ 2005, the Governing Council of the CBL began to take practical steps to enable foreign banks to open representative offices in Libya. For example, Resolution No. 41, issued on 14/09/2006, authorised three foreign banks to open offices: these were BNP Paribas, HSBC and the Arab International Bank of Tunisia (CBL, 2006).

### 2.3.5. Specialised Banks

According to paragraph (ii) of Article 65 of Law No. 1/2005, a specialised bank is an entity whose main purpose is to finance and grant credit for specific activities and whose basic activities do not include the acceptance of demand deposits. This type of bank was created to finance specific types of activity such as mortgages, or agricultural or industrial projects. As such, they play a limited role in the credit market. They provide credit only to group members, or they are mainly savings institutions. This study does not include specialised banks because they operate differently from other commercial banks.

## 2.4. Historical Development of the Libyan Banking System

The development of the banking system in Libya may be linked to the political changes that have taken place in the country and beyond; each of these changes, whether positive or negative, has had a considerable impact on the development of the sector. At each stage, the importance of the sector has increased and its impact on the national economy has grown. The key stages in the development of the sector may be broken down as follows:

Phase (1) from 1993 to 2005: This phase was a result of the huge changes in the banking sector at the international level, including bank restructuring and the emergence of so-called universal banks. The quality of services offered by these organisations was one of the factors that prompted the restructuring of the Libyan economy and the trend towards privatisation. A number of laws were issued allowing private companies to operate in various economic sectors, including Law No. 1/1993, which permitted private and foreign banks to open branches in Libya (CBL, 2010).

Phase (2) from 2005 to 2010: This stage was the beginning of the move towards economic liberalisation and market-oriented competitiveness following the issuance of Law No. 1/2005. This law stipulated that commercial banks must take the form of Libyan joint-stock companies with paid-up capital of at least 10 million Libyan Dinars (LD) divided into shares, where the value of shares shall not exceed 10 million LD. The shares may be held by individuals, or by public or private legal entities, according to the rules and conditions stipulated by the CBL. The implementation of this law saw foreign banks enter into partnerships with local banks, the integration of many banks and the privatisation of others, and an overall diversification of banking services.

**Table 2-2: Structure of Libyan commercial banking sector at the end of 2004**

| Bank name | No. of branches | No. of agencies | Assets | Paid capital | Ownership % | |
|---|---|---|---|---|---|---|
| | | | | | Public | Private |
| Gumhouria Bank | 54 | 27 | 392.6 | 40.00 | 100 | |
| National Commercial Bank | 48 | 12 | 344.4 | 35.5 | 100 | |
| Umma Bank | 40 | 15 | 226.8 | 23.0 | 100 | |
| Wahda Bank | 60 | 12 | 283.8 | 36.00 | 87 | 13 |
| Sahara Bank | 41 | 7 | 264.4 | 63.0 | 83 | 17 |
| Bank of Commerce & Development | 6 | 10 | 696.8 | 9.0 | 22.2 | 77.8 |
| National Tripoli Bank | 1 | 2 | 42.8 | 3.0 | - | 100 |
| El-Wafaa Bank | 2 | 1 | 54.4 | 1.5 | 100 | - |
| El-Aman Bank | 1 | 6 | 53.1 | 3.0 | - | 100 |
| Al-Ejmaa Alarabi Bank | 3 | 1 | 34.6 | 0.9 | - | 100 |
| Libyan National Banking Institution | 1 | - | 353.9 | 119 | - | 100 |
| Local banks (48 banks) | 48 | 14 | 115.3 | 46.8 | - | 100 |

*Amounts are in million LD.* Source: CBL (2009)

The most important developments to take place in this period are outlined below (CBL, 2010):

1. Resolution No. 58/2006 by the CBL's Board of Directors approved the merger of 41 regional banks to create the National Banking Corporation. The new bank became the largest private commercial bank in the Libyan market.
2. Resolution No. 9/2007 by the CBL's Board of Directors approved the merger of three more regional banks with the National Banking Corporation. The merger allowed these three private banks to satisfy the capital criteria so they could continue to operate.
3. In 2007, the CBL granted licences to six new private banks to operate in a manner consistent with Law No. 1/2005.
4. BNP Paribas was chosen by the Libyan authorities to become the strategic partner of the Sahara Bank in July 2007. The Sahara Bank was partly privatised, with BNP Paribas holding a 19% stake and management contracts. BNP Paribas was given the option to raise its stake to 51% within three to five years if the reform measures and benchmarks agreed on with the CBL at the time of sale were met.

5. Resolution No. 3/2007 by the CBL's Board of Directors authorised the sale of the CBL's shares in the capital of the Wahda Bank. Following the successful conclusion of the deal to privatise the Sahara Bank, the CBL declared that BADEA (the Arab Bank) would be its strategic partner in the privatisation of the Wahda Bank on 13/02/2008. The Arab Bank paid 210 million euros for a 19% stake in the bank. It subsequently assumed control of the management of the Wahda Bank and increased its equity holdings to 51%.
6. In accordance with the CBL board's strategic plan for restructuring Libya's banking sector, Resolution No. 50/2007 authorised the merger of the Gumhouria and Umma banks. The new bank became the largest public commercial bank in Libya.
7. Resolution No. 1/2008 by the CBL's board authorised the establishment of a joint Libyan Qatari Bank, following agreement between the Qatar National Bank and the CBL to establish a joint bank with shared capital.
8. On 11/05/2008, an agreement was reached between the National Bank of Abu Dhabi (United Arab Emirates) and the CBL to set up the First Gulf Libyan Bank (FGLB). Resolution No. 23/2008 of the CBL's Board of Directors authorised the establishment of the bank. The FGLB is now a fully-fledged commercial bank based in Tripoli. Ownership of the bank is shared equally between the Economic and Social Development Fund of Libya and the First Gulf Bank, one of the UAE's leading financial institutions with headquarters in Abu Dhabi and assets of over $28 billion. The authorised capital of FGLB is $400 million and the paid up capital is $200 million, making it one of the larger equity-based banks in Libya.

## 2.5. The Development of Islamic Banking in Libya

Islamic principles govern all aspects of a Muslim's life, including "…the conduct of business and commerce. Muslims ought to conduct their business activities in accordance with the requirement of their religion to be fair, honest and just towards others" (Lewis, 2001, p.108). Libya was one of the first countries to codify Islamic Shari'ah law and incorporate it into its legislative system (Alzoreiky, 2010; Grassa 2015). In the early days of its independence from Italy, Libya drew on the legislation of a number of other states to create its own legislative framework. However, much of this outside legislation was incompatible with Shari'ah law, so in 1969 the Libyan legislature appointed a committee of Shari'ah scholars to review and, where necessary, amend existing commercial and civil legislation to bring it into line with the principles of Islamic law. These changes marked the beginning of the legislature's efforts to modify individuals' business dealings to bring them into line with the provisions of Shari'ah. The injunction against usury – reinforced by the urgings of preachers and clerics – made many citizens reluctant to deal with conventional banks, and in the years since then, there has been growing public demand for Libyan banks to adopt working practices consistent with the provisions of Shari'ah law (Alzoreiky, 2010).

While post-Arab Spring changes in the political agenda have led several Arab countries to Islamise their financial systems to some degree, the Libyan transitional government (CBL, 2012) had chosen to pursue a policy of full Islamisation even before the events of 2011. This represents a radical change in strategy compared to previous regimes, though care has been taken to implement it "step-by-step" (Alzoreiky, 2010). The shift towards Islamic banking started with the opening of designated windows within traditional commercial banks. These provided Islamic banking services and products through separate and independent offices administered by the Supervisory Board of Islamic Banking. In the second phase, banks set up designated branches to carry out Islamic banking activities. These branches had their own financial centres and specialist managers. In phase three, following the issuance of Banking Act No. 1/2005 (Article 16), traditional branches transferred over to the Islamic banking system. Alzoreiky (2010) argues that this gradual changeover allowed the philosophy of Islamic banking to become gradually integrated with the traditional banking system and encouraged coexistence rather than confrontation between the two systems. This strategy has been successful in a number of Muslim countries.

In a survey conducted among ordinary Libyans, Alhajam (2013) found strong popular support for the implementation of Islamic banking, since most Libyans prefer to avoid interest-based banking transactions. He concluded that: "The majority of respondents believe that the former regime was responsible for the underdevelopment of the Islamic banking and finance sector in Libya" (p.1). Alhajam's respondents expressed the view that Islamic banks will contribute significantly towards social development through their corporate social responsibility activities; indeed, some believed that the government should regulate these banks in terms of their delivery of social programmes.

As the demand for Islamic products grows in Libya, more and more of the country's banks are offering Islamic products and services (though they all continue to offer conventional services). According to the CBL, nine out of the sixteen banks in Libya now provide some kinds of Islamic products and Islamic windows (CBL, 2012). Gumhouria Bank is a leading bank providing Islamic products, with 24.65 billion LD in assets under management (Gumhouria Bank, 2012). The Sahara Bank has also adopted a strategy to establish branches that provide purely Islamic products for its customers, while Bank Suath of Afrikah is moving towards a full focus on Islamic banking (CBL, 2010). Discussing the recent trend towards Islamic banking, the Governor of the CBL (2012) said that the Central Bank supports the development of Islamic products and services.

Unlike conventional banks, Islamic banks must follow Islamic teaching, which prohibits Riba, Gharar and any transaction that does not comply with Islamic rules. Vogel and Hayes (1998, p.114) explain that: "…Islamic law has many complex rules, all designed to avoid Riba and Gharar". According to the Hadith (SAW) of Prophet Mohammed (peace be upon him), every loan that attracts a benefit is Riba (Vogel and Hayes (1998) argue that "loan" means the loan of fungibles, including money). This benefit, or interest, is considered unfair and exploitative. In Islam, money may not be used as a commodity in this way; as the risk is not being shared equitably between the lender and the borrower, the interest is effectively "…profit which has not been earned" (Belalet al., 2014, p.3). It is beyond the scope of the current study to discuss the details of this particular debate within Islamic banking, but this brief explanation may give some insight into the issues facing boards of directors in the LBS.

### 2.5.1. Special Provisions in Islamic Banking Windows

Under Law No. 1/2005 and its 2012 amendment (Law No. 47/2012), Islamic banks and Islamic windows must provide banking services and engage in financial practices that are consistent with the provisions of Islamic Shari'ah law. Accordingly, the CBL's Decree No. 9/2010 sets out rules and principles for offering Shari'ah-compliant banking services in Libyan commercial banks (Grassa, 2015). These services must include: accepting clients' funds into current accounts[1]; accepting investors' funds into joint, no strings attached and dedicated investment accounts; funding economic

[1] The 2012 amendment gives Islamic bank current account holders of not less than three years standing the right to attend general assembly meetings as observers and to choose one of their number to represent them on the board of directors.

activities in ways that do not contravene the provisions of Islamic Shari'ah law, for example through Mudharabah and Musharakah contracts, as authorised by the bank's compliance and control body and approved by the Central Authority for Shari'ah'h Compliance and Control; investing clients' funds in joint investment accounts in accordance with the Mudharabah system or according to a special agreement with the client; and undertaking direct or financial investment for Islamic banks or for other banks or joint ventures. Article 100b of Act No. 47/2012 prohibits Islamic banks from taking "interest on debts whether incurred or paid in all cases of borrowing or depositing, depending on the fatwa of the Shari'ah supervisory board".

Under Decree No. 9/2010 and Article 100 of Act No. 47/2012, Islamic banks are required to appoint a Shari'ah supervisory board comprising a minimum of three experts in Islamic Shari'ah law and Islamic banking (though in practice, some banks rely on a single advisor) (Grassa, 2015). These scholars are highly regarded for their integrity and honesty, and respected for their knowledge of the Qur'an and Sunnah (Banaga et al., 1994). The board's members are appointed and remunerated by the BOD (Grassa, 2015). Initial appointments are for three years and members may be reappointed. They must be chosen from among those listed in the CBL's register of control teams, and no one can serve on more than one board. The Shari'ah supervisory board is responsible for monitoring the business activities and operations of the bank to ensure they are not in breach of the provisions of Islamic Shari'ah law, and for reviewing the bank's budgets and final accounts – this includes verifying how well the bank is performing against criteria set by the Central Shari'ah Supervisory Board[2]. The supervisory board must also be ready to carry out any other duties assigned to it by the CBL. Table 2.3 sets out the respective duties of the board of directors and the SSB.

In addition to the obligations set forth in Article 83 of Law No. 1/2005 regarding auditors and compliance, any bank engaging in Islamic banking activities is also required to have a Shari'ah auditing and review department. This department is under the direct supervision of the board of directors, who also appoint its manager (on

[2] The Central Shari'ah Supervisory Board (which is appointed and paid for by the CBL) consists of five specialists in Islamic Shari'ah law and three experts from the fields of economics, law and banking. It has authority over all local Shari'ah supervisory boards.

recommendations from the head of the department or two board members). The department's duties include: auditing and reviewing the bank's daily operations, in accordance with international auditing standards for scrutinising Islamic banking operations; preparing periodic and quarterly reports for the bank's board of directors and a financial report for its Shari'ah supervisory board; and liaising between the administration in the bank, the Shari'ah supervisory board and the external auditor.

The bank's Islamic banking department is supervised by the general manager of the bank. The department is entrusted with a number of tasks, including the application of Islamic financial activities and coordination with other departments to ensure the independence of Islamic banking.

**Table 2-3: Roles of the board of directors and SSB**

| Governance Organ | Role |
|---|---|
| Board of Directors | • Set and approve overall policy and strategy<br>• Monitor progress toward corporate objectives<br>• Ensure accountability of the management<br>• Protect Shareholders and Investment depositors rights |
| Sharia Supervisory Board | • Set Sharia-related rules and principles<br>• Provide a clearance of Sharia compatibility of all products<br>• Oversee compliance and its verdict as to create confidence with respect to compatibility with Sharia |

## 2.6. The Libyan Legal Framework and Corporate Governance

Corporate governance is important in developing countries, especially in countries like Libya which are undergoing major economic change but which are still deeply rooted in the social and economic structures of the past (Faraj and El-Firjani, 2014). There has been a significant increase in the number of foreign investors wishing to learn more about the nature and extent of Libyan corporate governance, and the country has come under pressure from the World Trade Organization (WTO) to improve its corporate governance systems so that it can be opened up to international competition (Porter and Yergin, 2006). This, on top of the general concern being expressed about corporate governance in developed and developing countries alike, has prompted the Libyan government to issue CG guidelines for the banking sector. However, according to Mr Ahmmed Ragab, the General Manager of the Gumhouria Bank, corporate governance is still in its early stages in Libya. The guidelines issued by the CBL in 2006 and amended in 2010 are considered essential reading for boards of directors in commercial banks, but they are neither mandatory nor legally binding; they do no more than promote responsible and transparent behaviour in line with international best practice (CBL, 2012). Even so, Libyan banks, both listed and unlisted, are required to disclose in their annual report which provisions have been implemented and which have not, and to explain the reasons for non-compliance (Libyan Law, 2005).

According to the OCED Principles (2004), the foundation of any corporate governance is the basic legal framework; corporate governance should be consistent with the rule of law. Johnson et al. (2000) and Denis and McConnell (2003) have asserted that the legal regulatory system has a significant impact on the robustness of corporate governance within companies. This can be explained by the fact that a country's legal system determines the methods via which corporate governance codes are implemented and enforced. In Libya, corporate law, like the rest of the country's legal system, follows the precepts of Shari'ah law. At the same time, it draws heavily on law from developed countries, particularly French Civil Law (Otman and Karlberg, 2007). The purpose of this section is to provide a brief overview of the current legislation pertaining to the role and responsibilities of the board of directors and its sub-committees.

### 2.6.1. Role of the Board of Directors

Boards of directors set strategy, manage risk and supervise the executive administration to ensure they are serving the shareholders' interests. Under Libyan commercial law (No. 23/2010), the shareholders' assembly appoints the members of the board, determining the maximum and minimum number as in the articles of association (although Law No. 1/2005 stipulates this should be five to seven members). A board member may be a non-shareholder. Stock companies in Libya have no rules regarding the formation of the board hierarchy, the ratio of executives to non-executives, or the term served by NEDs. If not appointed by the assembly, a chairman is chosen by the board members from among themselves. The chairman is usually the company's executive manager, except in commercial banks, where the executive manager is not permitted to be on the board. Board members' bonuses and profit shares are determined in the articles of association and are subject to limits. The CBL's 2010 guidelines require that the board should consider the interests of all stakeholders – shareholders, employees and owners. It must review board members' salaries and their strengths and weaknesses, and resolve any conflicts of interest between executive managers and board members.

Article 68 of Law No. 1/2005 defines the board's duties as: to select an executive management capable of running the firm efficiently and effectively, to execute the company's policies and check the soundness of procedures, including transactions indicators, to assess the company's situation and compare it to similar companies, and to evaluate present and future risks. The board is responsible for setting the company's general strategy, and for ensuring its policies are responsive to changes in the law, guidelines or general economic conditions. It is also charged with deciding how much to pay managers who have been assigned special tasks, with calling shareholder meetings and with preparing an annual report on the company's activities.

Law No. 1/2005 stipulates that the board of directors may delegate its authority for a specified period to an executive committee selected by board members. This delegation does not involve any essential change to the company, but it allows the board to operate more efficiently by exploiting members' specialist skills in key areas (such as auditing, planning bonuses or risk management). The CBL's CG guidelines (2006/2010) advise that such committees may act for the board in all areas except budget ratification or the raising or reducing of capital. These committees gather separately (at least every three months) and provide periodic reports for the board. In Libya's commercial banks, a special unit called the compliance unit reports directly to the board of directors. This unit checks that the bank is complying with the CBL's directions and commands, that daily work standard are being adhered to, that it has sufficient capital and that the tasks assigned by the board are being carried out.

Libyan commercial law (Act No. 23/2010) gives shareholders the right to exercise authority over board members' actions. To ensure that shareholders are well-informed enough to be able to do this, the law requires stock companies to form a special committee to monitor the company's operations. The rules relating to the appointment, running and duties of the audit committee are set out in the 2010 CG guidelines. It is the job of this committee to monitor the activities of the management and to review the accounts and other paperwork to check their accuracy and conformity with the law. The internal auditing unit (required under Article 69 of Law No. 1/2005) audits the bank's daily work, liaises between the bank management and external auditors, and prepares quarterly reports for the board. Libya has been influenced by western professional practices in this regard; most western countries and specialist international bodies regard auditing as the most important governance tool, and listed companies in the west are required to have an audit committee (Shareia, 2014). Internal auditing is regarded as essential in terms of credibility assurance. The process should reveal risk factors and areas requiring risk management by independently assessing the efficiency and effectiveness of transactions and the company's compliance with laws, policies and internal regulations. The audit committee assists the company in fulfilling its responsibilities by overseeing the preparation of financial statements, ensuring full disclosure, assessing the quality and independence of both external and internal auditors and liaising between the two (it is authorised to appoint these external auditors). The committee is formed by a board of directors' resolution and consists of a chairman plus two members without executive responsibilities. It gathers at least once every three months, or when the need arises (Article 479).

### 2.6.2. The 2006/2010 CG Guidelines

Since the board of directors and its committees are considered the first line of defence against incompetent management, they are a core mechanism of corporate governance. This is reflected in the 2006/2010 CG guidelines (also known as *The Libyan Handbook of Institutional Governance*), which describe at length the standards and responsibilities expected of the board of directors and its sub-committees. The guidelines (and Article 70 of Law No.1/2012) emphasise that board members must be qualified for their posts and clearly understand their governance role. They must not be put under any pressure that might affect their performance. The guidelines highlight a number of key points:

A. Since the board of directors is mainly responsible for the soundness of the company's transactions, every member is individually important. Each member must satisfy the qualification requirements set by the company and its stakeholders. They must also fulfil all entry requirements under banking and commercial law (the same applies for election to the chair).

B. While individual performance is important, it is also crucial that the board can work harmoniously together. The number of board members must be small enough to facilitate accountability but large enough to achieve diversity.
C. Delegation of selected duties and responsibilities to relatively small committees can increase the effectiveness of the board as it allows members to employ their specialised skills to manage important areas (such as auditing, planning bonuses and risk management).
D. The minutes of meetings, whether of the board, the company, shareholders or supervisory bodies, constitute an official permanent register of the company's decisions and resolutions. They are considered the authoritative record of these meetings, in the event of confusion or misunderstanding.
E. The board is responsible for determining the direction of the company by formulating its aims, plans, policies and strategies for success.

The foregoing discussion illustrates that as far as the role and responsibilities of BODs are concerned, many of the international governance principles issued by the OECD are already represented in Libyan law, specifically in Commercial Law No. 23/2010, Bank Law No. 1/2005 and the CBL's Resolution No. 68/2005 relating to articles of association in commercial banks. One of the strongest guarantees already offered by Libyan commercial law is the establishment of the audit committee as the supreme regulatory authority after the general assembly. *The Libyan Handbook of Institutional Governance* (2006/2010) reaffirms this interest in governance in its emphasis on the important part played by the audit committee.

## 2.7. Obstacles Faced by the Libyan Banking Sector

The last decade has seen Libya's banks offer a growing range of services and play an increasingly important role in the economy and in wider society. However, the sector remains underdeveloped compared with banks elsewhere in the MENA region. The 2002/03 Financial Development Index (Saidi, 2005) illustrates that the Libyan banking sector is the lowest-scoring among the MENA countries at 1.3 (the average score is 5.5). This is a matter of concern, since it has been suggested that under-performance and unstable banking activity can slow economic growth (Ehtawsh, 2012). This can be exacerbated in countries such as Libya, where financial markets are often weak. Realising that the effectiveness of the banking sector is closely tied to the effectiveness of the Libyan economy as a whole, experts are calling for banking market reform as part of a wider strategy to improve the Libyan economy (Ehtawsh, 2012).

The government and public institutions still dominate ownership of Libyan banks. This may be considered an obstacle to the development of effective CG in these insitutions. Porter and Yergin (2006) have argued that the Libyan government controls, directly or indirectly, the majority of assets and enterprises in Libya through a substantial portfolio of industries, financial institutions and real estate. Together, these account for the overwhelming majority of economic activities in the country. Government interference hinders corporate activity in public companies, but even in those that have already been privatised, where the government owns shares, it exercises undue influence, to the consternation of private investors.

Mullineux (2006, p.2) argues that government ownership of banks and preferential lending practices create conflicts of interest, especially in cases where politicians' objectives are incompatible with maximising public economic welfare. The legal system supports the development of good corporate governance, but the banks' CG is also "embedded in and conditioned by" wider government policies. The impact of these policies was particularly strongly felt under the previous regime. For 42 years, the regime had strict control over the banking market, especially lending activities. This caused problems in terms of both the banks' operations and the identification of their objectives. Libyan banks extended loans according to guidelines set by the regime, confident that the government would step in and provide support in times of trouble. This led them to be reckless at times, for example by loaning to failing businesses. This reckless approach to lending helped undermine banking regulations. At the same time, managers lacked autonomy, there were skills gaps in the workforce. This, in turn, led to further risk taking and unorthodox banking activity.

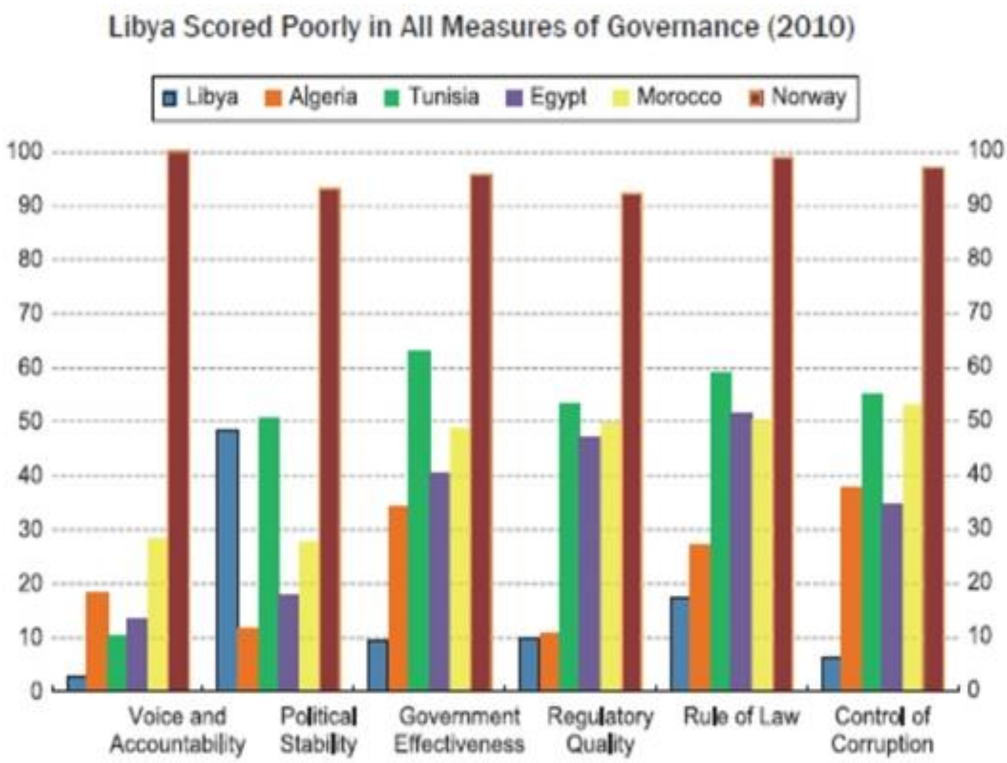
Since its establishment in 1956, it has been the job of the Central Bank of Libya (CBL) to oversee and regulate the country's banking sector. The CBL has had to respond to numerous problems and crises in the industry over the years, which have necessitated the creation of new regulations to maintain the strength of the sector. For example, when regional banks were established in 2000 and 2001, they faced serious liquidity problems from the beginning. By the end of 2004, there were significant problems with improper loans and mismanagement. Board members in these banks were borrowing heavily from the banks and defaulting on repayments. By 2005, the Tripoli Bank was technically insolvent and was unable to settle the claims of local depositors (CBL, 2005). The CBL therefore stepped in and, in Resolution No. 58/2006, approved the merger of 41 of the regional banks into the National Banking Corporation. The new bank became the largest private commercial bank in the Libyan market (CBL, 2011).

The CBL has also had to intervene in individual banks. In 2006-2007, for example, it suspended the operations of the Al-hliah Tagowrah Bank when the bank got into financial difficulties. When serious financial irregularities in the bank's operations came to light in 2008, it forced the board to dismiss the managing director. Similarly, when the Al-Wafa Bank experienced liquidity problems in 2006, the CBL replaced the serving CEO with one of its own staff nominated three new board members and sent its own deputy governor to board meetings. It also asked the board to limit the general manager's and branch managers' authority to give loans (CBL, 2006). When, in mid-2006, the CBL discovered that most board members had obtained huge loans from the bank, it referred the bank's case to the Minister of Finance, who passed it to the Council of Ministers. The chairman of the board refused to resign, so he was dismissed by the Minister of Finance. The bank is now directed by a trusteeship council appointed by the Minister of Finance and the CBL (CBL, 2012).

Several studies (e.g. Al-Ghiryany, 2004; Al-Tekhtash, 2004; Hamadu, 2010) have highlighted another problem faced by the banking sector: the lack of laws and bylaws regulating the accounting and auditing profession in Libya and its inconsistent application of accepted professional standards. The shift towards privatisation and the need to attract foreign investment are making it increasingly important that accountants and auditors are both aware of and committed to internationally accepted professional standards. Disclosure and transparency are crucial to Libya's economic development; investors are more likely to be attracted by predictable, well-regulated, low risk environments than they are by tax breaks or customs facilities. In other words, not only does Libya's legislation need to be updated to reflect the increasing emphasis being placed on governance, privatisation, disclosure, transparency and accountability, but the accounting and auditing profession itself needs to establish an organisation that is capable of developing professional standards that are harmonious with international practice and that can help it respond to these new realities

According to the World Economic Forum (Chami et al., 2012), "Libya had better macroeconomic conditions [in 2010] than the regional average, reflecting primarily its record of large fiscal surpluses and low debt". However, it ranked low in terms of international measures of governance (see Figure 2.3). Only on political stability did Libya rank better than the international average.

**Figure 2-3: Governance measures for MENA countries plus Norway, 2010**




Source: Worldwide Governance Indicators, World Bank, 2011.

## 2.8. Conclusion

This chapter sheds light on the characteristics of Libya's economic, cultural and legal environment. It is clear from the discussion that the evolution of the banking sector has been influenced by Libya's economic development over the twentieth century, particularly the expansion of oil production and the move from public to private ownership. The decision to focus on commercial banks in this research mainly stems from the economic importance of this sector. Banks are central to the economy in that they hold the savings of the public and finance the development of business and trade. As such, scrutiny of their efficiency is fully justified, and it is in the interests of a wide variety of stakeholders – regulators, customers, investors and society as a whole – that their financial reporting is accurate. Bank failure "can result in systemic crises with adverse consequences for the economy as a whole" (Fethi and Pasiouras, 2010, p.189), as has been seen in a number of countries. In other words, the collapse of a commercial bank affects a wide range of stakeholders, not just shareholders.

There are increasing numbers of investors – both local and foreign – in Libya since liberalisation. However, Libyan companies – both public and private – are still unsophisticated by international standards in terms of their strategies and operation. Moreover, policy instability and inefficient government bureaucracy pose significant barriers to foreign and local businesses alike (Porter and Yergin, 2006). Since effective corporate governance is crucial to the improvement of Libya's financial systems (and to its ambition to join the WTO), CG is high on the agendas of government and public and private banking institutions (Bengdara, 2007). The main problem at the moment is the lack of systems and procedures to compel companies to implement CG mechanisms. The Libyan Stock Market and the Central Bank of Libya are the main players attempting to establish principles of good corporate governance, but CG is in its early stages in Libya and it is uncertain whether these initiatives are being respected and implemented.

In Libya, as elsewhere, the control and supervision of the business environment is the province of corporate law. The chapter shows that the legal system already accommodates international CG principles regarding the role of the board of directors, but that the governance concept is currently most strongly linked to the audit committee mechanism. The chapter also highlights the high level of influence that Shari'ah law has on boards of directors in Islamic banks; any investigation of internal CG mechanisms in the Libyan banking system must take into account the significant role social and cultural factors play in shaping the roles of the board. Finally, the chapter examines the CBL's role as banking sector regulator. This agency has played a significant role, monitoring, regulating and maintaining a stable framework to ensure the strength of the banking industry. This chapter having introduced the unique context, in which the Libyan banking system operates, the next chapter discusses the theoretical framework underlying the study.

# Chapter 3: The Nature of Corporate Governance

## 3.1. Introduction

The aim of the research is to understand corporate governance in terms of the roles and responsibilities of the board of directors. This first necessitates an examination of the work already done in this field. Accordingly, this chapter has two main parts: the first part discusses the various definitions of corporate governance and the conflicting theoretical perspectives that underlie them. It also examines the contrasting approaches to corporate governance in relation to the role of the board of directors. The second part of the chapter reviews theoretical aspects of board structure, as reflected in the insider and outsider CG systems. The chapter ends by outlining the key characteristics and underlying principles of the Islamic system of corporate governance.

## 3.2. Definitions of Corporate Governance

According to Solomon (2010, p.12), "There is no single, accepted definition of corporate governance" among scholars and managers. Clarke (1993) asserts that corporate governance means different things to different people, while Sheridan and Kendall (1992) suggest that every country has its own idea of what the term means. Blair (1995, p.3) defines corporate governance as: "the whole set of legal, cultural and institutional arrangements that determine what publicly traded companies can do, who controls them, how the control is exercised, and how the risk and returns from the activities they undertake are allocated".

The many different definitions in the literature vary in scope, depending on the discipline and the theoretical background of the policy maker, practitioner or researcher concerned (Solomon and Solomon, 2004). Narrower definitions focus on the relationship between companies and their shareholders. For example, Shleifer and Vishny (1997) assert that: Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Narrow definitions stress the importance of shareholders' interests, largely ignoring the interests and goals of other stakeholders.

In contrast, Demb and Neubauer (1992, cited in Turnbull, 1997, p.183) claim that: "Corporate governance is the process by which corporations are made responsive to the rights and wishes of stakeholders". Broader definitions of corporate governance view corporations as being responsible and accountable not just to shareholders but to a range of groups, including employees, creditors, customers and society as a whole (Keasey et al., 1997; Solomon and Solomon, 2004; Mallin, 2007; Tricker, 1994; Baker and Owsen, 2002). Turnbull (1997, p.181) takes a very broad view, suggesting that corporate governance is: "all the influences affecting the institutional processes, including those for appointing the controllers and/or regulators, involved in organizing the production and trade of goods and services".

The OECD (1999, p.11) defines CG as:

> "a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

Finally, Solomon and Solomon (2004, p.14) define corporate governance as: "the system of checks and balances, both internal and external to companies, which ensure that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity."

These last definitions acknowledge not just the rights of shareholders and stakeholders but also the responsibilities of the board of directors – the particular focus of this study. The BODs' role in corporate governance is emphasised in the 1992 Cadbury Report, which asserts that: "it is the ability of boards of directors to combine leadership with control and effectiveness with accountability that will primarily determine how well...companies meet the society's expectations of them" (1992, p.9). This suggests that the key to understanding corporate governance is to examine the BODs' role and its interactions with senior management, shareholders and stakeholders in both its own and other companies (Cochran et al., 1988).

## 3.3. Theoretical Framework

The UK law sees CG as the sole responsibility of shareholders (Deakin and Konzelmann, 2003). However, Monks and Minow (2008) identify three sets of players who are directly involved in corporate governance: the shareholders (the owners), directors and managers (whose job it is to protect the economic interests of shareholders and serve as their agents). The range of actors involved creates the potential for conflicts of interest to emerge; Jensen and Meckling (1976), for example, propose a theory of the firm which focuses on the conflicts of interest which may arise between shareholders, managers and debt holders (see McColgan, 2001). A huge body of literature has evolved to explain the nature of these conflicts and to discuss the problems associated with CG, though researchers offer competing interpretations of why these problems arise and how they should be addressed. There are major differences on what should be considered system errors, how these errors affect economic growth, and how to create a more effective system.

Three major schools of thought have influenced the development of corporate governance: agency theory, institutional theory and stakeholder theory. These are discussed in the following sections, along with stewardship theory and resource dependency theory. It is worth noting at this point that, as Tricker (1996, p.31) observes:

> "Stewardship theory, stakeholder theory and agency theory are all essentially ethnocentric. Although the underlying ideological paradigms are seldom articulated, the essential ideas are derived from Western thought, with its perceptions and expectations of the respective roles of individual, enterprise and the state and of the relationships between them."

### 3.3.1. The Agency Problem

In the days before the emergence of the financial markets, owners tended to manage their own companies; however, the appearance of the financial markets has given rise to a new phenomenon: the habitual or serial investor (Solomon, 2010). The result is that modern companies are not normally managed by their owners but by specialist, experienced managers. In this separation of ownership and management lie the roots of the agency problem; conflicts of interest may arise between the two groups, especially if the managers are primarily motivated to serve their own interests rather than those of the owners. The problem may be exacerbated when shareholders attempt to monitor the activities of managers or to align managerial interests with their own objectives. Problems may also arise if shareholders come into conflict with bondholders (debt agency) (John and Senbet, 1998).

The separation between ownership and control and the agency problem are the main reasons for the emergence of the governance concept (John and Senbet, 1998). All CG definitions recognise the potential for conflict between insiders and outsiders over the generation of value (Pergola and Joseph, 2011). An agency problem can reduce efficiency, diminishing the value of the owners' investment; conversely, implementing governance mechanisms that will maximise the operational efficiency of the company is the best way to achieve economic gains. These mechanisms must be built into the company's governance systems and its contracts (John and Senbet, 1998), though as Hart (1995) notes, contractual negotiation and implementation can be expensive, and a contract cannot encompass all contingencies.

### 3.3.2. Ownership Structure

The financial literature has focused heavily upon the relationship between corporate governance and ownership structure. Hart (1995) argues that all shareholders can contribute to the maximisation of profits or minimisation of costs when no agency problem is present. In these circumstances, arbitration is rarely necessary as differences do not normally occur. Solomon (2010) highlights the power major equity holders can have on company governance:

> "Ownership structure is no longer widely dispersed, as in the model presented by Berle and Means (1932), but is now becoming increasingly concentrated in the hands of a few major institutional investors. Some of these dominant investment institutions may now be seen as insiders, rather than outsiders, influencing company management directly." (p.12)

He argues that ownership structures have as much influence on CG systems as legal, cultural, religious, political or economic factors.

### 3.3.3. Agency Theory

Agency theory has been of great interest to researchers of corporate governance (Fama and Jensen, 1983; King and Wenb, 2011; Manosa et al., 2007; Berle and Means, 1932; Renders and Gaeremynck, 2012), who have used its assumptions, models and arguments to understand ownership structure, board practices, agency conflicts, corporate governance reform, capital structure and debt (Manosa et al., 2007). In developing countries, authors such as Farooque et al. (2007a; 2007b) have used agency theory to examine CG structures and issues and to identify ways of improving governance. Only a few studies have investigated corporate governance in Islamic contexts or attempted to develop alternative, Islamic-oriented models of CG (Hasan, 2009), but these have shown that, even in so-called Islamic corporations, the main objective is to maximise shareholder wealth (Hasan, 2009). This implies that in practice, many Islamic corporations follow the agency-theory-based Anglo-Saxon model of corporate governance (Lim, 2007, p.737-738).

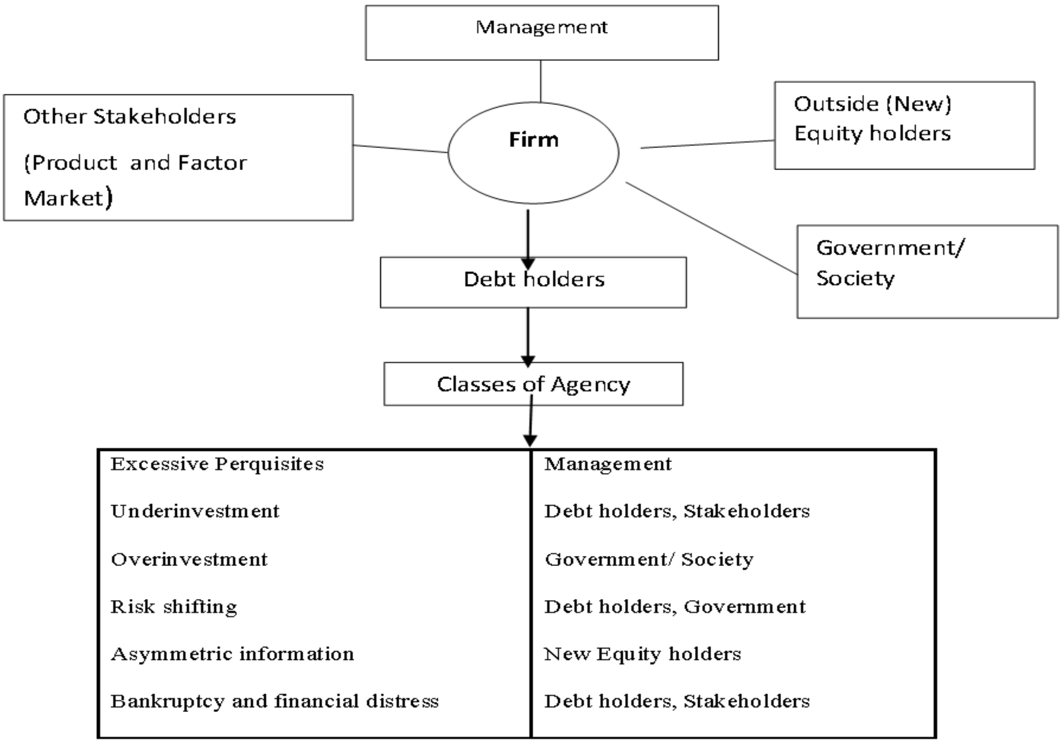
The underlying assumption of agency theory is that where management and ownership are separated, managers may not necessarily act in the best interests of shareholders; they may have different interests and may not expend resources to maximise the latters' wealth (Berle and Means, 1932; Gillan, 2006; Shleifer and Vishny, 1997; Jensen and Meckling, 1976; Sundaramurthy and Lewis, 2003). Hence, the main focus for agency theorists is on identifying and strengthening mechanisms that will discipline managerial opportunism and mitigate its negative effects on shareholder wealth (Kosnik, 1987).

Eisenhardt (1989, p.89) explains that: "Specifically, agency theory is directed at the ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent), who performs that work". Agency theory, which has been a fundamental tenet of economics for decades, assumes that there is an inherent conflict between the interests of these two groups (Okpara, 2011). Realigning these interests incurs additional costs known as agency costs, a large proportion of which go on the board of directors' monitoring and controlling activities.

Agency theory views the board as the "ultimate internal monitor...whose most important role is to scrutinize the highest decision makers within the firm" (Fama, 1980, p.294). Directors "do not occupy their seats to help management manage, but to own the business on behalf of shareholders" (Carver, 2000, p.79). In other words, the board is primarily a tool for minimising agency costs and safeguarding shareholders' interests (Choi et al., 2007). It has also been described as a way for some managers to exercise control over other managers (Stiles and Taylor, 2001). As a mediating mechanism, the board is expected to resolve any conflicts of interest between agents and principals.

The nature of the agency relationship can only be changed by effective governance – by developing mechanisms and processes of governance and implementing them without prejudice in the best interests of both clients and agents (Christopher, 2010). It is appropriate that this investigation should draw on agency theory, given that companies are widely seen as associations or networks of explicit and implicit contracts (Jensen and Meckling, 1976) between their various stakeholders and society as a whole (see Figure 3.1).

**Figure 3-1: The firm as a network of contracts**




Source: Jensen and Meckling (1976)

Concerns have been raised about the adequacy of agency theory as a way of understanding CG. However, according to Aguilera et al. (2008), corporate governance extends beyond the relationship between shareholders, the board of directors and managers; they argue that internal and external environmental forces expand the scope of this interdependent relationship and affect the governance model. In a similar vein, both Filatotchev (2008) and Roberts (2009) emphasise that to properly understand a company's corporate governance, it is necessary to take into account the regulatory environment. Researchers have sought to overcome what they see as the constraints of agency theory by proposing a dual methodology approach to gain a more inclusive view of corporate governance (Christopher, 2010).

### 3.3.4. Institutional Theory

Daily et al. (2003) argue that the social aspects of the evolution of governance have received scant attention in agency theory, while Paredes (2005) asserts that it is ineffective at explaining the major CG issues in developing countries. Instead, these authors point to institutional theory as a useful alternative. Institutional theory posits that many of the dynamics affecting the corporate environment stem from cultural norms, values and rituals (Scott, 2013). Thus, the social and cultural environment should also be taken into account when investigating corporate governance practices (Scott, 2013). Stedham and Beekun (2000) assert that institutional theory sees the BODs' as having two primary roles: linkage and administration. Its linkage role involves establishing relationships between the corporation and the external environment, while its administrative role is to oversee the performance of top management, in particular, the CEO.

Institutional theory asserts that over time, organisational behaviour and practice, including the role of the BOD, are shaped by the institutional environment (DiMaggio and Powell, 1983; Fried et al., 1998; Peng et al., 2004; Scott, 2008). The theory is concerned with explaining the mechanisms by which organisations seek to align their practices and characteristics with prevailing social and cultural values in order to obtain legitimacy (DiMaggio and Powell, 1983). This may involve adopting structures and practices which are considered legitimate and socially acceptable by other organisations in the same field, irrespective of their actual usefulness (Scott, 2013; Rodrigues and Craig, 2007; Hasan, 2008). A number of researchers have demonstrated that organisations wanting this legitimacy – and to be seen as modern, rational, responsible and compliant – must undergo a process of institutional isomorphism (Carruthers, 1995; Rodrigues and Craig, 2007), modifying their operations to match the presumed values and beliefs of social and organisational life (Al-Omari, 2010). Failure to do so may even cause the organisation to lose legitimacy (DiMaggio and Powell, 1983; Carruthers, 1995).

DiMaggio and Powell (1983) identified three types of isomorphism, which loosely correspond to Scott's (2008) three pillars of institutionalisation (regulative, cognitive and normative). Coercive isomorphism occurs in response to pressure from government, regulators or stock exchanges, for example, in the form of legal/regulatory requirements mandating board structure or behaviour (Meyer and Rowan, 1977; Scott, 2008). Organisations react to this regulative pillar by implementing the recommendations, for example, by enhancing board independence or establishing audit committees. Thus, organisational processes change over time and governance structures “fulfil ritualistic roles that help legitimize the interactions between the various actors within the corporate governance mosaic” (Cohen et al., 2007, p11).

Mimetic isomorphism, explains Scott (2013), is motivated by a desire to adopt others' practices because they are perceived as successful and worthy of adoption. In a similar vein, Rodrigues and Craig (2007) describe it as an organisation mimicking the actions of similar, but more legitimate or successful, organisations in the institutional environment. The organisation may adopt similar processes because it thinks they actually are more effective, but it may equally be because it knows they are deemed legitimate and socially acceptable by other similar organisations (Saudagaran, 1997). This is similar to Scott’s cognitive pillar, which suggests that firms and boards behave the way they do in response to cognitive pressures (Peng et al., 2004). Like coercive isomorphism, mimetic isomorphism can lead to CG practices becoming more similar over time (Braiotta and Zhou, 2006; DiMaggio and Powell, 1983) as organisations imitate other organisations to reinforce their legitimacy (Cohen et al., 2007).

The final form of isomorphism is normative isomorphism, which occurs in response to pressure from group norms to adopt certain institutional practices (Clarke, 2004). Normative pressures can trigger changes in board structure and process even when there are no regulative or cognitive pressures (Miller-Millesen, 2003). According to the normative pillar, firms and boards embrace the norms, values, beliefs and expectations that are least likely to cause them to be seen as different and consequently singled out for criticism. Thus, firms going through performance difficulties are likely to make changes based on normative pressures (Meyer and Rowan, 1977) and adopt structures and processes that will draw greater normative approval or enhance their moral legitimacy (Scott, 2000; Suchman, 1995), even if these changes threaten the performance of the firm (D’Aunno et al., 1991). Zucker (1987) notes that firms and boards act in a specific way just because they have become an accepted way of accomplishing them. In the banking sector, for example, banks may be influenced to adopt CG guidelines because this is expected by international banking organisations such as the BCSB or OECD.

Although the Libyan government has developed regulatory CG frameworks that are consistent with internationally recommended practice, the gap reported by previous researchers between de facto and de jure compliance (Larbsh, 2010) indicates that these regulatory requirements are poorly enforced. This suggests a low level of coercive isomorphism in the LBS. In respect of mimetic isomorphism, the main reasons for mandating CG in the LBS were pressure from international lending institutions, particularly the WB and the IMF, and a desire to promote a more legitimate or successful image by following globally recommended practices, since Libya lacked the expertise to develop national standards of the same quality (IMF, 2013; Bengdara, 2007). As far as normative isomorphism is concerned, while the last decade has seen Libya make major efforts to develop its educational and professional frameworks to promote CG, the gap between de facto and de jure compliance signals that this has been insufficient to improve the quality of BODs' performance or accounting professionalism. One might conclude that although the LBS appears to have encouraged all forms of institutional isomorphism, the measures taken have in fact been little more than window dressing designed to impress external organisations such as the WB and the IMF and to gain their financial and political support and legitimacy.

Since the low level of de facto compliance may be an outcome of the interaction between the cultural context and institutional pressures, it is imperative to consider the influence of this context. For example, with the respect to such influence, decoupling may be the result of cultural barriers that have led to boards in the LBS having a poor understanding of international CG guidelines; banks may believe they are applying CG, when infact they are not complying fully. The review of the forms of institutional isomorphism suggests that they should be seen as complementary, though in the researcher's view, normative isomorphism should come before coercive isomorphism as this is less likely to result in such a decoupling. The adoption of CG in an emerging market requires careful preparation, mainly by developing the national cultural values to attribute the same importance to CG compliance as is found in the developed countries where the standards were initially developed.

This study draws on institutional isomorphism theory to explain the influence of corporate governance mechanisms on the levels of compliance with board of director role requirements in Libyan banking sector. In addition, it provides an overview of what board members see as the main barriers to full compliance.

### 3.3.5. Stakeholder Theory

Stakeholder theory situates the company within a larger system. The legal infrastructure provided by the host society determines the nature of the company's activities, but whatever these activities, its central purpose is to create wealth or value for shareholders by converting their shares into goods and services (Turnbull, 1997). According to Blair (1995, p.322)

> "The goal of directors and management should be maximising total wealth creation by the firm. The key to achieving this is to enhance the voice of and provide ownership-like incentives to those participants in the firm who contribute or control critical, specialised inputs (firm specific human capital) and to align the interests of these critical stakeholders with the interests of outside, passive shareholders."

The key principle in stakeholder theory is that companies operate by the key principle in stakeholder theory is that companies operate by the creation of value requires inputs from a range of stakeholders. They should therefore be governed for the benefit of all stakeholders – not just shareholders but managers, suppliers, customers, employees and the community as a whole. This needs a sound understanding of the needs of the different stakeholders and how they are affected by the activities of the company (Freeman et al., 2004). The interdependence between firms and their strategic stakeholders is recognised by the American Law Institute (1992), which states that: "The modern corporation by its nature creates interdependences with a variety of groups with whom the corporation has a legitimate concern, such as employees, customers, suppliers, and members of the communities in which the corporation operates" (cited in Turnbull, 1997, p.3).

The corporate law of most western countries places the interests of shareholders ahead of other stakeholders, but the stakeholder model takes a broader view; it sees the role of governance as being to achieve an appropriate balance between shareholders and other stakeholder groups and to guide the activities of the company so they do not favour the shareholding group at the expense of others. This is crucial, since any perceived unfairness may lead to groups withdrawing from the system (Clarkson, 1995). In stakeholder theory, companies are seen as social entities with the power to impact on the welfare of many people. As such, it has been argued, they have a responsibility to promote equality and social justice (Letza et al., 2004). This is a recent development in corporate governance (Brennan and Solomon, 2008) and has led to a number of studies focusing upon companies' social responsibility (Unerman and Bebbington, 2007; Collier, 2008; Parker, 2007; Solomon, 2010).

Stakeholder theory allows organisations to maximise shareholder value by providing managers with a means to understand the different needs of multiple stakeholders and reconcile them with the purposes of the organisation (Christopher, 2010). Sundaram and Inkpen (2004) argue that stakeholder theory challenges directors to cater for all stakeholders. The theory sees the board of directors as the means through which the firm is able to take into account the legitimate interests of stakeholder groups and individuals who affect (or are affected by) the activities of the firm (Donaldson and Preston, 1995; Freeman et al., 2004). This may require directors to be more actively involved in designing company strategy (Anchor and Dehayyat, 2010; Baxt, 1999, cited in Hendry and Kiel, 2004). It has been argued that stakeholder theory complements agency theory by allowing for more inclusive approaches to corporate governance (Solomon, 2010).

According to Choudury and Hoque (2004), the ultimate goal of governance in Islamic banking is to foster social justice. These authors (2006) suggest that in Islamic countries, social wellbeing takes priority over the maximisation of shareholder wealth, and the professional objective of directors, managers and auditors should be to satisfy the needs not just of shareholders but of all stakeholders and of Allah. This perspective is clearly more in keeping with the stakeholder approach to CG than with the shareholder approach. While western corporations separate ownership and control, in Islamic corporations, ownership, control and benefits are to be shared. The aim of corporate governance is to enhance accountability, transparency and trustworthiness – values which are central to Shari'ah law.

### 3.3.6. Resource Dependency Theory

Resource dependency theory complements stakeholder theory in that it addresses some of the consequences that arise from having a wide stakeholder base (Christopher, 2010). The theory suggests that firms depend on other organisations within society for their economic success and therefore focuses on the external linkages and networks of the firm (Pettigrew, 1992; Pfeffer and Salancik, 2003). Resource dependency theory suggests that an external stakeholder's ability to command vital resources gives it power; in other words, if it brings in resources that are necessary for the company's success, it will gain power relative to the internal stakeholders. This suggests that the latters' ability to govern the firm depends not just on the relative size of their equity holdings, but also on the tangible and intangible resources they bring to the firm (Child et al., 1997).

According to this theory, the BOD is the focal link between the company and its external network (Kiel and Nicholson, 2003). It serves as an "optative" mechanism through which a company can build links with the external environment to either secure resources or protect itself against environmental adversity, for example by inviting acknowledged leaders from other sectors to serve on the board (Stiles and Taylor, 2001, p.16). It also enhances and consolidates the firm's place and power in the market (Kosnik, 1987; Pettigrew, 1992). Directors' professional expertise as lawyers or bankers can enhance organisational functioning, while their personal and professional networks can facilitate access to the resources the firm needs. In this way, the board acts to manage strategic uncertainty.

### 3.3.7. Stewardship Theory

Stewardship theory, which derives from psychological and sociological approaches, postulates that the interests of directors and management are aligned with those of the shareholder. It assumes that managers want to be good stewards of the corporate assets (Stiles and Taylor, 2001), that BODs and CEOs work for the wider interests of the business and that over time, senior executives tend to come to think of the firm as an extension of themselves (Clarke, 2004; Wheelen et al., 2014). In fact, senior managers are more likely than shareholders to take a long-term view of firm performance (Mallin, 2007). Stewardship theory recognises that managerial behaviour may be motivated by non-commercial considerations such as a desire for attainment and appreciation, gratification from achieving positive performance, respect for authority and a strong work ethic (Donaldson, 1990). As such, it posits that boards with a higher proportion of executives will outperform those with a lower proportion (Sundaramurthy and Lewis, 2003). Inside directors are especially valued for their operational expertise and knowledge (Stiles and Taylor, 2001; Langevoort, 2001), though non-executive directors are also seen as vital for improving board efficiency. The main emphasis is on the board's potential to provide advice to executives and to participate actively in the formulation of strategy (Sundaramurthy and Lewis, 2003).

Under stewardship theory, the separation of ownership and control is seen not as a potential problem but as a positive development that can work to the benefit of the firm. The depth of knowledge, commitment and access to current operating information and technical expertise possessed by managers are seen as vital to the effective running of the firm – so much so that they outweigh any agency issues that may arise (Learmount, 2002). Stewardship theory favours the concentration of power and authority in the hands of management rather than the board as the best way to enhance the firm's economic performance. Finally, it encourages small boards in the belief that this supports positive communication and better decision making (although it does not specify what constitutes "small" or how companies can decide what is the best board size for them) (Monks and Minow, 2008).

Corporate governance literature draws on a range of theories to explain the BOD's role, from agency theory, which focuses on its monitoring function, to resource dependency theory, which focuses on its ability to bring in resources, to stewardship theory's emphasis on the board's strategic or advisory role, to institutional theory's claim that it plays linkage and administrative roles, to stakeholder theory, which sees the BOD's role as being to manage stakeholders and improve the social performance of the firm (Freeman et al., 2004). Clearly, no single theory can provide a complete understanding of the role played by the BOD.

This research draws primarily on agency theory because it establishes the relationships between shareholders, board and management – the main players in governance. This theory focuses on the board's monitoring function and how the separation between ownership and management might lead managers to collude against owners (Abdul

Rahman and Ali, 2006). However, the study also recognises stakeholder theory's assumption that corporations do more than merely maximise shareholder wealth; since they deliver outputs to a range of stakeholders, their efficiency should be considered within the broader social context. The analysis also draws on institutional theory. This argues that firms adopt CG mechanisms either because they are coerced into it by legislators or in imitation of other companies. The study investigates these assumptions by examining how the CG Code is being implemented in the LBS and the extent to which banks are behaving similarly. By employing a combination of theories, the study seeks to gain a more comprehensive picture of corporate governance and a deeper understanding of board functions. Each theory should give insight into how the structural attributes of boards can influence board processes and their ability to perform the roles expected of them.

The second part of this chapter examines the theoretical aspects of board structure, as reflected in the various international models of corporate governance.

### 3.4. Insider and Outsider Control

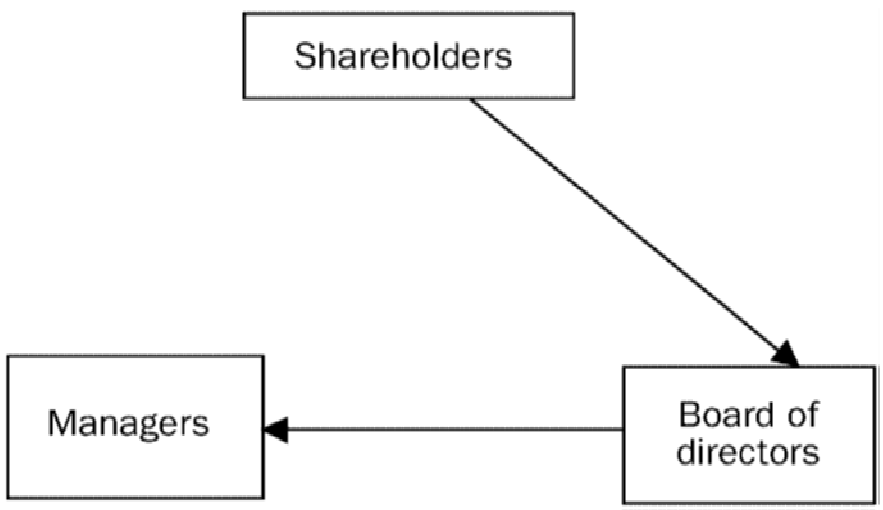
Countries following civil law, such as France, Germany, Italy and the Netherlands, promote a CG approach that encompasses all stakeholders; it aims to balance the interests of shareholders with those of workers, directors, creditors, suppliers, clients and wider society (Solomon and Solomon, 2004). Known as the insider model of corporate control, it gives those closest to the company's actual operational procedures the most control (Department of Treasury, 1997, cited in Mulili and Wong, 2011). Conversely, countries following common law, including Australia, the UK, USA, Canada and New Zealand, promote the outsider or Anglo-Saxon model of corporate governance, which prioritises shareholders' profits or benefits. Investors hold a company's management accountable for achieving its objectives and maximising returns (Mulili and Wong, 2011, p.15). While the insider-dominated system tends to be associated with a two-tier board model, boards in the outsider-dominated system tend to be unitary.

### 3.4.1. The Outsider Model (The Anglo-Saxon Model)

This liberalist approach to CG, which is found in the USA, the UK, Australia, New Zealand, Canada, South Africa and other Commonwealth countries (Tricker, 1994), emphasises the interests of shareholders and their right to be involved in corporate decision making. It takes the view that the firm is the property of investors (Scott, 1997) and that managers are agents whose only task is to increase the value of the shareholders' contribution (Fisher and Lovell, 2008).

Nestor and Thompson (2000) argue that the classic outsider systems are found in the USA and UK, and that they are characterised by: 1) dispersed equity ownership with large institutional holdings; 2) company law that recognises the primacy of shareholders; 3) a strong emphasis on the protection of minority investors in securities law and regulation; and 4) relatively strong requirements for disclosure (p.5). Figure (3.2) shows how this works in terms of the decision-making process, although since share ownership is usually widely dispersed in the Anglo-Saxon model, in practice, shareholders have little impact on management. It is not surprising then that in this system, companies require solid legal protection to safeguard shareholders from the consequences of management under-performance or malfeasance (Hasan, 2009).

**Figure 3-2: The Anglo-Saxon model of corporate decision making**




Source: Cernat (2004)

The Anglo-Saxon model has several ways of motivating managers to work in shareholders' interests. Accounting reports (Roe, 2003) and quoting activities allow shareholders to monitor and control management, but the main mechanism is the board of directors, which in the outsider model is selected by the owners. Boards in the Anglo-Saxon model tend to be unitary, or single-tier, and comprise both executive and non-executive members (according to the Cadbury Report (1992), increasing the number of NEDs strengthens the board's control over management). The chairman of the board is selected by the board members and his role is to create a bridge between managers and investors. His sole responsibility is to run the board; to ensure that it meets regularly that directors have the information they need to contribute in meetings and that everybody has the opportunity to speak at board meetings (Mallin 2007, p.126). There is a clear distinction between the CEO of the company and the chairman of the board.

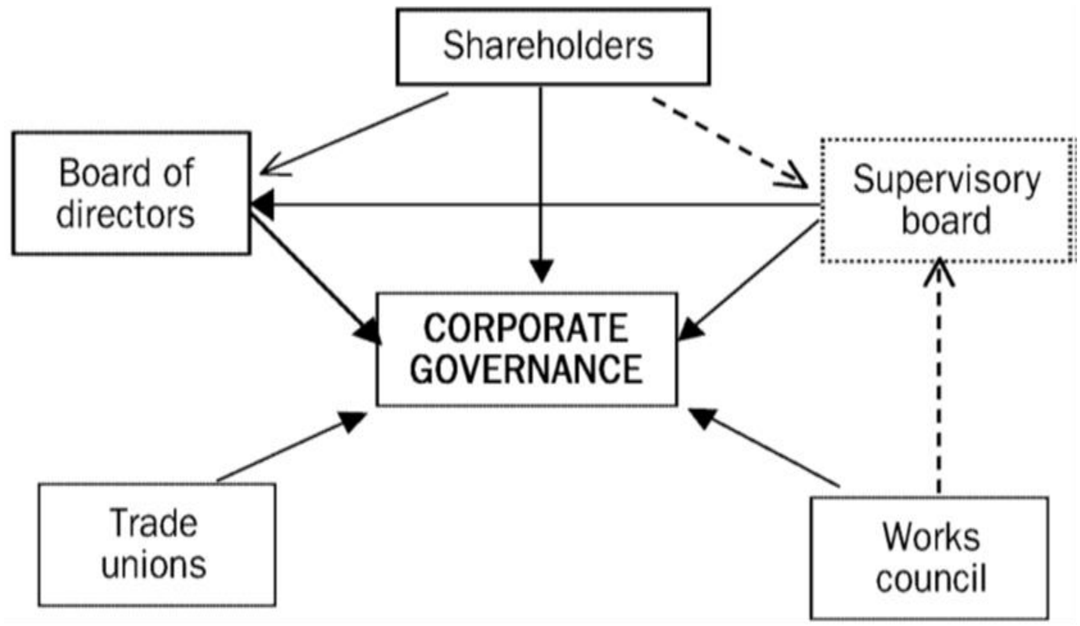
### 3.4.2.The Insider Model (The Two-Tier Board)

Solomon and Solomon (2004, p.149) define the insider-dominated system of corporate governance as one in which publicly listed companies are controlled by a small group of institutional shareholders (e.g. banks, other companies or government). The insider model, which is found in a number of countries in Continental Europe and in Japan, is also known as the relationship-based system, as shareholders and the companies in which they invest have a very close relationship. This model reflects stakeholder theory in that it takes into consideration the interests of stakeholders, as well as those of shareholders. For instance, employees participate in decision making through trade unions and work councils (Cernat, 2004, p.153).

The insider model is characterised by two-tier boards. A management board and a supervisory board are both installed. The management board addresses operational issues, is controlled by the CEO and made up of executives only. The supervisory board oversees strategic decision making and supervises the management board. The company chairman attends the supervisory board's meetings in a non-executive capacity (Solomon, 2010). This separation of the administrative and monitoring functions is designed to avoid conflicts of interest arising between owners and managers (Dahya et al., 2002).

Unlike the Anglo-American model, the insider model legitimises the participation of large firms and banks in the governance of firms; there is not therefore the same fragmentation of corporate ownership and executive domination of BODs in this model as is found in the Anglo-Saxon model (Rubach and Sebora, 1998). The cross-holding among companies also has the effect of creating networks of firms that are joined in ownership. These major shareholders also play a greater role in CG than in the Anglo-Saxon model, overseeing administration and monitoring and disciplining management (Wei, 2003). Figure 3.3 depicts the insider model.

**Figure 3-3: The insider model of corporate governance**




Source: Cernat (2004)

The insider model is widely practised in Germany, the Netherlands, Austria, Switzerland and Japan, among others. The following section examines in detail the German version of the insider model.

### 3.4.3. The Germanic Model

The stock market plays a less significant role in the economies of Germanic countries than in Anglo-Saxon countries. Sweden, the Netherlands and Switzerland have the equivalent of 41.7% of GDP in market capitalization and 6.5% of gross fixed capital formation in terms of new capital raised through public offerings. In these countries, companies are more likely to seek alternative sources of capital and there are fewer private shareholders (Prowse, 1998; Gilpin, 2001). This may partly explain why the German model of CG sees the company as an institution or social entity whose job is to serve the interests of a range of stakeholders, not just shareholders (Weimer and Pape, 1999). The effectiveness of the model is measured in terms of the return on social capital (Roe, 2003), with efficiency criteria being "focused on the maximisation of stakeholder value rather than shareholder value" (Goergen et al., 2008. p.1). This means that employees, investors, lenders and shareholders are all entitled to influence the decisions and strategies made and set for the firm (Monks and Minow, 2008), though the chairman's casting vote gives slightly more power to shareholders (Hopt and Leyens, 2004, p.7).

Like other insider models, the German model has a two-tier board structure. The board of directors is divided into a supervisory board, which consists of non-executive members and is elected by shareholders in the general meetings (Mallin, 2007), and a management board, which consists of executive members and is appointed by the supervisory board. Mallin (2007) explains that: the co-determination principle for compulsory employees are also represented in supervisory board which then comprises one-third employees representative or one-half employee representative respectively. The German Corporate Governance Code (2010, p.8) sets out in detail the functions of management boards:

> "The Management Board is responsible for independently managing the enterprise in the interest of the enterprise, taking into account the interests of the shareholders, its employees and other stakeholders, with the objective of sustainable creation of value. The Management Board develops the enterprise's strategy, coordinates it with the Supervisory Board and ensures its implementation."

Table 3.1 summarises the main features of corporate governance within the outsider and insider systems.

**Table 3-1: Main features of insider and outsider systems**

| Insider systems | Outsider systems |
|---|---|
| **Firms are owned predominantly by insider shareholders who also wield control over management.** | Large firms are controlled by managers but owned predominantly by outside shareholders. |
| **Little separation of ownership and control, so agency problems are rare.** | Separation of ownership and control, which engenders significant agency problems. |
| **Hostile takeover activity is rare.** | Frequent hostile takeovers act as a disciplining mechanism on company management. |
| **Ownership is concentrated among a small group of shareholders (founding family members, other companies through pyramidal structures, state ownership).** | Ownership is dispersed. |
| **Excessive control by a small group of insider shareholders.** | Moderate control by a large range of shareholders. |
| **Wealth transfers from minority shareholders to majority shareholders.** | whereas moderate control by a large range of shareholders is exercised in outsider systems. |
| **Company law offers weak investor protection.** | Company law offers strong investor protection. |
| **Potential for abuse of power by majority shareholders.** | Potential for shareholder democracy. |
| **Majority shareholders have more 'voice' in their investee companies.** | Shareholding is characterised more by 'exit' than by 'voice'. |

### 3.4.4. Corporate Governance Reform in the UK

Although the UK and USA corporate governance systems both follow the outsider model, they differ in a number of ways. The UK is recognised as a world leader in corporate governance reform, largely as a result of the growing interest being shown in CG issues by the country's directors, institutional investment community and government (Solomon, 2010). For this reason, it is discussed here as a prime example of the outsider model.

The first attempt to tackle the issue of corporate governance in the UK was in 1991, when a committee was established to examine the financial aspects of CG. Chaired by Sir Adrian Cadbury, it became known as the Cadbury Committee. This committee was established due to ongoing concerns over financial reporting and financial accountability standards following corporate scandals such as Maxwell, BCCI and Polly Peck, amongst others. The extensive use of creative accounting, abandonment of accounting standards and inefficient auditing processes also contributed. Joint behaviour undermined the city's self-regulation system, in which the Cadbury Committee was a major shareholder.

The committee's work culminated in the production of the Cadbury Report in 1992. The report, which defined corporate governance as "…the system by which companies are directed and controlled", emphasised that:

> "Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. ... The Board's actions are subject to laws, regulations and the shareholders at the AGM." (p.14)

The Cadbury Committee was followed in 1995 by the Greenbury Committee, which was set up to investigate managers' wages and bonuses. These were attracting growing public attention because of the widening wage gap that was emerging in newly privatised industries. Accordingly, the committee prepared a report and a code of best practice on manager remuneration (Greenbury, 1996). Both the Cadbury and Greenbury committees recommended a new committee be appointed to review their findings. In November 1995, the Financial Reporting Council (FRC) set up the Hampel Committee to introduce the implementation of corporate governance standards. The Hampel Committee amended and merged the Cadbury and Greenbury codes into one single combined code which was updated to take into account any new developments arising from the earlier reports (England and Wales,, 1999; Higgs, 2003). The Combined Code, which was imposed on the London Stock Exchange in 1998 (Garratt, 2003), has supported the development of corporate governance in the international arena, including Libya (its recommendations were taken into account when Libya's CG guidelines were revised in 2010). The Higgs Review of 2003 further modified the Combined Code, which was reissued in August 2003 (Garratt, 2010). Appendix A

(Table 1) summarises the key reforms that have guided the development of corporate governance in the UK.

### 3.4.5. Corporate Governance in the United States

The 2002 Sarbanes-Oxley Act was the USA's response to a series of major corporate collapses (e.g. Enron and WorldCom). The act acknowledged the significance of auditor autonomy and stipulated that there should be no conflict of interest in the relationship between auditor and auditee. The SEC has since instituted a number of rules designed to ensure that the provisions of Sarbanes-Oxley are implemented. Many of these rules may be traced back to the recommendations made by the various UK committees, such as the Hampel Report's recommendation that companies should establish remuneration, appointment and audit committees staffed mainly by independent directors.

## 3.5. International CG Initiatives: the OECD Principles

The Organization for Economic Cooperation and Development (OECD, 1999) set up an inter-governmental task force to devise a standard, globally accepted corporate governance framework (Solomon and Solomon, 2004). The task force, which included representatives from the 29 OECD governments, the EU Commission, the World Bank, the International Monetary Fund, the Bank for International Settlements, and from the business, labour and investment communities, produced its principles of corporate governance in 1998. According to Collier and Zaman (2005), this was the first inter-governmental attempt to develop an international approach to corporate governance.

Responses to the OECD Principles have been mixed. Frederick (1999, cited by DaviesSchlitzer, 2008) argues that they provide a point of reference for countries aiming to develop their own corporate governance system, but Monks and Minow (2008) claim that this is all they can do, given that little can be done to enforce them. Turnbull (1999), meanwhile, cautions that the ethical integrity of the principles risks being taken for granted simply because they are being promoted by institutions like the OECD. Critics have also pointed out that the principles are broad enough to be interpreted in several ways.

The sixth principle in the OECD framework (see Appendix A.2) stipulates that: “The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders” (OECD Principles, 1999; 2004). Directors are expected to monitor and assess managers’ performance and to be responsive to shareholders and other relevant stakeholders. In its boardroom guide, the OECD (2008, p.95) identifies an extensive list of board functions which it sees as central to the supervision of management performance. These include:

1. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
2. Monitoring the effectiveness of the company’s governance practices and making changes as needed.
3. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
4. Aligning key executive and board remuneration with the longer-term interests of the company and its shareholders.
5. Ensuring a formal and transparent board nomination and election process.
6. Monitoring and managing potential conflicts of interest between management, directors and shareholders, including misuse of corporate assets and abuse in related party transactions.
7. Ensuring the integrity of the corporation’s accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
8. Overseeing the process of disclosure and communications.

The OECD Principles may be used as the basis of governance methodology at both state and corporate level, though since the demand for and requirements of CG vary from country to country according to the culture, legal framework and prevailing corporate structure, simply importing them may not be useful. Mallin (2007, p.21) observes that a number of countries that have adopted the OECD’s CG code have made repeated amendments. However, she emphasises that although these countries have widely differing legal backgrounds, cultural and political contexts, business forms and ownership structures, in all cases, the introduction of the code has been motivated by a desire for transparency or accountability and to increase investor confidence in the stock market as a whole.

### 3.6. Corporate Governance in Developing Countries

The last two decades have seen a great increase in corporate governance research. Up to and throughout the nineties, most corporate governance research focused on the USA and UK, with some work being done in other developed countries like Japan and Germany (Shleifer and Vishny, 1997). However, more research is now being done across both developed and developing countries; Solomon and Solomon (2004) list 24 countries outside the USA and UK where CG research has been conducted.[3] Libya does not feature on this list as researchers have only recently begun to explore corporate governance in the country (e.g. Larbsh, 2010). This is perhaps not surprising, given that Libya is still in the early stages of corporate governance reform.

The relative lack thus far of CG research in developing countries is largely due to the fact that most of these countries are not as advanced in terms of CG practice as their industrialised counterparts. The corporate governance mechanisms that have reduced the possibility of mismanagement arising from fraud or errors and increased investor confidence in developed market economies have not worked as well in developing countries (Okeahalam and Akinboade, 2003; Black and Khanna, 2007), where there tends to be more political interference and less demand for corporate control (Gibson, 2003; Singh, 2003). Aintablian and Al Boustany (2008) also point to continuing misperceptions surrounding CG; for example, they argue that executives in MENA banks are not fully supportive of efforts to improve CG because they mistakenly see the process as one that requires heavy investment but yields little financial return. Finally, while the majority of businesses and corporations in some developing countries are family-owned or small and medium-sized enterprises (SMEs), in other economies, state-owned enterprises dominate production, consumption and the labour market (Young et al., 2008). In other words, as Samaha (2010) points out, developing countries are not a homogeneous group; the diversity of their CG practice may be

[3] Countries listed include: Argentina, Australia, Bahrain, Belgium, Canada, Chile, China, The Czech Republic, France, Germany, Hong Kong, Indonesia, Italy, Japan, Jordan, Malaysia, The Netherlands, Nigeria, Poland, Russia, South Africa, South Korea, Taiwan and Thailand.

partly attributable to the fact that they are at different stages of political development or have adopted different economic philosophies.

The environmental differences between developed and developing countries mean that research findings from the former are not always generalisable to the latter; Baralexis (2004) highlights that companies in developing countries are more likely to be poorly managed and unlisted, and those using the financial information are more likely to be unsophisticated. This means that CG is also likely to be perceived differently. Nevertheless, both developing countries themselves and international institutions such as the World Bank are attempting to address the issue of corporate governance in developing economies. Numerous conferences, workshops and meetings have been hosted by the World Bank and other international organisations with the aim of improving CG practice (Saidi, 2004), and many developing countries are trying to develop their own CG codes, with varying degrees of success.

Among those authors that have investigated CG in developing countries, McGee (2008) compared how corporate governance principles (as identified by the World Bank, IMF and the OECD) are applied across Asia (in Malaysia, Vietnam, Pakistan, Korea, Philippines, India, Indonesia and Thailand). His findings indicate that CG practices in these countries are still weak and that they are all struggling to implement their own corporate governance guidelines. Okike (2007) identified similar difficulties in Nigeria. Examining the roles played by the Corporate Affairs Commission, the government, the Securities and Exchange Commission, the Nigerian Stock Exchange, shareholders' representatives, directors, auditors and audit committees, he found that despite the government's best efforts (including changing company legislation and establishing a Code of Best Practice for all Nigerian listed companies), corporate governance mechanisms are still largely ineffective because the enforcement mechanisms are weak.

The problems can be exacerbated by political instability. Mangena et al. (2012) examined the effect of severe political and economic crisis on corporate governance in Zimbabwe. Using panel data from the Zimbabwe Stock Exchange for the period 2000-2005, they studied the relationship between board and ownership structures and firm performance before and after the presidential election. They found that board size, ownership concentration and executive directors' share ownership increased after the election, while the proportion of non-executive directors fell. Employing a system generalized method of moments approach, they found that performance was positively related to board size and ownership concentration after (but not before) the presidential election. Performance was negatively related to executive directors' share ownership in the post-presidential election period, but positively related in the pre-presidential election period. The relationship between performance and the proportion of non-executive directors was negative and significant in both periods.

Other CG research in developing countries has highlighted the importance of the outside director or non-executive director role. Haniffa and Cooke (2002) found a significant relationship in Malaysia between the selection of non-executive directors and the extent of voluntary disclosure, while Hussain and Mallin (2002) found that Bahraini boards are mainly controlled by non-executive directors and there is clear separation between the CEO and the chairman. In the majority of cases, non-executive directors were found to be relatively independent, having been selected (by the board as a whole or by major shareholders or the CEO/chairman – none of the companies in the study had a nominations committee) for their skills, business experience and reputation (Hussain and Mallin, 2003). The authors acknowledge that it is unclear how effective the nomination appointments process is and that directors tend to be fairly entrenched, but they are nevertheless cautiously optimistic:

> "Whilst Bahrain does not have a CG code per se, the company law reforms contain some interesting provisions that will contribute to the CG framework in Bahrain. Amongst these provisions is one that excludes directors from being on more than three boards. There are therefore some encouraging features and developments in CG in Bahrain." (2003, p.249)

The importance of outside directors was also highlighted by Solomon et al. (2003) in their study of Taiwanese listed companies. The researchers employed questionnaire surveys to examine what directors see as being the role and function of the board in these companies. They found that the board of directors is seen as the most important instrument in Taiwanese CG, and once again, outside directors play a vital role. The researchers concluded that their findings support the agency theory perspective on corporate governance; respondents attributed such importance to outside directors because they are seen as improving corporate accountability to shareholders. (Interestingly, their results revealed that few Taiwanese companies have established remuneration or audit committees.)

Geller (2009) conducted a study of Brazil, Chile, Colombia, Peru and Mexico, focusing on the characteristics of 198 directors in a sample of seventeen banks. The study found that a high proportion of directors had received their higher education abroad, mainly in the USA and Europe, and a high proportion had previous banking experience (76.5%). Only 5.6% of directors were female, and 52.5% had finance, economics or accounting qualifications. Board sizes varied from four to seventeen directors, with the average being 9.62 directors. 30.85% of independent directors had a banking background.

Researchers have so far demonstrated mixed results in terms of the advance of CG in MENA countries. Bremer and Elias (2007) investigated the challenges facing corporate governance in Egypt, using historical, empirical and interview data to analyse the structures of capital markets, the government's privatisation policy, board structure, the culture and the legal environment. They concluded that although major obstacles remain, recent developments indicate that momentum may be building for change. Also in Egypt, Samaha (2010) examined the impact of board independence and the presence of an audit committee on the level of disclosure in a range of information categories (ownership structure and exercise of control rights, financial transparency and information, auditing, corporate responsibility and compliance, and board and management structure and process). The results revealed that disclosure is not yet a fully established practice in Egypt and that its advantages have yet to be realised. Furthermore, there is no significant association between the presence of an audit committee and disclosure levels.

In Tunisia, Khanchel El Mehdi (2007) examined the relationship between corporate governance and corporate performance, concluding that CG is weakened by ownership concentration, poor regulation and a limited legal framework in tunisia companies. Taktak and Triki (2012), meanwhile, explored the governance characteristics of Tunisian listed banks in an attempt to detect how their internal governance mechanisms affected efficiency during the period 2002-2009. They found that efficiency was affected by the structure and size of the board of directors and by the ownership structure and that private banks were more efficient than public ones.

The above literature review provides evidence that developing countries as far apart as Bahrain, Egypt, Lebanon, Jordon, South Korea, India, Brazil, Argentina, South

Africa and Turkey all recognise the importance of corporate governance and have tried to establish effective CG codes. Many of these studies compare corporate governance across countries. Most concentrate on the CG model used in each country, while others focus on issues such as ownership structure, the board of directors' role and current disclosure practices.

Larbsh (2010) is one of the few authors to have explored corporate governance practice in Libya. He found that the corporate governance framework is less developed than in neighbouring countries, with the result that accountability is weak. The opaque economic structure, outdated legal system, cultural and social norms, political interference and lack of accounting professionalism all have an adverse effect on the corporate governance framework. Finding that the stakeholder model of corporate governance is more acceptable in Libya and that the board of directors is the main internal mechanism of CG, Larbsh argued that BODs need to be more responsible and to act on behalf of all stakeholders. Larbsh's study offered an initial understanding of CG practice within Libya's developing, transitional economy, but it was conducted before the 2011 revolution, following which "Libya embarked on a radically new chapter in its history" (BBC, 2014). To the best of the researcher's knowledge, the current study is the first to focus on the listed and unlisted commercial banks which play such a key economic role in developing countries, and the first to concentrate on Libya. In exploring the current role of BODs in the Libyan banking sector, it addresses a gap in the accounting literature. It also adds to the limited research examining the views of regulators and officials on how to reduce the obstacles that inhibit effective corporate governance.

## 3.7. Corporate Governance from the Islamic Perspective (the Islamic System)

Few studies have been conducted on corporate governance from the Islamic viewpoint or on governance arrangements within the Islamic financial domain, despite the fact that Islamic financial institutions have been operating with great success for the last forty years and are making a growing contribution to global finance (Yunis, 2007). The trend for Islamic corporate governance has grown in response to a rising demand from Muslim communities around the world. Khalifa (2003) explains that people want transactions to be conducted in accordance with Islamic Shari'ah law because they believe this guarantees a level of moral and social responsibility, and the promotion of social and environmental well-being.

**Table 3-2: Empirical studies on the role of the board in developed and developing countries**

| Authors | Country | Variables | Results |
|---|---|---|---|
| **Liu** | China and UK<br><br>2005 | Ownership structure<br><br>Legal system | Best CG practice in Chinese firms cannot be achieved without improvement in the local and political environment. In the future, Chinese CG has to be developed in line with legal development and ownership improvement. |
| **Werder et al.** | Germany<br><br>2005 | CG code | There was a significantly high level of code conformity, which can be expected to increase in the future. Company size was positively associated with the number of board members, the staffing of the board, the structure of the supervisory board and accounting requirements. |
| **Haniffa and Hudaib** | Malaysia<br><br>2006 | CG structure and performance of Malaysian companies | Board size and top five substantial shareholdings are significantly associated with both market and accounting performance measures. There is a significant relationship between multiple directorships and market performance, while role duality and managerial shareholdings are significantly associated with accounting performance. |
| **Melis** | Italy 2000 | Characterisation of the Italian system of CG | Weak managers, strong block holders and unprotected minority shareholders |
| **Adams et al.** | Sweden during 2008 | What determines board makeup and actions? | Many studies of boards can best be interpreted as joint statements about the director selection process and the effect of board composition on board actions and performance. |

In Islamic institutions, as elsewhere, corporate governance relates to the structures put in place to manage and organise the corporation so that it fulfils its corporate goals, the first of which is to safeguard the rights and interests of all shareholders. However, the Islamic model adopts a broader approach to decision making, taking into account

Islamic socio-scientific principles underpinned by the deific oneness of Allah (Choudhury and Hoque, 2004). Berger (2011) points out that: "religion has been the historically most widespread and effective instrumentality of legitimation", and this is certainly the case in the Islamic world. As in the west, corporate governance plays a significant role in ensuring Islamic organisations achieve their objectives and aims; unlike in the west, these aims must take into account Maqasid Shari'ah[4], or the objectives of Islamic law. However, since these also stipulate that an organisation's major aim should be to maximise shareholders' profits and protect their interests, in practice, many Islamic corporations espouse the Anglo-Saxon or western approach to corporate governance (Lim, 2007, p.737-738).

Having said this opponents of the Anglo-Saxon model question the relevance of the principle-agent association or the agency issue in the Islamic context. In fact, the literature shows that many Islamic establishments adopt a completely unrelated theory of corporate governance or an adapted version of the stakeholder-oriented paradigm (Hasan, 2009). This is because Islamic corporate governance activities are required not just to protect the interests of shareholders but also to support social welfare. As in other CG models, the board of directors represents the owners in monitoring and supervising business operations, but in the Islamic model, managers possess a fiduciary responsibility to administer the affairs of the company on behalf of all participants, not just the shareholders. This has led authors such as Hasan (2008) to characterise the governance model in the Islamic economic system as stakeholder in nature. This system is based on the principle of participation, with all shareholders sharing a belief in the Tawhid or the oneness of God. It should be noted at this point that although the Tawhid[5] and Shar'ah[6] may be the epistemological basis of corporate governance from the Islamic perspective (Lewis, 2006), it is unclear how far they inform corporate governance structures in practice. Major organisations, including

[4] Refers to the corpus of Islamic law based on divine guidance as given by the Qur'an and the Sunnah and embodies all aspects of the Islamic faith, including beliefs and practices.

[5] Allah is the: "Creator, Owner and Source of all things and has entrusted mankind to use and manage all things wisely. In return for the use of the physical universe, mankind agrees to be accountable for how they use and manage the universe" (Farook, 2007).

[6] Refers to the corpus of Islamic law based on divine guidance as given by the Qur'an and the Sunnah and embodies all aspects of the Islamic faith, including beliefs and practices.

IFCs, seem more inclined to adopt CG models that are grounded on rationalist principles and, as indicated above, many corporations in practice follow the Anglo-Saxon model of governance. Emphasis should therefore be placed on the empirical rather than theoretical study (Hasan, 2009) of the Tawhid/Shurah-based model, more details of which are given below.

**The Tawhid and Shari'ah (Islamic law)**

Since the Islamic faith is grounded on the principle of Tawhid (Al-Faruqi, 1995), corporate governance theory also originates from this perspective. Allah says in the Holy Qur'an:

> "Men who remember Allah standing, sitting, and lying down on their sides, and contemplate the (wonders of) creation In the heavens and the earth (with the saying): 'Our Lord Not for naught hast thou created all this! Glory to Thee! Give us Salvation from the Chastisement of the Fire." (3:191)

In this verse, the fundamental principle of governance is expressed; all of God's creatures have a purpose behind their existence, and this purpose lies in being the world's vicegerent. While entrusting mankind with this responsibility, Allah is still all-aware and all-knowing (Chapra, 1992). Since Allah knows everything, and all mankind is accountable to Him, this means that within the corporate governance paradigm also, all parties are accountable and responsible for their actions before Allah.

The principle of accountability (hesab) features several times in the Qur'an. According to Surah Ibrahim Verse 51: "that Allah may require each soul according to its desert; and, verily, Allah is swift in calling to account". Individuals are held to be accountable both to Allah and to the Muslim community for their actions and words, whether bad or good. The verse: "O you who believe! When ye deal with each other, In transactions involving future obligations In a fixed period of time, Reduce them to writing" (Al-Baqarah Verse 282) urges full and truthful disclosure, while Surah Al-Anfal (Verse 27) enjoins trustworthiness: "O you who believe! Betray not Allah and his Messenger, nor betray knowingly your Amanat (things entrusted to you and all the duties which Allah has ordained for you)". Thus, corporate employees are required to pledge that they will conform to standards of ethical behaviour in their business dealings, and all forms of cheating and usury are prohibited (Murtuza, 2002).

As the paying of interest is not permitted under Islamic teaching (Choudhury and Hoque, 2006), the financial system is instead based on cooperative instruments such as Mudharabah and Musharakah. Lewis (2001) explains that in a Mudharabah partnership, one partner takes on the managerial role and the other partners are stakeholders, while in a Musharakah partnership, all partners share managerial responsibility, whatever the extent of their involvement. Not everyone is in favour of this, however; Chapra (2007, p.338) argues that investors were exposed to a wide range of threats when "Islamic banks began to engage in risk-sharing behaviours such as Mudharabah and Musharakah".

The key debates within Islamic CG concern two fundamental principles of Islamic law: the property rights principle and the obligation (both explicit and implicit) to honour contracts. According to Nienhaus (2006), Islamic corporate governance has to be value-oriented and uphold equality and righteousness for all participants. Several verses in the Qur'an[7] address property rights. Surah 57:7 says: "Believe in Allah and His Messenger and spend of that whereof He made you trustee", implying that property ownership is by the grace of Allah. The obligation to fulfil one's contractual duties is made explicit in Surah 5:1: "O you who believe, fulfil contracts". A contract sets out the rights and duties of the participants and should be considered binding by all those involved, whether individuals, communities or organisations.

Organisational management in Islamic corporate governance is based on the principles of the Shur'ah and is collaborative, cohesive and progressive in nature. The top level of management is assigned to the Shari'ah supervisory board, which plays a major role in terms of advising and overseeing the activities of the company and confirming that these adhere to Shari'ah teachings (Delorenzo, 2002). In this respect, the Islamic model is like the German CG model; that is, it operates a two-tier system with a supervisory board and a management board. Bhatti and Bhatti (2010) argue that the Shari'ah supervisory board plays an important role in preventing the administration

[7] Al Qur'an: The Holy book of Muslims, consisting of the revelations made by God to Prophet Muhammad (peace be upon him).

from acting unethically. The Shari'ah board coordinates and joins concepts and their implementation within the regulatory boards of Islamic financial organisations (Lewis, 2001). According to Choudhury and Hoque (2006), the reason behind this is to avoid discrepancies between the separate boards and support the development and dissemination of new products. The nature of ownership mechanisms in Islamic corporate governance means that owners and investors share legal ownership, rather than it being assigned solely to shareholders.

The Libyan financial system and its CG have been significantly impacted by western financial systems, even though the philosophy and institutional context that govern accounting in Libya are very different from those in the west (Ahmad and Gao, 2004). One of the major differences between the two is how the concept of responsibility is perceived (Maali et al., 2006). In the west, firms are only accountable to their stakeholders, particularly shareholders, while in Islamic countries, as discussed above, each Muslim is explicitly held accountable to God for all their commercial activities (Lewis, 2001; Maali et al., 2006).

## 3.8. Conclusion

This chapter begins by reviewing the various definitions of corporate governance and the theoretical perspectives that have been developed to explain CG. It then examines the models that have been developed to describe corporate governance in developed countries. These are the two-tier board or insider-dominated system and the unitary board or outsider-dominated system. The chapter briefly considers the role BODs play in corporate governance in the UK (outsider) and German (insider) models before discussing the principles of corporate governance developed by the OECD. The chapter ends by discussing some of the research that has been conducted on CG in developing countries and introducing the Islamic system of corporate governance. The OECD principles identify several factors which are perceived to be central to board effectiveness, including board independence, the separation of the roles of management and directors and the setting up of independent board committees. The next chapter discusses the roles and responsibilities of corporate boards and the impact that these and other factors have on the ability of BODs to perform these roles effectively.

# Chapter 4: Corporate Boards: The Roles and Responsibilities of the Board

## 4.1. Introduction

This chapter examines the literature relating to the roles and responsibilities of the board of directors. It begins by discussing the board's role in three key areas – strategy, service and control – before examining how internal factors such as board size and composition, CEO/chairman duality and board committees affect the board's ability to perform these roles effectively. Finally, it considers how the board's role and effectiveness are affected by factors such as ownership structure and the legal, political and cultural context. The main purpose of this chapter is to investigate in general terms the board's roles and responsibilities in regard to corporate governance and the obstacles it faces when carrying out these roles and responsibilities; the analysis chapters will address how these issues are perceived by individuals working in the Libyan banking sector.

As the link between shareholders and management, the board of directors is at the heart of the company (Solomon and Solomon, 2004). The apex of the internal governance structure (John and Senbet, 1998; Filatotchev and Boyd, 2009), it has the power to positively influence firm performance by carrying out its assigned roles effectively (Levrau and Van Den Berghe, 2007b; Maassen, 2002). It has been described as: "…the most important and frequently used supervisory mechanism for management actions" (Dehaene et al., 2001, p.387); in other words, it is the first line of defence against managers who would act contrary to shareholders' interests. It has also been described as the principle governance mechanism for shareholders in diffusely held firms (Brennan, 2006; Daily et al., 2003). According to Jensen (1993), the board sets the rules for the CEO and provides counsel for the firm. It is generally responsible for the appointment and replacement of the CEO and senior managers, and for approving major initiatives in the firm (Petrovic, 2008). On behalf of shareholders, it monitors whether strategic objectives are being met by the management; indeed, strategic guidance is considered one of its main roles (OECD, 2003; Aguilera, 2005).

The literature suggests that a clear understanding of board roles is necessary in any discussion of board effectiveness (Lauenstein et al., 1983). This has led numerous authors to attempt to conceptualise the roles of the board (Stiles and Taylor, 2001; Hermalin and Weisbach, 2003; Huse, 2005), but there is as yet no general consensus on what these roles are (Johnson et al., 1996; Roberts et al., 2005). Although much is expected of directors in terms of involvement, their roles are often ill-defined (Petrovic, 2008). Consequently, a range of roles have been attributed to the board of directors (Huse, 2005), reflecting the complexity of what it does (Petrovic, 2008). Understanding board roles is made even more difficult by the fact that there is often a significant gap between literature and practice. The best-known study of boards, conducted by Mace in 1971, concluded that most boards did not set company objectives, formulate policies or select strategies and that there was a considerable gap between what directors did in practice and what the business literature said they should do (see Brennan, 2006).

The nature of the board's contribution and, crucially, the expectations placed on it depend on which theoretical perspective is adopted. For example, the agency perspective features prominently in corporate governance and board literature, firstly, because it offers a comprehensive definition of the role of the board and secondly, because it recognises that governance structures often fail to protect the interests of shareholders. Far from ignoring the potential for conflict between agents and principals, agency theorists actually build their notions of governance around these conflicts (Zahra and Pearce, 1989). Thus, this theory posits that the major role of the board is to reduce any divergence of interest between shareholders and management, thereby minimising agency costs and protecting shareholders' investment.

As highlighted above, the corporate governance literature identifies a range of roles that are played by BODs (Zahra and Pearce, 1989; Maassen, 2002), but it suggests that the board's main role is to ensure the firm's management is performing properly. This role normally comprises five functions: direction (advice), executive action (strategy), service and resource support (resource dependence), supervision (monitoring) and ensuring accountability (Brennan, 2006, p.580). The three most critical board roles have been identified as the service role, the control role and the strategic role. These have been studied from a range of theoretical perspectives (see Zahra and Pearce, 1989; Maassen, 2002; Hung, 1998; Johnson et al., 1996; Levrau and Van Den Berghe, 2007b; Lipton and Lorsch, 1992; McNulty and Pettigrew, 1996; Nicholson and Kiel, 2004b; Vance, 1983). In practice, the strategic role may overlap with the service and control roles, implying that two or more roles may operate concurrently (Maassen, 2002; Zahra, 1990). Since it is impractical to untangle board roles, it is necessary to adopt an integrated approach when considering board performance (Bhagat and Black, 2002; Mintzberg, 1983; Nicholson and Kiel, 2004a). The following sections offer a summary of the main board roles and their relationship to the various theoretical perspectives.

### 4.2. The Control and Monitoring Roles

Minichilli et al. (2009) argue that the board's control role encompasses behavioural control, output control and strategic control. The perceived need for behavioural control derives from agency theory. It is internally focused and consists in monitoring the behaviour of the CEO and top managers (Boyd, 1995) to ensure that they are operating in the interests of shareholders. Output control, which derives from both agency theory and stakeholder theory, has an external focus and involves monitoring the firm's financial performance. The asymmetry of information between directors and managers makes the direct observation of management behaviour difficult, so this is done indirectly by monitoring firm performance and whether it is meeting shareholders' and stakeholders' expectations (Eisenhardt, 1985; Fama and Jensen, 1983). Finally, strategic control, which is based on agency theory and the legal view of the corporation, involves evaluating and monitoring the management's strategic decision making (Stiles and Taylor, 2001). This task is particularly important when critical choices are being made, such as whether to acquire a new firm, divest a division or negotiate a takeover bid (Baysinger and Butler, 1985; Zahra and Pearce, 1989). Combining its control and strategic roles, the board monitors the external environment to identify new opportunities. The ongoing reassessment of priorities is considered essential for organisational learning and renewal (Lye, 2011; Simons, 1994). Limpaphayom and Connelly (2004) and Carpenter and Westphal, (2001) associate board involvement in the initiation and monitoring of corporate strategy with good corporate governance.

Agency theorists emphasise that the most important function of boards is to monitor the actions of "agents" (managers) so that the interests of "principals" (owners) are protected (Eisenhardt, 1989). This monitoring function is clearly vital; Carter and Lorsch (2004) point out that poor performance and financial manipulation by high-profile companies in the USA and elsewhere have reinforced the idea that boards should focus more on their supervisory function. The main objective of both monitoring boards and supervisory boards is to exert control over management, but while the former seeks to protect shareholders' interests, the latter defends the interests of almost all stakeholders (Tüngler, 2000, p.260). In either case, the growing emphasis on the monitoring function is having tangible effects on how directors work. Heidrick and Struggles (2007, cited in Faleye et al., 2009) report that 84% of respondents in their survey of directors indicated that they now spend more time on monitoring and less on strategy, while according to Steger (2004), a board may focus exclusively on its monitoring role when it is sure that top management is directing the company efficiently. Samaha and Dahawy (2011) assert that the BOD is considered the primary internal mechanism for monitoring management performance in the Arab world.

Hillman et al. (2008) argue that appointing non-executive/independent directors is the most effective way to ensure the board fulfils its monitoring role. Director independence makes the board better able to ensure the integrity of the company's financial and non-financial reporting and board remuneration (OECD, 2004). It also reassures investors that their investments are being safeguarded (Pass, 2004). However, Ezzamel and Watson argue that combining the monitoring and supervisory functions can "…restrict significantly the effectiveness of non-executive directors in performing their monitoring role" (1997, p.64). This role may also be weakened because NEDs are not accountable to shareholders (although Kakabadse et al. (2010, p.1075) reject the notion that stricter regulations should be introduced to compensate) and they may have extensive commitments elsewhere. In practice, despite the monetary incentives that non-executive directors receive, many have marginal input into the monitoring of top management.

The primary obstacle to understanding the monitoring role and the relationship between board and management is the definition of control itself. Berle and Means (1932) argue that control rests with the individual or group of people who possess the power to choose the board of directors; in other words, control may be defined as the ability to select the board. This power may fall into the hands of management for a number of reasons; for example, Westphal and Zajac (1997) point out that the CEO's control over the selection procedure is a crucial factor facilitating management control. Stiles and Taylor (2001), meanwhile, argue that managers are able to dominate firms because they have a better understanding of the institution than directors, are more able to control data and appoint most of the employees. As such, they are able to initiate far-reaching courses of action and influence strategy. Accordingly, a number of authors define control as the authority to determine corporate policy, set up key long-term targets and aims, implement courses of action and distribute resources to meet targets (Chandler, 1962, cited in Stiles and Taylor, 2001).

According to Nicholson and Kiel (2004b), there are three main reasons why corporate governance research has mainly centred on the monitoring and control role of the board of directors: these are the increasing popularity of agency theory, the fallout from recent corporate scandals and the growing legislation surrounding board duties. The agency perspective suggests that as a firm grows in size; its ownership becomes more diffuse; as owner power reduces, managers' discretion over the firm increases (Berle and Means, 1932; Zahra and Pearce, 1989). In these circumstances, the board serves as a mechanism to address any conflicts of interest that may arise between executives and shareholders and to bring their interests into congruence so as to promote company efficiency and maintain shareholder value (Hermalin and Weisbach, 2003).

High profile scandals such as Enron and WorldCom have highlighted serious weaknesses in corporate governance and led to massive losses of shareholder capital (Van der Walt and Ingley, 2003). In several cases, the prime cause has been the board's failure to monitor and control management effectively. The US Senate report on Enron, for example, revealed that the board failed in its fiduciary duty by not questioning managers about complicated financial transactions in which the firm was involved (Adams, 2008). Reviews of corporate governance practice in the MENA region have revealed a similar lack of supervision from BODs (IFC and Hawkamah, 2008; ROSC, 2009). As a result, there have been increasing calls for boards to show greater vigilance.

Finally, the board's oversight and control duties have been significantly expanded in a number of developed countries following the introduction of legislation such as the Combined Code (UK), and the OECD Code (Nicholson and Kiel, 2004a). These developments reflect the fact that as corporations become an ever more integral part of society, stakeholders are demanding higher standards of governance and greater accountability from boards (Ingley and Van der Walt, 2001). They give additional weight to existing company by-laws and capital market listing rules, which already require boards to exercise effective control over management in the interest of shareholders (Vagliasindi, 2008).

The literature notes a number of gaps between theory and practice when it comes to board roles and corporate governance, especially in countries where corporate governance codes and principles are less developed (Monks and Minow, 1991). In most developing countries, for example, ownership is concentrated in the hands of a few people and/or institutions, meaning that some shareholders play a disproportionate role in the director selection process. According to Shleifer and Vishny (1997), “as ownership gets beyond a certain point, the large owners gain nearly full control and prefer to use firm-generated private benefits of control that are not shared by minority shareholders” (p.759). Claessens et al. (1999, p.6) describe some of the CG problems this can create, such as: “controlling shareholders enriching themselves by not paying dividends, or transferring profit to other companies they control”.

This study seeks to arrive at a better understanding of the board’s control role by identifying how it operates in practice – including the roles played by executive and non-executive directors. A number of internal and external factors affect the BODs’ performance of its control role; for example, the composition and structure of the board are key determinants of whether the management controls the board or vice versa (Thomsen, 2004; Coombes and Wong, 2004). These internal and external factors will be discussed in more detail in the following sections.

## 4.3. The Service Role

Scholars investigating the BOD’s service role have tended to concentrate on the support that directors offer by introducing valuable assets into the company and advising and assisting CEOs rather than their preparedness or ability to oversee executives. The board’s service role is generally explained in terms of resource dependency theory and stakeholder theory (Gabrielsson and Huse, 2005; Pfeffer and Salancik, 1978). Stakeholder theory sees the BOD’s role as being to manage stakeholders and improve the social performance of the firm (Freeman et al., 2004). Thus, Wang and Dewhirst (1992) argue that selection to the board should be based, in part, on the individual’s ability to contribute to managing stakeholders.

Board members support the management using their own professional and personal expertise to provide appropriate advice in areas where the firm lacks knowledge. Resource dependency theory suggests that firms require resources from the external environment to create value. These resources may include finance and capital, or links to suppliers, customers and important stakeholders (Freeman and Evan, 1991; Ayuso and Argandona, 2009). For example, evidence from developed countries shows that the executives of financial institutions are often appointed as external directors as a means of accessing credit (Daily et al., 2003).

Stakeholder theory suggests that the board should not only expand the firm's boundaries, but that it should also enhance its social performance. The board's objectives should be to identify the firm's key stakeholders and to manage any potential conflicts of interest. To this end, it should include representatives of the various stakeholder groups to ensure that all their interests are safeguarded (Freeman and Evan, 1991). As far as the shareholders are concerned, one way the board can demonstrate its effectiveness is by maintaining strong contacts with them. Another way in which it signals its credibility and legitimacy is by bringing in reputable NEDs; as Daily et al. (2003) argue, this demonstrates to the market (as well as the shareholders) that the firm has effective corporate governance mechanisms in place.

According to Mintzberg (1983), boards perform at least four service-related tasks. Firstly, they must work with external influencers to secure connections to important industrial stakeholders. Secondly, they must seek to establish contacts with outsiders to secure critical external resources, including funds (Maassen, 2002). Thirdly, boards must act to enhance and maintain the reputation of the company within the community, performing ceremonial tasks on its behalf, presiding over shareholders' annual meetings and representing it at press conferences and public meetings (Pearce and Zahra, 1992). Lastly, boards should counsel managers in their decision making and implementation. According to Lorsch and Young (1990), a good deal of directors' time is spent directing the CEO, with many seeing this as their main responsibility. They note that this value as expert advisors is why there are so many active and retired CEOs on corporate boards.

Directors clearly see themselves as playing a service role; many report that they dedicate a substantial proportion of their time and effort to enhancing decision-making policies. Recent research provides empiric support for these claims, indicating that boards influence the strategic management process through their assessment of strategic enterprises and, occasionally, their participation in strategy design. Johnson et al. (1996) note that this finding is likely to stimulate further conceptual development and empirical investigation of the board's service role.

It has been argued that the service role can come into conflict with the monitoring role. Faleye et al. (2011) show in their empirical research that intense monitoring by the board will lead to weakened corporate innovation, while Holmstorm (2005) debates whether BODs that monitor intensely risk demolishing the trust-based relationship between the board and the management. This might hinder the flow of information and make directors less effective as advisors. Similarly, Chancharat et al. (2012) argue that a CEO who feels controlled by independent directors may be reluctant to give them the information they need to perform their service role.

In the Libyan banking sector, the lack of transparency surrounding board appointments, the lack of induction programmes for new directors and the overall lack of opportunity for professional development mean that very few directors are even aware of their service function.

### 4.4. The Strategic Role

Boards have come under increasing pressure from regulators, private and public organisations and the market to play a more active role in strategy development and implementation. This pressure began with the OECD's Principles of Corporate Governance, which state that the corporate governance structure needs to confirm the strategic direction of the organisation (1999), and it has been consolidated in courts of law (Bosch, 1995). A strong link has been identified between the board's involvement in strategy and organisational effectiveness, but so far, the literature has largely ignored the key question of what "involvement in strategy" actually means (Stiles and Taylor, 2001). Those studies that have addressed this issue disagree on how involved the board should be in strategic decision making.

From a legal perspective, the monitoring and reviewing of strategy is seen as a fiduciary duty (Stiles and Taylor, 2001), but the management literature takes a broader view of the board's strategic role, suggesting that it encompasses everything from the identification of corporate goals, environmental scanning and the development of visions and frameworks, to the identification, testing and implementation of individual strategies (Pearce and Zahra, 1991). Goodstein et al. (1994) summarise the strategic role of the board as being to make strategic decisions that will help the organisation to adapt to serious change, including environmental change.

Agency theory's postulation that the role of the board is to limit conflicts of interest between shareholders and management has obvious implications for the board's monitoring and control responsibilities (Eisenhardt, 1989), but its relevance to the board's strategic role is less clear (although Zahra and Pierce (1989) maintain that agency theory recognises the vital importance of the board's strategic role and supports board involvement in the formulation of the company's mission statement, the development of strategy and guidelines for its implementation, and the monitoring process). In practice, the main hurdle facing boards that want to take on a strategic role is usually a CEO determined to retain control over the company's strategies and activities (Mace, 1971).

### 4.4.1. Strategic Involvement

Academics generally differentiate between the preparation and assessment stages of strategy development (Judge and Zeithaml, 1992). At the planning stage, board participation may vary from working with senior staff to develop strategic guidance, to simply passing management's suggestions. At the assessment stage, boards may be categorised according to the extent to which they challenge or accept management's distribution of resources (Judge and Zeitmal, 1992). Two broad schools of thought have emerged on board involvement in strategy; these are commonly known as "active" and "passive" (Golden and Zajac, 2001; Levrau and Van Den Berghe, 2007a). The literature identifies a broad spectrum of possible approaches from both active and passive boards (see Table 4.1).

**Table 4-1: The range of active and passive boards**

| Strength of Involvement | Description | Studies |
|---|---|---|
| **Passive** | Statutory boards | Pro-forma (Pahi and Winkler, 1974), Minimalist (Pettigrew and McNulty, 1995), Statutory (Aram and Cowan, 1986), Managerial control (Molz, 1985), Rating (Wood, 1983), Legalistic (Zahra and Pearce, 1989) and First level board (Ferlie et al., 1994) |
| **Passive** | Review boards | Review and approve (Molz, 1985), Review and analysis (Zahra, 1990) and Second stage board (Ferlie et al., 1994) and hird party (Herman, 1981) |
| **Active** | Partnership | Collegial (Vance, 1983), Shared leadership (Herman, 1981), Participative (Wood, 1983), Normative/strategic (Molz, 1985), Maximalist (Pettigrew and McNulty, 1995) and Partnership (Zahra, 1990) |

Source: Stiles and Taylor (2001, p.42)

Passive boards have little involvement in the strategic functions of the firm and leave strategy-related tasks to management (Brennan, 2006; Pye, 2002; Minichilli and Hansen, 2007). Even if the board does play a role (through its non-executive directors), it is unlikely to initiate strategy (Pye, 2002). The passive school sees boards solely as an instrument formed in response to a legal obligation (Stiles and Taylor, 2001). Board judgements are dependent on management/CEO control (Mace, 1971), making boards little more than a "rubber stamping" tool with little or no impact on the strategic direction of the company (Hendry and Kiel, 2004; Judge and Zeithaml, 1992). Studies taking this view have mainly focused on how boards oversee and ratify strategies and have ignored any participation they might have in the formulation of strategy (Maassen, 2002).

The passive school is grounded in stewardship theory, which sees managers as responsible stewards who are unlikely to misappropriate resources because they are motivated by non-financial incentives (Donaldson and Davis, 1991). This means that the firm must have in place a structure that facilitates managers' aspiration for high performance in other ways (Muth and Donaldson, 1998). Boards are an important strategic device in this respect because they allow directors to use their professional expertise to help management (Levrau and Van Den Berghe, 2007a).

The active school views boards as independent, self-governing bodies that guide management towards the achievement of missions and goals (Hung, 1998). It argues that a board's functionality must go beyond the traditional control and service functions and include strategic activities if the firm is to remain competitive (Ruigrok et al, 2006; Ingley and Van der Walt, 2001; Hendry and Kiel, 2004; Stiles, 2001). Zahra (1990) and Zahra and Pearce (1989) argue that boards can involve themselves in the strategic activities of the firm by: (1) providing advice and counsel to the CEO and management, (2) refining strategic plans, (3) initiating their own analysis or suggesting alternatives, (4) probing managerial assumptions about the company and its environment, and (5) ensuring that executives agree among themselves on the company's strategic direction. These activities facilitate the BODs' involvement with management in the development of strategy and enable it to make strategic changes in emergencies.

Evidence from developed countries suggests that firms are increasingly requiring their boards to be involved in strategic decision-making activities (Demb and Neubauer, 1992; Finkelstein and Hambrick, 1996; Hendry and Kiel, 2004; Stiles and Taylor, 1996). In contrast, evidence from developing countries suggests that boards are seldom involved in the development of strategy and do little more than rubber stamp strategies dictated by management (Saidi, 2005). Table 4.2 summarises some of the most important empirical studies investigating the roles played by the board of directors. The table indicates that these studies have mainly been conducted in the USA, the UK and a few European countries. Less is known about what boards do and their roles and responsibilities in African countries such as Libya.

**Table 4-2: Empirical studies investigating the rolesof the board**

| Study | Country | Finding |
|---|---|---|
| Pettigrew and McNulty | UK, 1999 | Boards are actively involved in strategy choice, change and control. |
| O'Neal and Thomas | USA, 1995 | Directors generally want to be more active than they are; the key to board involvement is whether or not, and to what degree, the chairman wants the board involved. |
| Werder et al. | Germany, 2005 | There is a significantly high level of code conformity, which may be expected to increase in the future. Company size is positively associated with the number of board members, the staffing of the board, the structure of the supervisory board and accounting requirements. |
| Kemp | Australia, 2006 | Boards of directors have a role in strategy formulation, strategic decision making and strategic control. |
| De Andres and Vallelado | Canada, France, Italy, Spain, the UK and the USA, 2008 | Found relationships between bank performance and board size, and between the proportion of non-executive directors and performance. Their results show that bank board composition and size are related to directors' ability to monitor and advise management, and that larger and not excessively independent boards might prove more efficient in monitoring and advising functions. |
| Adams et al. | UK, USA and some European countries, 2008 | Suggest that many studies of boards are best interpreted as joint statements about the director selection process and the effect of board composition on board actions and performance. Made a distinction between broad and narrow conceptions of corporate governance. |
| Pathan and Skully | Bank holding companies in the USA, 2010 | The results show that the costs and benefits associated with boards' monitoring and advising roles could explain bank board structures (with caveats). For example, the high regulation of the sector and the comparatively intensive scrutiny of bank officers and directors mean bank managers have less control over the selection of directors. |

By contrast, firms in developed countries are increasingly encouraging their boards to take on broader responsibilities, including service and strategic tasks. Consequently, board appointments in these firms are being made specifically to attract the knowledge, skills and experience the board needs to perform these roles effectively (Bhagat and Black, 2002; Nicholson and Kiel, 2004b). However, research suggests that board performance is also influenced by a number of other factors, including the structural attributes of the board and its internal processes. These factors are the focus of the following sections.

## 4.5. Factors Affecting Board Efficiency

A central thread in the CG literature is the debate over what factors affect board efficiency. A number of authors have focused on the operational aspect, concluding that efficiency is contingent on board structure. Several factors, such as board diversity, composition and size (Baranchuk and Dybvig, 2009), as well as CEO or chairman duality, have been shown to influence board performance. Other authors have focused on the significance of underlying and dynamic forces. It has also been demonstrated that boards encounter two different kinds of problems, either of which can make them less effective. While "mechanical" problems associated with the board's composition and arrangement are identifiable from outside the boardroom and may be resolved by applying systems and rules, "organic" problems arising from poor relationships and a lack of independence are more difficult to address (Sherwin, 2003).

### 4.5.1. Board Diversity

Kang et al. (2007) describe board diversity as the diversification in the structure of the board of directors, arguing that this is influenced by the size of the board and the industrial environment. While some aspects of diversity are clearly observable (e.g. sex, background, ethnicity, cultural and age group), others are less detectable (e.g. educational and professional background and business knowledge). The gender, racial and cultural composition of the board is one of the most hotly debated governance issues in developed economies. In the USA, for example, the race, ethnicity and gender of corporate directors are increasingly taken into consideration, while ethnicity has become a significant issue in Europe (Ruigrok et al., 2007).

There are a number of advantages to having a diverse board. Agency theory posits that a board made up of directors from different ethnic groups and socio-economic backgrounds is more likely to be independent and therefore more likely to be effective in its supervisory function (Van der Walt and Ingley, 2003), while Baranchuk and Dybvig (2009) argue that the multiplicity of ideas, viewpoints, experiences and professional knowledge available to a diverse board will enhance its decision making. Bilimoria and Wheeler (2000) also show that diverse boards make better strategic decisions, and that they are more innovative. This leads McNulty et al. (2005) to argue that boards should seek to appoint directors with a range of personal characteristics and abilities. In theory, a higher level of board diversity is an important indicator to both internal and external candidates (Rose, 2007) that competent individuals can reach the top positions within the company, whatever their gender or ethnicity. Having said this, BODs in developed and developing countries alike remain overwhelmingly male. In 1995, only 5% of board members in a sample of 350 British companies were women (Conyon and Millan, 1997). Smith et al. (1994) argue that women's lack of involvement in board deliberation and decision making leads to less effective communication. Finally, having a diverse board made up of individuals from different backgrounds and communities can significantly increase a company's ability to penetrate new markets (Carter et al., 2003).

On the other hand, some authors have drawn on agency theory to argue that a more mixed board will not necessarily bring about more efficient supervision and decision making. Rose (2007) argues that some board members may be selected as a sign of tokenism and that their input will be marginalised. It has also been suggested that the diversity of backgrounds, interests and commitments increases the likelihood of clashes and cliques (Baysinger and Butler, 1985), threatening boardroom unity and inhibiting performance (Goodstein et al., 1994). If board members are selected on the basis of ethnic background or gender rather than merit or their ability to contribute constructively to the decision-making process, this may make the board less competent and adversely affect company performance.

### 4.5.2. Board Composition: Non-Executive Directors (NEDs)

Board composition, which is generally assessed as the proportion of outside directors on the board, is widely used as a measure of board effectiveness (Musteen et al., 2010; Goergen and Renneboog, 2000). It is widely believed that internal directors lack neutrality and independence from senior staff and administrators (Elloumi and Gueyie, 2001), but there is no clear consensus on whether independent directors play a useful corporate governance role or whether they enhance shareholder wealth and financial performance (Solomon, 2007; Chancharat et al., 2012). While some theorists argue that NEDs are an important element within the board because they control and act as a counterweight to executive directors and contribute to the general leadership and development of the firm (Ghosh, 2006; Abdelsalam and El-Masry, 2008; Mallin, 2007), others argue for more executive directors instead. The main quest as far as board composition is concerned is to identify the optimum ratio of outsider to insider directors.

Johnson et al. (1996) argue that external directors make more active and effective observers than internal directors because they are objective and detached from the CEO and the company. Similarly, Jensen (1993) points out that the main aim of the board is to monitor the CEO and since: “it is almost impossible for those who report directly to the CEO to participate openly and critically in effective evaluation and monitoring of the CEO, the only inside board member should be the CEO” (cited by Goyal, 2012, p.4). However, Duchin et al. (2010) counter that: “Outside directors are less effective in monitoring and providing advice when the cost of acquiring data is high”. It has also been claimed that excessive supervision by outside directors can actually stifle managerial initiative (Haniffa and Hudaib, 2006), though Hill (1995) downplays the NED’s control role, arguing that while executive directors use their role to implement control mechanisms, non-executive directors operate only as consultants, giving advice to the board.

Weir and Laing (2001) argue that executive directors should control the board because they help formulate corporate strategy and have specialist expertise and knowledge of the business. Kiel and Nicholson (2003) suggest that a high proportion of executive directors is associated with high access to information, which leads to high quality decision making, with potentially positive effects on financial performance. They argue that outside directors do not generally have the same access to informal information and knowledge within the company, and that consequently, NED-dominated boards are more likely to make poor quality decisions which might impact on company performance. Ezzamel and Watson (1997) point to the damaging effect of conflict between NEDs and executive directors, arguing that this can weaken the BOD’s control role. They also question the efficiency of NEDs who may be serving on two committees at once.

Kumar and Sivaramakrishnan, (2008) caution that the link between director independence and performance is unclear. When Bhagat and Black (2002) attempted to investigate this link by conducting a large-sample, long horizon study of the relationship between degree of board independence and long-term performance in large USA firms, they found no evidence to suggest that greater board independence leads to better firm performance. Rather, they concluded that inside directors bring valuable firm-specific skills, knowledge and information to the board. They observed that inside directors are likely to be conflicted but well informed, while independent directors are not likely to be conflicted, but they are likely to be comparatively ignorant about the firm. Unfortunately, research has shown that in the MENA countries, most outside directors lack both relevant knowledge/experience and material independence (CIPE, 2003; IFC and Hawkamah, 2008; Al-Akra et al., 2010).

Stewardship theory idealises internal directors for their skill and knowledge (Stiles, 2001) and argues that boards with a higher proportion of internal directors will be better able to perform their strategic role effectively than those with fewer internal directors (Sundaramurthy and Lewis, 2003). Advocates of stewardship theory assert that boards consist for the most part of non-executive directors who are only part-time and thus dedicate very little time to any one board. As such, Stiles (2001) argues, they might not have sufficient understanding of the corporate environment or the necessary skills or data access rights to have any real strategic impact.

In contrast, supporters of agency theory argue that NEDs are necessary to ensure the board has enough autonomy to be able to safeguard shareholders' interests (Johnson et al., 1996; Sundaramurthy and Lewis, 2003). Insider-dominated boards are more likely to be sympathetic to management preferences and therefore less effective in guarding shareholder interests against managerial opportunism (Musteen et al, 2010). Internal directors may also lack the confidence to challenge the CEO. Increasing the number of outside directors gives the board more freedom from the executives, particularly the CEO (Kula, 2005). It also brings other benefits; as independent voices within the boardroom (Solomon, 2010), non-executive directors help to reduce conflicts of interest between shareholders and company management, while their detachment from management and day-to-day tasks facilitates the board's control function (Johnson et al., 1996) and means they are able to offer fresh perspectives (OECD, 2003; Roberts et al., 2005). Thus, posits agency theory, the higher the proportion of outsiders on the board, the more independent the board is and the better the governance.

It is worth noting at this point that the proportion of outside directors varies from country to country. Goyal (2012) shows that the proportion of outside directors in large USA firms (particularly listed firms) has risen to approximately 55-60% since the enactment of the Sarbanes-Oxley Act of 2002, while De Andres et al. (2005) found that in other OECD countries, 79-80% of board members are outside directors. However, these authors also found that retired executive directors who become non-executive directors (so-called greys) may be less active – this begs the question of whether their previous relationship with the executive makes them less effective monitors. In the same way, an inexperienced NED might become a less effective monitor if they build up a close relationship with the executive directors (O'Sullivan and Wong, 1999). This is arguably a concern in the MENA countries; research done by the Center for International Private Enterprise (CIPE, 2003) in the region found that many NEDs are either inexperienced for their role in the company or have close ties with executives or the chairman of the board.

Pfeffer (1972) shows that board size and composition are not random variables, but are in fact systematically related to the company's need to deal with key external sectors to ensure successful operations and an adequate supply of resources. Bhagat and Black (1999) argue that such conclusions could be explained by firms' limited power to stock price and accounting data; and that today's independent directors might not be independent enough. Many independent directors might not be doing enough to protect the interests of shareholders. This has led some to argue that these directors should be accountable to shareholders, or that their enthusiasm for monitoring management would be increased by aligning them more with shareholders. To this end, it has been suggested that paying non-executive directors in company shares rather than money would be the most constructive boardroom reform that companies could undertake.

**Table 4-3: Empirical studies on board composition and performance**

| Study | Composition Measurement | Finding |
|---|---|---|
| **Tian and Lau (2001)** | Proportion of outside directors | In firms listed on the Shanghai Stock Exchange and Shenzen Stock Exchange, around 50% of directors were outsiders. |
| **Abd-Rahman and Ali (2006)** | Proportion of outside director | 38% of board members were outside directors. |
| **Kakabadse et al. (2010)** | Appointing of insider directors | The NED system is weak in China as a result of the concentrated ownership structure, unique business culture, intervention of controlling shareholders and the lack of understanding of the benefits brought by NEDs. |
| **Muth and Donaldson (2002)** | Proportion of outside directors | Larger firms are likely to have larger boards with more non-executive directors. |
| **Przyby lowski et al. (2011)** | Management domination of the board | Supervisory board members' independence may not directly lead to increased company effectiveness. Independent members are not a cure-all for the problems that companies have. |

### 4.5.3. Board Composition: Board Size

Board size refers simply to the total number of people that sit on the board. While it is not strictly a demographic characteristic, it is widely studied as it can have significant impact on board operation. Lipton and Lorsch (1992) recommend that boards should have eight or nine directors, but there are conflicting opinions on the optimum size of the board (Musteen et al., 2010).

Supporters of bigger boards argue that they have a greater diversity of skills, business contacts and experience at their disposal than smaller boards (Haniffa and Hudaib, 2006; Hussain and Mallin, 2003; Abd-Rahman, 2008), which leaves them better placed to subject managerial decisions to scrutiny and monitoring (Ezat and El-Masry, 2008; Tricker, 1994; Kiel and Nicholson, 2003). Having a large board can help balance the power of a dominant CEO and, some researchers argue, maybe good for corporate financial performance (John and Senbet, 1998). For example, Cheng's (2008) study of CEO turnover in 1,252 firms found that firms with larger boards had less variable corporate performance. The assumption is that, since it takes more compromises for a larger board to reach consensus, its decisions tend to be less extreme, leading to more consistent corporate performance. However, this assumption should be treated with caution, as empirical findings elsewhere regarding the link between board size and performance have been inconsistent. While De Andres et al. (2005) and Pathan and Skully (2010) show that smaller boards are linked to better business performance, Dalton et al. (1999), in a meta-examination of 131 samples (total sample size of 20,620), note a positive relationship between board size and economic activity.

On the other hand, large boards have a number of drawbacks. When Ocasio (1994) examined a sample of 114 USA industrial corporations over the period 1960 to 1990, looking for factors that affect CEO succession, he found that large boards were more likely to appoint ineffectual CEOs. Other possible problems include weakened communication and decision making, since the wider range of perspectives on a large board increases the chance of conflict (Musteen et al., 2010). Board members can also find it difficult to build the interpersonal relationships that further cohesiveness (Forbes et al., 1999). Finally, agency theory prefers smaller boards because they consume fewer pecuniary and non-pecuniary resources (Sonnenfeld, 2002), both in terms of remuneration to directors and the costs of board evaluation.

There are several other points in favour of small boards; Fried et al. (1998) conclude that small board size, along with outsider representation, can engender high levels of participation in strategy creation, while Huyghebaert and Wang (2011) suggest that small boards are at less risk of being dominated by powerful shareholders, leaving minority investors less vulnerable to expropriation. Al-Akra et al. (2010) argue that small boards play a stronger monitoring role. Jensen (1993) argues that boards bigger than seven or eight people are less likely to perform their role effectively. Other empirical studies have supported Jensen's argument; Lipton and Lorsch (1992), for example, also recommend limiting board membership to seven or eight people and encouraging ownership by board members. Core et al.'s (1999) study of corporate governance in 205 publicly traded USA firms showed the median board size to be thirteen members.

**Table 4-4: Empirical studies on board size and performance**

| Study | Board Size Measurement | Finding |
|---|---|---|
| Abdul Rahman and Ali (2006) | Number of directors on board | Mean size was around 5 members. |
| Forbes and Milliken (1999) | Large boards | Large boards may suffer from poor social relationships. |
| Habbash (2010) | Number of directors on board | Average number of members in Sweden was 8. |
| Pathan and Skully (2010) | Number of directors on board | Board size reduced over the sample period in large and medium-sized banks but remained relatively stable in small banks. |
| Adams and Mehran (2012) | Number of directors on board | Board size is positively related to performance. |

Thus, there is no consensus in the literature on what constitutes the optimum board size. This may be because the majority of studies have been conducted to measure another variable in addition to board size (e.g. insider/outsider director ratio, CEO succession), which may have impacted the researchers' assessment of the importance of board size. Secondly, the studies have been conducted across a range of businesses, environments and periods, and the outcomes may have been influenced by context. It may also be argued that diversified companies require larger boards than those operating in one area only – Pfeffer (1972) shows that the need for a large board increases as the company grows. Notwithstanding the diversity of their findings, however, the studies summarised above all suggest that size is an important element affecting how boards work; it is therefore a relevant factor when examining the role and responsibilities of the board.

### 4.5.4. Board Process

The board is a social system (Cascio, 2004) whose functioning is informed by interpersonal relationships, teamwork and debate. How boards organise themselves to work effectively, how directors relate to one another, how the board interacts with management, and how decisions inside and outside of the boardroom are made, constitute board processes (Leblanc and Schwartz, 2007). These processes are the intervening variables between board characteristics and board performance. The literature explores a range of board process attributes, including the formal procedures to evaluate board members and executives, and the level of cooperative idea-sharing at board meetings.

This study considers two specific board processes that have a significant influence on task performance: the director selection procedure and administrative operation. These two processes have been chosen because of their particular importance in the research environment – Libya. The administrative operation issue is important because infrastructural development is still in its early stages.

#### 4.5.4.1. Board Operations

Board operations refer to the various administrative or operational activities that allow boards to run smoothly and enable directors to perform their various activities more effectively. Investigation here is likely to cover issues such as the use of board committees, the frequency and conduct of board meetings, the quality and timeliness of board papers and the evaluation process.

Full and timely access to information is required for the board to be fully efficient. It will be more effective in its service role if the CEO and his team keep it well informed of the company's problems and challenges, while for the performance of its strategic role, it needs to have access to information on both the external and internal environments. A well thought out agenda and any relevant data should be issued to directors in advance of meetings, and enough time should be allowed to enable a thorough discussion. Dissenting directors should feel able to express their opinions, but they should not be allowed to monopolise the discussion, and decisions should be made by a majority of directors rather than the CEO. Finally, accurate minutes should be kept to document progress (Vance, 1983).

The link between board meeting frequency and company performance is an internal CG issue that is of growing interest to policy makers and researchers alike. Researchers are divided on whether frequent board meetings are a good thing or not. Supporters of regular meetings argue that all else being equal, more frequent board meetings leads to better managerial monitoring and therefore better protection of shareholders' interests (Habbash, 2010). Regular meetings give directors more time to discuss and set strategy (Vafeas, 1999) and, together with informal interactions, they create and strengthen bonds between directors. They also put managers in a better position to address emerging critical problems promptly (Mangena and Tauringana, 2006).

Board meetings provide an opportunity for the board to assess the skill sets of its members and to propose any required changes (e.g. adding a new member). Brick and Chidambaran (2010) and Demb and Neubauer (1992) argue that such self-evaluation is good practice, and that boards should find time to evaluate how they work in order to become more effective. Sonnenfeld (2002) observes that regular attendance at meetings is considered the hallmark of a conscientious manager, and meeting frequency has likewise been employed in previous studies as an indicator of a board's diligence. More frequent board meetings may indicate that directors are dedicated to their job and want to serve the firm by giving more of their time, but the limited amount of available evidence suggests that more frequent meetings are actually more likely to be a reaction to poor firm performance (Vafeas, 1999).

Those who question the value of frequent meetings argue that they are not necessarily beneficial to shareholders. Vefeas (1999) asserts that they do not generally lead to the meaningful exchange of ideas, and that they are costly in terms of managerial time and directors' expenses. Jensen (1993) even contends that boards in well-functioning companies should only need to meet relatively infrequently.

#### 4.5.4.2. The Director Selection Process

Monks and Minow (2008) point to a gap in the literature as far as the theoretical and practical aspects of board selection are concerned. Most corporate governance codes, including the UK's Combined Code and the German Code, stipulate that directors must be selected on the basis of their skill and competence, and that election should be an easy-to-follow and transparent process. Prospective board members are generally chosen from a range of nominated candidates, but these can be difficult to find (Renton and Watkinson, 2001).

Stiles and Taylor (2001) show that the level of board unity is a crucial determinant of how the board operates. It is perhaps not surprising then that in many countries, director selection is, in practice, done informally and many directors are elected because they have close links to the CEO (Conger and Lawler, 2001; Conger et al., 2002). Lorsch and Young (1990) found that CEOs can have a huge impact on the selection process, while Shivdasani and Yermack (1999) found that CEOs are prone to nominate directors who are sympathetic to their wishes and to whom they have other social or familial ties. Apart from being contrary to most CG codes, as Mallin (2007) argues, such appointments are unlikely to provide corporations with the knowledge and skills they need. Furthermore, as CIPE (2003) has shown, directors who have a close relationship with executives or the board chairman often feel obliged to support the interests of the controlling shareholders.

Monks and Minow (2008) indicate that shareholders with extended powers are the most likely to want to influence the selection process. However, Olson and Adams (2004) argue that:

> “in selecting directors, shareholders will be best served by those directors who have attributes that make them effective and diligent custodians of the residual decisional power—those directors who understand the capabilities of the business and can responsibly select and monitor management corporate performance." (p.427)

The power to select board members can sometimes rest almost entirely with a few large shareholders. This has led to calls for minority shareholders’ rights to be protected because, as Filatotchev et al. (2007) explain: "Where large investors gain full control over a company, they may follow their own interests, which need not coincide with the interests of other investors in the firm". Claessens et al. (1999) argue that this dominance of the board can have dire consequences, giving major shareholders the chance to control profit distribution or even transfer profits to another corporation. It is crucial that minority shareholders have representatives on the board so that they can be made aware of any such problems.

### 4.5.5. Board structure :Board Committees

Board committees are believed to help improve the effectiveness and efficiency of corporate boards (Jiraporn et al., 2009). Regulators in the UK, the USA and elsewhere recommend that both listed and non-listed businesses should set up committees to deal with issues such as auditing and the appointment and compensation of senior staff and directors (Monks and Minow, 2008). Consequently, in many businesses, many of the board's functions are now carried out by committees which report back regularly to the board. Carter and Lorsch (2004) argue that delegating tasks to board committees allows the board to achieve more in less time.

#### 4.5.5.1. The Audit Committee

The audit committee can help alleviate the agency problem between a company and its outside shareholders by overseeing the integrity of its financial reporting and preventing irregular or even fraudulent accounting statements (Klein, 2002). The idea of the audit committee (AC) dates back to at least the nineteenth century (Turley and Zaman, 2007), but it is only in recent years that it has become a widely used mechanism of corporate governance. However, Bavly (1999), while noting that ACs are playing an ever greater role, cautions that it is too early to evaluate the impact they are having on standards of corporate governance.

The audit committee, which is a formal committee, is concerned with auditing, reporting and the company's internal financial management. It has no decision-making authority and is not directly answerable to company stakeholders. To further guarantee its autonomy, it has no link at all with senior management. Spira (2003) suggests that the committee's duty is to supply the board with specific output and suggestions that will strengthen the latter's control over the company. Its aims should be to facilitate the work of the external auditor and to offer dependable and consistent financial data to users (Spira, 2003; Turley and Zaman, 2007). Both the Cadbury Report (1992) and the IIA (2009) indicate that internal auditors have higher expectations than external auditors when it comes to the quality of financial disclosure. The AC should contain a high percentage of independent external directors as these are considered more active and efficient observers, but these directors should have enough knowledge of the corporate and commercial background to be able to understand management. The Sarbanes-Oxley Act (2002) requires that one member of the auditing committee should be experienced in accounting or financial management.

#### 4.5.5.2. The Executive Committee

There is usually one committee whose job it is to support the company's management, for example by facilitating the decision-making process and identifying strategic options. The executive committee may also make decisions on behalf of the full board (Carver and Oliver, 2002); as Stiles and Taylor (2001) point out, the limited amount of time available in board meetings means that the full board is unlikely to have the time to consider every strategic decision. Mallin (2007) argues that a board will generally respect the decisions made on its behalf by the executive committee, though others point to the danger of allowing critical decisions to be made without the participation of all board members (Xie et al., 2003; Carter and Lorsch, 2004). Charkham (1994) argues that the central role played by executive managers in these committees may create agency problems, for example if they are able to set goals that oppose the interests of others, but others believe that the presence of an executive manager creates balance (Carver and Oliver, 2002). They argue that any system that creates its full authority within the board of directors (EC made up entirely of directors is unlikely to question the role of the BOD) is not a positive environment for questioning the role of the latter.

#### 4.5.5.3. The Nomination Committee and the Governance Committee

The nomination committee is responsible for recommending potential new board members and senior managers to the BOD. Its work may also include the oversight and assessment of directors' and senior managers' performance and oversight of the organisation's human resource policy. Mallin (2007) suggests that historically, directors have often been appointed primarily because they have personal links with existing board members, but that demands are growing in a number of countries for this to change. The OECD's Principles (2004) of corporate governance stipulate that one of the BODs' key functions is to ensure that board nominations and elections are conducted in a formal and transparent manner. The main function of the nomination committee is therefore to systematically assess the level of expertise and experience on the board and to use this information to draw up candidate outlines for future nominations (Mallin, 2007). However, the Higgs Report (2003) reveals that in practice, nomination committees tend to meet irregularly and that they are often not completely aware of the important role they play in the appointment process. The report underlines the significance of the nomination committee's efforts and function.

George, (2002. p, 22) shows that the main duty of the corporate governance committee is "to draft the governance principles". Such principles should spell out job descriptions for the parties involved in the internal governance of the firm, such as the CEO, subcommittee. Neubauer and Krapf (2004) argue that the corporate governance committee is also in charge of reviewing candidates' profiles prior to the board's election, appointing new members to the board of directors and evaluating the current members. Thus, the corporate governance committee is a tool in helping the firms' strategy and goals. In addition, such a committee encourages the board's directors to be more involved and active in the board's discussion as there is a separate body that evaluates their performance and contributions continuously .

#### 4.5.5.4. The Executive Remuneration Committee

As part of its responsibility for top management remuneration (Jensen, 1993), the board of directors may establish a special committee known as the compensation or remuneration committee to determine executives' compensation within the framework of the company. Conyon and Peck (1998) argue that the theoretical significance of the compensation committee is evident as, without it, senior executives may seek increased salaries or bonuses that are not in keeping with the owners' interests.

The OECD Principles (2004) stipulate that the committee should not be linked to the board and that it should be made up entirely of external directors. CEOs or executives serving on remuneration committees can create agency problems between management and shareholders (Anderson and Bizjak, 2003), whereas independent directors can be more objective (Petra and Dorata, 2008). Dahya and McConnell (2007) argue that having more outside directors on the committee makes it more independent and leads to better performance

### 4.5.6. Board structure : The Role of the Chairman

Board structure varies significantly from country to country (Mallin, 2007). Like composition and size, the internal administrative structure has a crucial impact on board efficiency (John and Senbet, 1998). According to agency theory, a board that is independent in terms of organisational structure will be better equipped to control the administration’s decision making (Fama and Jensen, 1983). Boards composed largely of inside directors are considered less likely than those with many outside directors to override management decisions that threaten shareholders' interests because these directors are subordinate to and therefore dependent on, the CEO.

Central to the board's effectiveness is the chairman, who is responsible for leading the board thoughtfully (Carter and Lorsch, 2004) and ensuring that the proper procedures are followed (Garratt, 2003). The chairman works for the board, not the other way round. Ultimately, control of board meetings is in the hands of board members, but the chairman is responsible for planning, preparing for and chairing these meetings (Renton and Watkinson, 2001). The board sets its own agenda, though the managing director may add any items he wants to discuss (Carver and Oliver, 2002).

Stiles and Taylor (2001) show that while some chairmen see their function as being limited to running board meetings and communicating formally with top management, others broaden their remit, attending top management meetings and visiting different departments. The chairman's time commitment is significantly greater than that of other directors, as he is also tasked with liaising with the chief executive (this connection is particularly important, according to Carter and Lorsch (2004), meeting with other directors and maintaining external relationships. This is easier if he has an office in the company.

### 4.5.7. Board Leadership Structure and Chairman/CEO Duality

CEO/chairman duality is another factor that has the potential to influence board effectiveness. According to Solomon, (2007): "the importance of splitting the chairman and chief executive derives from the extremely different functions which someone in each of these positions should carry out" (p.79). While the CEO is responsible for the day-to-day management of the firm, including implementing board decisions, the chairman is responsible for running the board, as described above.

This view is echoed in agency theory, which posits that the board must be separate from management if it is to be effective in its monitoring role. Agency theorists suggest that separating the two roles will increase board independence and its ability to check managerial performance (Haniffa and Cooke, 2002), while Jensen (1993) points out that role duality compromises the board's ability to carry out one of its key duties, which is to supervise the hiring, firing, assessment and remuneration of the CEO. Separating the two functions will make it easier for the board to remove a non-performing CEO (Monks and Minow, 2008). In terms of the board's service role, advocates of separation argue that a non-executive chairman is more likely to be able to bring in outside resources than an insider (Chancharat et al., 2012).

Weir et al. (2002) suggest that as an insider, the CEO tends to have better knowledge, understanding and experience of the strategic challenges and opportunities which the company faces than a non-executive chairman, while Laing and Weir (1999) argue that duality may be beneficial if the CEO is a dynamic individual who has built the company up from scratch. In this case, business experience and entrepreneurship may be more important than board structure in determining performance. Bach and Smith (2007), meanwhile, hypothesise that CEO duality provides structural power and enhances the likelihood of survival in high technology firms.

However, the evidence so far on whether CEO duality is ultimately damaging to companies is inconclusive; Daily and Dalton (1994) found that it was powerfully associated with companies that went bankrupt, whereas Chaganti et al. (1985) found no link between CEO duality and company failure. On the other hand, Simpson and Gleason (1999) studied 375 banking firms in 1993 and found that combining the two roles actually reduced the probability of financial distress. This is consistent with the theoretical assumption that a dual CEO-chairman has the scope to pursue their own interests and is therefore less inclined to take risks. Similarly, Dey et al. (2011) studied CEO duality in 232 switcher firms over the period 2001-2009 and found that firms that split the CEO and chairman positions due to investor pressure subsequently announced significantly lower returns. Taking a different approach to the question, Faleye (2007) examined the effects of organisational complexity and CEO reputation on the relative costs and benefits of CEO duality, hypothesising that complex firms are more likely to vest the two positions in the same individual because the cost of separating them outweighs the marginal benefits to be gained. (The costs of sharing information between the CEO and chairman rises, while CEO flexibility becomes more valuable as organisations grow more complex.) Faleye indeed found that complex organisations are more likely to practise duality, and that firm performance improves when they do this.

In spite of these mixed results, shareholder activists, institutional investors and regulators alike tend to hold the view that the CEO should not also serve as board chairman. Shareholders are generally suspicious that such a close link compromises both parties' ability to do what is necessary to maximise firm performance (Gibson, 2003). As far as the MENA region is concerned, research (Aintablian, and Al Boustany 2008) has shown that the two roles are usually separated.

**Table 4-5: Empirical studies on CEO duality and firm performance**

| Study | Sample and relationship | Finding |
|---|---|---|
| **Abidin et al. (2009)** | 75 companies listed on Bursa Malaysia | Board composition and board size have a positive impact on firm performance, but the effects of director ownership and CEO duality on the VA efficiency of firms' total resources were not established.. |
| **Abdul Rahman and Ali. (2006)** | Relationship between CEO and chairman | It is impossible to fully explore the relationship between CEO and chairman because it is not always obvious. |
| **Musteen et al. (2010)** | 324 firms featured in Fortune's list of most admired corporations in the USA | Findings indicate a negative association between independent leadership structure (i.e. absence of duality) and corporate reputation. |
| **Short and Keasey (1999)** | UK firms | UK firms have traditionally split the positions of chairman and CEO, but have been less likely to employ outside directors. |

The range of findings in Table 4-5 may be explained by several reasons. First, some of these studies measured more than one variable, which may have influenced their results. Second, they were conducted in different contexts. However, the CG mechanism of separating the CEO and chairman roles may not be appropriate for all countries or even all companies in the same country. Finally, the studies employed a range of analytical approaches – again, this may have impacted on their respective outcomes.

## 4.6. Other Issues Affecting Board Effectiveness

The accounting literature has for many years debated the influence of cultural factors on the development of accounting practice. Larbsh (2010), for example, shows that culture, environment and political structure have a major effect on accounting practice and corporate governance, while Abdul Rahman and Ali (2006) conclude that accounting practice and disclosure are a function of a nation's cultural values and cultural heritage, as these affect attitudes towards business-related fraud. The following sections conclude this exploration of the factors that affect board performance by considering how the board's role and effectiveness as a CG mechanism are impacted by the prevailing legal system; expectations surrounding transparency, accountability and disclosure; the national culture; and ownership structure.

### 4.6.1. Legal System, Accountability, Transparency and Disclosure

Boards' CG practice is affected by the prevailing political and legal systems, which reflect the cultural values underlying the business culture (McCarthy and Puffer, 2003; Saidi, 2004). According to Shleifer and Vishny, (1997); "Corporate governance mechanisms are economic and legal institutions that can be altered through political process. Therefore, corporate governance should be driven by cooperation between the private and public sectors and by broad-based political support". However, this intermingling of business and politics can also inhibit CG; for example by preventing improvements in the enforcement environment and the adoption and implementation of public laws (Berglof and Claessens, 2006). In Nigeria, the government has attempted to instigate an effective CG system, but weak enforcement means it is largely ignored by Nigerian listed companies (Okike, 2007).

The OCED Principles (1999; 2004) stress that the: "…corporate governance framework must ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including its financial situation, performance, ownership, and governance of the company". This disclosure is an important mechanism for reducing the information asymmetry which results from the division of ownership and management (Mallin, 2007; Solomon, 2010). Mallin (2002) argues that basic procedures should be put in place to ensure that shareholders have access to information about the business at any point, while agency theorists argue that improving the flow of information is likely to reduce agency costs. Information asymmetry can directly affect the board's ability to function effectively; giving top management priority access to information that is not available to other directors can lead to conflicts during the decision-making process (Banks, 2004).

The BOD plays a critical part in ensuring adequate disclosure practices are in place (Samaha, 2010; Samaha and Dahawy, 2011). The full disclosure of information by top management to both the internal environment (the BOD, especially non-executive directors) and the external environment (other stakeholders) is crucial to achieving transparency within the company. Transparency has clear benefits, but the costs of not being transparent are potentially massive (Kieron, 2011). Solomon (2007) argues that the desire to see an increase in corporate transparency is a major driver of corporate governance reform in all countries, though transparency means different things to different people. Garratt (2003) argues that transparency is a main tool in countering corruption. In nations with weak institutions, a lack of accountability and transparency about resource revenues can exacerbate poor governance and lead to corruption, conflict and inequality (Ross, 2001). Al-Twaijri et al. (2003) note that internal and external audits play a significant role in preventing fraud and promoting transparency. As indicated above, a lack of transparency between top management and other board members can weaken the board of directors and lessen its effectiveness.

Accountability (both individual and corporate) is another crucial expectation that shareholders have of the BOD (Garratt, 2003). Boards are theoretically held collectively responsible by shareholders for any corporate failure, but Carter and Lorsch (2004) explain that in practice, it is often the CEO who is penalised or even fired, and that other board members rarely resign in these circumstances. This lack of accountability within boards is a worldwide problem, not just a phenomenon in developing countries. Too often, it means that unethical conduct goes unnoticed until disaster strikes (Garratt, 2003).

### 4.6.2. Ownership Structure

A number of studies (e.g. Wei, 2007) have ascribed national variations in corporate governance to countries' different ownership arrangements. Li (1994) found that ownership structure has a significant influence over corporate governance practices; while McKnight and Weir (2009) show that ownership structure affects agency costs. Feldmann and Schwarzkopf (2003) emphasise the positive link between the level of focused institutional ownership and the number of external members on boards and audit committees. Habbash (2010) argues that the right ownership structure ensures that no one shareholder group can exert undue influence, but Pagano and Roell (1998) posit that the ideal distribution of share ownership is achieved by going public, because this results in large external shareholders who are able to supervise management closely. Similarly, Henry (2010) argues that while good internal governance minimises agency costs, external shareholding is an alternative agency-alleviating tool. Denis and McConnell (2003) explain that large shareholders have the motivation to spend resources to monitor the management team; indeed, Berglöf and Claessens (2006) argue that they are the most important CG mechanism in developing countries. However, Shleifer and Vishny (1997) point out that while vertical agency problems may arise between shareholders and managers, horizontal agency problems can emerge between majority and minority shareholders if the former attempt to redistribute wealth from other investors to themselves.

Jaggi et al. (2009) argue that family ownership reduces executive management's ability to manipulate other shareholders. This is consistent with the procuration theory that insider ownership provides the best management structure for companies and leads to high quality financial reporting (Pedro Sanchez Ballesta and Garcia-Meca, 2005). In contrast, MENA-based research by CIPE (2003), Naser et al. (2006), ROSC (2009) and Tricker (2009) suggests that family ownership has a negative impact on firms' financial performance. Finally, Samaha and Dahawy (2011) find a relationship between ownership structure and levels of monitoring and disclosure.

### 4.6.3. Culture

As companies become increasingly transnational, it is of growing importance that boards become familiar with and know how to respond to the needs of customers and staff not just in their home country but wherever they operate (Garratt, 1998). Arguing that corporate governance is linked to corporate goals, and that these are directly linked to culture, Hofstede (2001) developed a framework to describe cultural differences in terms of four dimensions: power distance, uncertainty avoidance, individualism versus collectivism, and masculinity versus femininity. Based on this framework, corporate governance is linked to corporate goals and these goals are directly linked to culture. Gray (1988), meanwhile, proposes that there is a link between social standards and bookkeeping structures, and that the impact of culture can be measured by investigating these structures.

Corporate governance has been shown to be influenced by social norms (Boytsun et al., 2011). For example, Falgi (2009) highlights the impact that social, cultural and economic factors have on CG practice in Saudi Arabia, and the challenges this can create. Local cultural values also have an impact on CG in Libya. Libyan culture is characterised by a strong sense of family, tribal and ethnic identity. The primacy of community and social networks creates barriers against private entrepreneurship, while the social norms that originally evolved to govern community life have extended to affect the behaviour of directors and top management in both public and private enterprises. Thus, it is not unusual to see board chairmen or CEOs repaying their obligations to their tribe (rather than to shareholders) through their recruitment practices or the diversion of assets. The same tribal loyalty is even evident among government ministers, with the result that board appointments often reflect nothing more than social obligations. No doubt, cultural forces and social systems will continue to be part of the way things are done in many developing countries, but the longer they are allowed to influence decision making in enterprises, the less likely it is these enterprises will improve their performance. It is therefore important for all stakeholders to know that everyone is better off when enterprises are managed in such a way as to maximise effectiveness rather than to benefit tribal or communal interests.

In Islam, there are some unique characteristics pertaining to the theory of Islamic corporate governance (Lewis 2005; Suleiman, 2000). Abu-Tapanjeh's, (2009) study which explored morality in the economic work in the monotheistic religions by providing justice and honesty and ensuring the protection of all parties' rights and dues. These principles, which are encouraged by the Islamic religion, will lead to a strengthening of the market, creating incentives, the deviation in the behaviour of maximizing value and encouraging transparency. These are the key principles in religion (Bhatti and Bhatti 2010). Moreover, there is an argument stressed by Gooden (2001) that institutions seek, through administrative leadership, to achieve the goals of the ethical society and not only to maximize their profits. It can be said that governance must seek to achieve other goals, as religiosity will help to achieve the goals of governance. This was confirmed by Rizk (2008) who stated that religion has a role in the formation of moral behaviour, such as honesty and truthfulness.

An effective corporate governance system will boost foreign investors' confidence and attract more investment into the country. Since this investment is particularly sought after by countries whose economy is dependent on natural resources (such as Libya and Nigeria), they are often keen to implement CG systems. The pressing question is how individual nations, particularly in the developing world, can balance their need to seek foreign investment with maintaining their individuality and preserving cultural integrity.

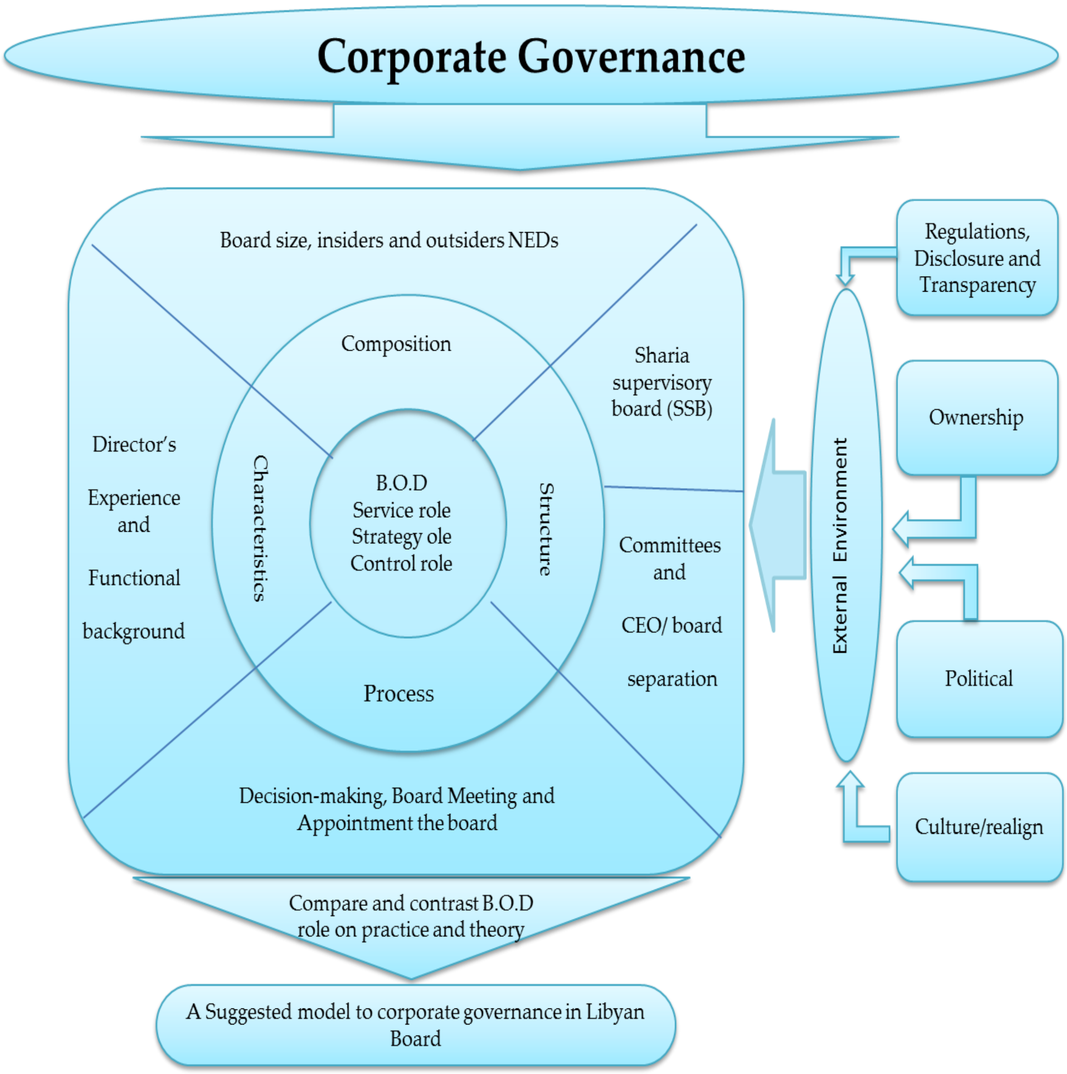
## 4.7. Conclusion

This chapter reviews the roles and responsibilities of the board of directors and the internal and external factors that affect its performance thereof. It identifies the BODs' three main roles as being strategic, service and monitoring/control, and shows how these are shaped by the legal/regulatory, political and cultural context. External bodies may have a clear impact on the board's legal and formal status and obligations, but both its role and its effectiveness are also significantly affected by the company's ownership structure and by internal board characteristics such as size, CEO duality and composition.

In theory, the relationship between outside actors and the board of directors is commutative, with each influencing the role and responsibilities of the other, though in practice, this is not always the case. BOD/outside actor relationships vary from country to country and from company to company. They are shaped by a number of determinants, including the nature and ownership structure of the firm, the level of managerial professionalism, the nature of the industry, the country's economic development and the prevailing corporate governance system. For instance, in developing countries, where concentrated ownership is common, BODs often have a strong relationship with large shareholders. Conversely, in highly regulated developed countries, they generally have powerful links with regulatory bodies.

The findings from the literature review enabled the development of a preliminary conceptual framework describing the key internal and external factors affecting the board's role and responsibilities as a mechanism of corporate governance (see Figure 4.1). The framework, which was adapted from existing models (see Nicholson and Kiel, 2004b; Hermalin and Weisbach, 2003; Ingley and Van der Walt, 2001; Zahra and Pearce, 1989; Murphy and McIntyre, 2007), does not seek to indicate how great an influence each of these factors has, since this will vary across countries and industries. Rather, it was designed to facilitate investigation of their statistical effect on board role characteristics in the Libyan banking sector.

**Figure 4-1: Conceptual framework**



# Chapter 5: Research Methodology

## 5.1. Introduction

Having looked at the theoretical background to the current study in the previous chapters, this chapter addresses the methodology employed in this research. Creswell (2013) defines research methodology as the adoption of a scientific approach to collect data in order to respond to a research query and meet a research objective. The chapter therefore starts by reviewing the research objectives before discussing the assumptions surrounding social science research and describing the various research paradigms that were available to the researcher. The bulk of the chapter describes the methods that were employed to collect and interpret data. Primary emphasis was placed on selecting methods that would capture and preserve the depth and richness of the data throughout the research process.

## 5.2. Research Objectives

The overarching aims of this study are to examine the practices, roles and responsibilities of boards of directors in the Libyan banking sector and to identify the factors that facilitate or hinder them in performing these roles and responsibilities effectively. Libya provides a unique setting for the study in that Islam permeates all aspects of the culture, including the regulatory frameworks. Banking governance is also affected, with BOD performance being highly influenced by Shari'ah law. Another important aim of this research, therefore, is to study the nature of this impact and to establish whether Libyan BODs conform to boardroom norms in the banking sector in terms of their strategic, service and control/monitoring roles. The findings from the collected data were used to develop a conceptual model that allows a better understanding of BOD roles in the context of an Islamic and developing country. It is hoped that the findings will not only contribute to the literature but also provide insights that can be applied to CG practice in Libya to support its economic development.

The aims outlined above were expressed in a series of research questions:

1. What are the international corporate governance regulations regarding the roles of the board of directors and how does practice in the Libyan banking sector reflect or diverge from these regulations?
2. What are the perceptions of the board of directors concerning their roles and responsibilities with respect to efficient and effective corporate governance?
3. What factors facilitate or hinder boards of directors in carrying out their roles and responsibilities in the LBS?
4. What internal corporate governance mechanisms do board members see as contributing to efficient corporate governance in Libyan banks?

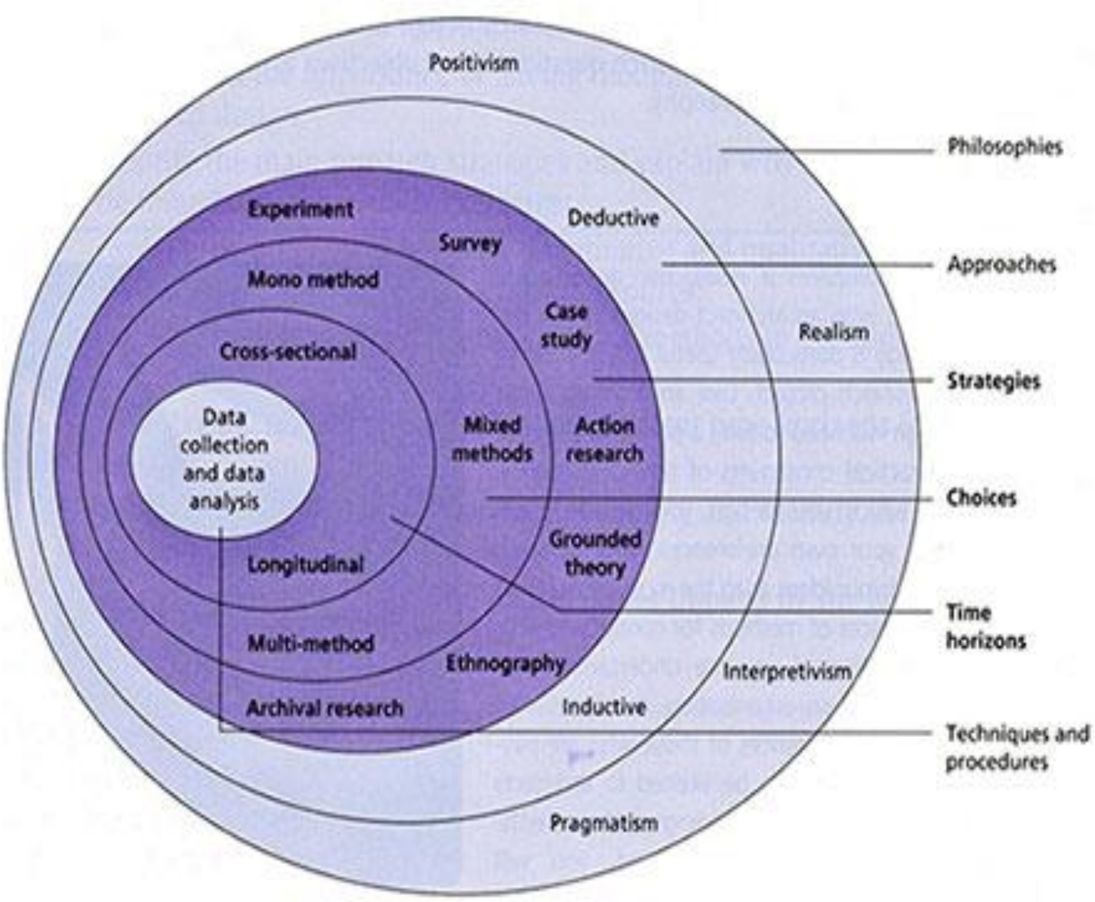
The research objectives may thus be summarised as follows:

1. To explore the actual/current practices, roles and responsibilities of boards of directors in the Libyan banking sector.
2. To study the perceptions of board members concerning their roles and responsibilities.
3. To identify the internal and external factors that affect boards when performing their roles and responsibilities in the LBS.
4. To ascertain how boards of directors feel they contribute to efficient corporate governance in the public and private banking sectors.

## 5.3. Research Philosophy and Methodology

In the philosophy of knowledge, philosophical assumptions are abstract principles that combine beliefs about ontology, epistemology and methodology. These assumptions shape how researchers see the world and act in it, and provide criteria for evaluating the knowledge they produce (Denzin and Lincoln, 1994). Before mapping out a research strategy and launching an empirical study, it is important to determine the philosophical and conceptual bases underlying the research (Collis and Hussey, 2013). Easterby-Smith et al. (2012) point out that identifying the philosophical standpoint is crucial to selecting the right research design. It may, for example, indicate that the researcher needs to develop a design that is outside their previous experience. Saunders et al. (2012) developed the “research onion” (see Figure 5.1) to show how the various philosophical assumptions support a range of social research paradigms representing different ontological and epistemological perspectives.

**Figure 5-1: The research onion**




Source: Saunders et al. (2009, p.108)

## 5.3.1. Research Paradigm

Research paradigms are formed by the adoption of particular ontological, epistemological and methodological beliefs. As stated above, it is necessary to apply certain philosophical assumptions concerning how the world is perceived and how we can best understand it in order to address the research questions (Hughes and Sharrock, 1997). This section compares the four major socal research paradigms in terms of their philosophical assumptions. Table 5.1 shows that positivism, realism, interpretivism and pragmatism each have their own area of interest and scope of applicability. Each paradigm views the world in a specific way, and this dictates how research questions are approached and data is analysed. The methodological approach and even assumptions about the nature of knowledge vary from paradigm to paradigm (Burrell and Morgan, 1994).

**Table 5-1: Comparison of four research philosophies**

| | Positivism | Realism | Interpretivism | Pragmatism |
|---|---|---|---|---|
| **Ontology**: The researcher's view of the nature of reality or being | External, objective and independent of social actors | Is objective. Exists independently of human thoughts and beliefs or knowledge of their existence (realist), but is interpreted through social conditioning (critical realist) | Socially constructed, subjective, may change, multiple | External, multiple, view chosen to best enable answering of research question |
| **Epistemology**: the researcher's view regarding what constitutes acceptable knowledge | Only observable phenomena can provide credible data, facts. Focus on causality and law like generalisations, reducing phenomena to simplest elements | Observable phenomena provide credible data, facts. Insufficient data means inaccuracies in sensations (direct realism). Alternatively, phenomena create sensations which are open to misinterpretation (critical realism). Focus on explaining within a context or contexts | Subjective meanings and social phenomena. Focus upon the details of situation, a reality behind these details, subjective meanings motivating actions | Either or both observable phenomena and subjective meanings can provide acceptable knowledge dependent upon the research question. Focus on practical applied research, integrating different perspectives to help interpret the data |
| **Axiology:** the researcher's view of the role of values in research | Research is undertaken in a value-free way, the researcher is independent of the data and maintains an objective stance | Research is value laden; the researcher is biased by world views, cultural experiences and upbringing. These will impact on the research | Research is value bound, the researcher is part of what is being researched, cannot be separated and so will be subjective | Values play a large role in interpreting results, the researcher adopting both objective and subjective points of view |
| **Data collection** techniques most often used | Highly structured, large samples, measurement, quantitative, but can use qualitative | Methods chosen must fit the subject matter, quantitative or qualitative | Small samples, in-depth investigations, qualitative | Mixed or multiple method designs, quantitative and qualitative |

Source: adapted from Saunders et al. (2009, p.119)

#### 5.3.1.1. Positivism and Interpretivism

Collis and Hussey (2013) show that these two ontological standpoints are known by a range of names (see Table 5.2). Some favour "phenomenological" over "interpretivist", but the terms are widely used interchangeably. Positivism is linked with quantitative and deductive approaches, while interpretivism is associated with qualitative and inductive methods (Riege, 2003).

**Table 5-2: Alternative terms for the two main research paradigms or philosophies**

| Positivist paradigm | Interpretivist paradigm |
|---|---|
| Quantitative | Qualitative |
| Objectivist | Subjectivist |
| Scientific | Humanistic |
| Traditionalist | Phenomenological |

Source: adapted from Collis and Hussey (2013)

At the heart of the positivist paradigm is the belief that: "The social world exists externally, and its properties should be measured through objective methods and not through sensation, reflection or intuition" (Easterby-Smith et al., 2012, p.22). According to Gilbert (2001, p.7):

> "This positive tradition posits that society can be explained 'scientifically' according to laws and rational logics – whether these are based on social stages, social facts or on social systems is not the point here. However much they differed in their outlook, for each, sociology offered a positive, scientific tool for explaining social events."

Scholars employing the positivist approach seek to ascertain some of the facts or reasons behind a social phenomenon, but pay little regard to the subjective state of the actors involved. Positivist-oriented studies explain social phenomena in terms of laws, the latter then being applied to predict the incidence of the former (giving decision makers the opportunity to control them). Collis and Hussey (2013) argue that researchers selecting the positivist paradigm see the social and natural worlds alike as being governed by the sequence of cause and effect and fixed rules.

In contrast, the phenomenological paradigm seeks to understand human behaviour by examining the individual frame of reference of the respondent (Bryman and Bell, 2015; Collis and Hussey, 2013). This paradigm was developed when critics of positivism argued that it is impossible to isolate human beings from their social environment, and that researchers themselves lack objectivity and cannot avoid being influenced in their enquiry by their own interests and views. Furthermore, using a single measure to attempt to make sense of a multifaceted phenomenon may yield results that are, at best, misleading (Collis and Hussey, 2013). The phenomenological paradigm highlights the subjective features of human action by concentrating on the implications of a social phenomenon rather than its measurement (ibid). It places emphasis on identifying the various constructions and values that people ascribe to their individual experience; hence, the stress is more on what people perceive and sense and how they interact with each other. According to Easterby-Smith et al. (2012), researchers should be aiming to make sense of people's various experiences rather than trying to establish links with external influences or fundamental laws.

Saunders et al. (2012) have summarised the advantages and disadvantages of the two paradigms (see Table 5.3).

**Table 5-3: Key advantages and disadvantages of positivism and phenomenology**

| | **Positivism** | **Phenomenology** |
|---|---|---|
| **Advantages** | - Economical collection of large amount of data.<br>- Clear theoretical focus for the research at the outset.<br>- Greater opportunity for researcher to retain control of research process.<br>- Easily comparable data. | - Facilitates understanding of how and why.<br>- Enables researcher to be alive to Changes that occur during the research process.<br>- Good at understanding social processes. |
| **Disadvantages** | - Inflexible: direction often cannot be changed once data collection has started.<br>- Weak at understanding social process.<br>- Often doesn't discover the meaning people attach to social phenomena. | - Data collection can be time-consuming.<br>- Data analysis is difficult.<br>- Researcher has to live with the uncertainty that clear patterns may not emerge.<br>- Generally perceived as less credible by "non-researchers". |

Source: Saunders et al. (2012)

In the positivist paradigm, knowledge about social phenomena is gained through the gathering of facts; this knowledge should be value-free, objective and independent of social actors (Bryman and Bell, 2015). However, the phenomenological paradigm sees social phenomena and their meanings as being continually accomplished by these social actors (Gill and Johnson, 2010). It is a very different way of viewing the world than positivism. Phenomenologists are concerned with the study of phenomena – what things mean – in a social context, rather than with identifying and measuring these phenomena. They consider human experience a valuable source of data, rather than believing that truth can be identified simply by measuring the existence of physical phenomena (Saunders et al., 2012). The two paradigms each have their own strengths, and researchers should not fall into the trap of accepting one as better than the other (Saunders et al., 2012), but the phenomenological paradigm seems particularly appropriate for the investigation of directors' perceptions of corporate governance and the social world of the LBS. Since the aim of this study is to understand directors' perceptions of corporate governance in Libyan banking sector, in order to understand people and their opinions, I need to apply an ontological view and a method that facilitate my understanding of the social world.

**5.3.1.2. The Realist Approach**

Realism emphasises that there is an external reality that is independent of the researcher (Bryman and Bell, 2015) and largely autonomous (Sobh and Perry, 2006). According to Bryman and Bell (2011, p.29):

> "Realism shares two features with positivism: a belief that the natural and the social sciences should apply the same kinds of approach to the collection of data and to explanation, and a commitment to the view that there is an external reality to which scientists direct their attention (in other words, there is a reality that is separate from our descriptions of it)."

However, although the realist approach re tains the scientific method of the positivist approach, it acknowledges the subjective nature of social research and the inevitable role of values (Fisher, 2007). Interpretivisim is an ontological position that constitutes social phenomena and their meanings as continually being accomplished by social actors who give meaning to them (Bryman and Bell, 2015). The interpretive approach involves subjectively understanding the meaning, themes and different aspects of phenomena (Hughes and Sharroch, 1997); it also allows the researcher to be part of the setting and to gain more in-depth data and knowledge on the topic. Realists accept that there is a social world that is not value-free and that is subject to interpretation. Noting the differences between the real world and these various interpretations, they seek to explain phenomena in context-specific terms (Riege, 2003). They see social structures as the product of specific social relationships. However, while they see these social structures as having an objective existence, they are real only in their effects; they are not permanent and unchanging. Fisher (2007) states that: “realist research shows there is a connection; interpretivism gives a possible description of how the connection may work” (p.57).

#### 5.3.1.3. The Pragmatic Approach

The individual limitations of each of the above approaches meant that none of them was sufficient by itself to address all the research questions in the current study. By combining them, however, it was possible to minimise the effects of these limitations while exploiting their strengths. Saunders et al. (2012) argue that deploying only one paradigm might limit the researcher’s ability to explore the research area thoroughly and that it is advisable to adopt a more flexible approach to theorise the world being studied. Neuman and Benz (1998) also advocate a multi-dimensional approach to research, emphasising that the research objective should direct the methodology, not the reverse. Easterby-Smith et al. (2012) describe pragmatism as just such a multi-dimensional approach.

Patton (2002) argues that the central reason for taking a pragmatic approach is to address the practical objectives of the research. Thus, though aware of the logical independence of the different philosophical positions, a pragmatist will combine different approaches if this allows him to better address the research question, to make better decisions in terms of data collection, analysis and interpretation and to limit bias. The aim is to find what works best for the research questions and not allow the philosophical assumption of a particular methodological standpoint to limit the research. Pragmatism allows researchers to take advantage of the benefits of the mixed-method approach (Teddlie and Tashakkor, 2009).

Following Burrell and Morgan (1994), this study rejects the ontological assumption that the world has no real pre-defined structure and adopts a realist approach. It deals with regulators and autonomous individuals who perceive corporate governance as an actual functional aspect of the corporate environment in Libyan banks. Therefore, the underlying assumption of this study is that the corporate world can only be understood imperfectly or probabilistically, as suggested by Pansiri (2009). It argues that banks find it difficult to achieve good board practice and effective CG systems because of the range of socal actors involved.

With regards to its epistemological position, this study aims to develop an understanding of phenomena as real and distinct from the researcher; hence, where possible, data was collected objectively and without bias. However, it was also necessary to study the feelings and attitudes of participants in order to gain a better understanding of board roles and the social processes involved. Accordingly, a pragmatic paradigm and mixed methodological approach were applied (Creswell, 2013; Pansiri, 2009).

The first stage of the data collection process was a quantitative survey, while the second was a series of qualitative semi-structured interviews with board members. Qualitative and quantitative data may be collected and analysed simultaneously or consecutively, with the second technique being used to explain and interpret the findings of the first (Pansiri, 2005, p.202). In this case, time and cost constraints rendered it necessary to conduct the quantitative and qualitative studies concurrently. Although the quantitative data was analysed first, as it was assumed that this would help the researcher better assess the current practices, roles and responsibilities of boards in the LBS, the quantitative and qualitative data analyses were intended to be mutually supportive. As a result in the interpretation section, data was mixed to elaborate on the themes and address the research objectives.

## 5.4. Research Methods

As indicated above, the study draws on data from a range of sources and employs a mixed-method approach to provide more perspectives on the BOD. According to Jick (1979, p. 608), the multi-method design "… can stimulate the creation of inventive methods, new ways of capturing a problem to balance with conventional data-collection methods". The combination of quantitative and qualitative methods is one of the most widely used approaches in the social sciences (Collis and Hussey, 2013; Saunders et al., 2012), as researchers argue that different types of data can be mutually enriching and each perspective can afford a new layer of understanding (Lee, 1991). In this case, quantitative data collected from the questionnaire revealed details of director demographics and characteristics, board composition and processes, and the extent of board compliance with codes of practice. This stage, which involved collecting and analysing numerical data and applying statistical tests, gave an initial insight into the role and characteristics of boards in the LBS (Hussey and Hussey, 1997). The qualitative method was employed to address the second, third and fourth research questions. The semi-structured interview was believed to be the best way to investigate participants' views, feelings and opinions as these are not quantifiable and cannot be determined without face-to-face communication (May, 1994).

The adoption of a combination of research approaches, methods and techniques is usually referred to as triangulation (Collis and Hussey, 2013; Saunders et al., 2012). Collis and Hussey (2013) identified four types of triangulation, as shown in Table 5.4. Saunders et al. (2009, p.146) define triangulation as:

> "The use of different data collection techniques within one study in order to ensure that the data are telling you what you think they are telling you. For example, qualitative data collected using semi-structured group interviews may be a valuable way of triangulating quantitative data collected by other means such as a questionnaire."

**Table 5-4: Types of triangulation**

| *Types of Triangulation* | |
|---|---|
| ➢ **Data triangulation** | Where data is collected at different times or from different sources in the study of a phenomenon. |
| ➢ **Investigator triangulation** | Where different researchers independently collect data on the same phenomenon. |
| ➢ **Triangulation of theories** | Where a theory is taken from one discipline and used to explain a phenomenon in another discipline. |
| ➢ **Methodological triangulation** | Where both quantitative and qualitative methods of data collection are used. |

Source: Collis and Hussey (2013)

Bryman and Bell (2015) point out that triangulation is widely utilised in the business and management research field as it allows the researcher to compensate for the shortcomings of individual techniques and to cross-check results. Snow and Thomas (1994) argue that it increases the validity and robustness of findings. Stiles and Taylor (2001) ensured rigour in their study of UK boards by employing methodological triangulation. They conducted open-ended interviews with directors (and some other stakeholders); issued a questionnaire to company secretaries (n=121); compiled case studies of four UK public companies (which involved interviewing on average five directors from each company); and gathered extensive secondary and archival data. Demb and Neubauer (1992) also took a multi-method approach, interviewing 71 directors from eleven multinational companies and issuing a questionnaire to attendees (n=137) at their board level courses at IMD in Lausanne. Lorsch and MacIver (1989), in their 1989 study of US boards, interviewed 80 directors, supplementing this with four case studies and a questionnaire (n=100). Peck (1995) provides a rare example of a study which uses observation, minutes and questionnaires to study the performance of an NHS Trust board. Fifteen board meetings were observed and board papers and minutes gathered. At the end of the process, a questionnaire was sent to the members of the Trust board with items measuring their "…perceptions of the roles that the board had been most successful at undertaking during its initial months" (p.146).

This study employs both data triangulation and methodological triangulation in an effort to neutralise the influence of individual methods and make the findings more reliable. The findings from the quantitative and qualitative methods were subjected to comparative analysis to check consistency. For example, initial information on corporate governance and boards of directors in the Libyan banking sector was gathered by means of archival research; the data gathered from the questionnaires and interviews was then used to supplement and verify this information. A major source of uncertainty in any study employing a single research method is that it leaves untested alternative interpretations that might call the validity of the study's findings into question. Gill and Johnson (2010) propose methodological triangulation as a way of promoting validity by reducing reactivity and respondent and researcher bias. Table 5.5 presents the relationship between the methods used in this study and the research questions.

**Table 5-5: Relationship between the methods used in this study and the research questions**

| Research Questions | Objectives | Methods |
|---|---|---|
| 1. What are the international corporate governance regulations with regards to the roles of the board of directors and how does practice in the Libyan banking sector reflect or diverge from these regulations? | 1. To explore the actual/current practices, roles and responsibilities of boards of directors in the Libyan banking sector | Main: Archival research<br>Questionnaire survey<br><br>Support: Interview survey |
| 2. What are the perceptions of the board of directors concerning their roles and responsibilities with respect to efficient and effective corporate governance? | 2. To study the perceptions of boards of directors concerning their roles and responsibilities. | Main: Interview survey<br>Questionnaire survey<br>Support: Archival research |
| 3. What are the factors that facilitate or hinder boards of directors in carrying out their roles and responsibilities in the LBS? | 3. To identify the internal and external factors that affect BODs when performing their roles and responsibilities in the LBS | Main: Interview survey Questionnaire survey<br>Support: Archival research |
| 4. What internal CG mechanisms do board members see as contributing to efficient CG in Libyan banks? | 4. To ascertain how boards of directors feel they contribute to efficient corporate governance in the public and private banking sectors. | Main: Interview survey<br>Questionnaire survey<br>Support: Archival research |

### 5.4.1. Research Access

Informed consent is regarded as the cornerstone of ethical research, but securing this consent can be problematic in developing countries (Benatar, 2002; Lindegger and Richter, 2000). In western countries, the consent form is an important mechanism for enforcing confidentiality, but in developing countries such as Malaysia and Libya, an invitation to sign a consent form may be met with suspicion (Mertens, 2009). Ryen (2004) believes that an invitation to sign formal documents does not work in some cultures because it "may lead to alienation [and] it may enforce scepticism" (p. 232). Shareia et al. (2005) found in their research in Malaysia and Libya that people tend to avoid writing their name or signing questionnaires because they think it might risk their position or they will be held responsible for what they have written. This problem has also been encountered by a number of NTU doctoral students who have conducted their research in Libya; with the result that some have abandoned consent forms altogether. Larbsh (2010) did not use consent forms for either his questionnaires or his interviews, while Busnaina (2011) used consent forms for his interviews but not his questionnaires.

In this study, interviewees were asked to sign a consent form indicating their willingness to participate in the research, as it was felt that the formality of signing such a form would build more trust for the participant. The form constituted the second page of the interview schedule, after the information sheet. The interviewees were given time to read the consent form before starting the interview.

A consent form was attached to each questionnaire, but completion was optional. The participants were reassured of the confidentiality and anonymity of the research in the information sheet, but the questionnaires were distributed under the supervision of bank managers and it was anticipated that respondents would be reluctant to fill them in if they were asked to write their names or sign a form for the reasons discussed above. This might have reduced the size of the sample and consequently the significance of the results.

It should be noted that accessing data was a major challenge in the study, in particular because executive managers and BODs were reluctant to participate in any research. Even making initial contact was difficult. Over a period of five months, repeated emails were sent to banks requesting that archive material be sent by post to the researcher's address in Libya or to his email, but without success. Between December 2011 and April 2012, several follow-up communications were directed to the individuals responsible for compiling annual reports, but still no replies were received. Since it was evident that the research could not progress without the help of influential people, the researcher went to Libya and used his personal contacts to approach banks in person. The necessary documents were finally made available in July 2012. The insular nature of Libyan banks, the busy schedules of bank employees and the confidentiality of the documents were all challenges that had to be overcome before the banks would share information. They were only convinced to cooperate with the help of Nottingham Trent University (who gave official assurances of the confidentiality and anonymity of the research), and with the mediation/support of the Libyan embassy and the Director General of the CBL.

Although collecting data via questionnaires was not as difficult as accessing bank documents and archival sources, this was not an easy task either. Distributing the questionnaires and collecting the responses was difficult because of the enormous distances involved. Libya covers 1,774,440 square kilometres (679.182 square miles) and the banking sector is spread across several cities, so the researcher had to travel long distances, sometimes more than 1200 km, to distribute/collect the questionnaires. Once again, bank employees were often too busy to participate.

Organising interviews, especially with CEOs and board chairmen, was also extremely difficult. Again, personal contacts were the main way the researcher was able to gain access to and build trust with the interviewees. Even so, respondents were reluctant to share any information with the researcher, citing confidentiality, and managers who had agreed to be interviewed repeatedly cancelled appointments on the grounds that they were too busy. Finally, through patience and persistence, the researcher was able to secure 24 interviews.

### 5.4.2. Ethical Considerations

In accordance with the requirements of NTU's Research Governance Policy 2006, the research instruments were submitted to the Ethical Committee for approval. As part of the application, the committee was provided with an overview of the fieldwork plan and an explanation of the steps that would be taken to protect participant confidentiality and data security. The plan was formally approved in July 2012.

### 5.4.3. Data Sources and Sample Selection Criteria

The potential sample for the study was all seventeen commercial banks operating in Libya. ( Table 2.1 chapter 2). The researcher met with sixteen of these banks, including four subsidiaries of foreign-held firms, six state-owned banks and six private banks. The remaining commercial bank was excluded from the research because it had been frozen by the Libyan government. Specialised banks such as mortgage lenders and agricultural banks were also excluded from the sample as they apply different accounting practices The study covers the period between 2005 and 2013 because: (a) banking reform began in 2005; (b) implementation of CG best practice began in 2011; and (c) the 2011 revolution triggered further radical change (e.g. the introduction of SSBs).

Data was hand-collected from annual reports and archival documents such as memoranda and Articles of Association. These gave information on the legal and formal structure of the banks, the ownership structure and details about the banks' origins. The main source of secondary data on the sector was publications by the CBL. Other documents included government publications highlighting the legal role and responsibilities of the board of directors, the Companies' Law (2010) and financial and banking legislation.

### 5.4.4. Data Collection via Questionnaire

The questionnaire was distributed to a purposive sample of the target population. It was designed to yield insights into the nature and characteristics of the BODs in the sample companies and how these companies are governed in practice, and to elicit the general attitudes of a range of internal stakeholders towards current corporate governance practice.

A questionnaire may be defined as a set of questions that have been designed to elicit reliable responses from a particular group of participants (Collis and Hussey, 2013; Sekaran and Bougie, 2010). It is a useful method for studying the views and practices of the respondents (Hussain and Mallin, 2002; Mingers, 2001). Questionnaires can be administered by mail, telephone, online or in person, and can be completed by either the researcher or the respondent. Each of these options has its own advantages and disadvantages (Collis and Hussey, 2013; Sekaran and Bougie, 2010), but the self-administered questionnaire was considered the most appropriate in this case. In the self-administered questionnaire, the researcher presents the questionnaire to the respondents and explains the purpose of the investigation, and the respondents are then left alone to complete it (Oppenheim, 2000; Sekaran and Bougie, 2010).

The main advantage of administering a questionnaire in person is that the completed response can be collected within a short period of time. Any sensitive or complex questions can be clarified on the spot, ensuring a higher response rate. It is often more time- and cost-effective, and it minimises researcher bias (Oppenheim, 2000; Bryman and Bell, 2015; Collis and Hussey, 2013; Sekaran and Bougie, 2010). Finally, it gives the researcher the opportunity to introduce the research topic personally and to motivate the participants not just to complete the questionnaire, but to answer the questions honestly (Sekaran and Bougie, 2010). An additional consideration in this case was the fact that Libya's postal service is not very reliable; administering the questionnaire by post would have reduced the response rate and taken more time. It was similarly impractical to conduct the questionnaire by email or telephone because of the difficulty of finding up to date contact details for the target respondents. As the questionnaire was designed to collect comprehensive data, it was quite long. Had it been administered by post, email or telephone, it may well have been ignored by the recipients and achieved a very low response rate.

Collis and Hussey (2013) identify several important issues that researchers need to consider when designing and distributing their research instrument. These include sample/population size, question design (i.e. type, wording and presentation), how to pilot the questionnaire, the covering letter, distribution method, methods of data analysis and how to test reliability and validity. These issues are discussed in the following sections.

#### 5.4.4.1. Questionnaire Design

Numerous authors have pointed out that the questionnaire is one of the most widely used data collection techniques in studies adopting a survey strategy (Saunders et al., 2012; Sekaran and Bougie, 2010). They argue that a good questionnaire is designed in such a way as to collect the precise data required to answer the research questions and meet the research objectives. Unlike other data collection methods, the researcher has only one opportunity to collect data; they will not be able to go back to the respondents and collect additional information using another questionnaire. In this study, a theoretical framework was built based on the research objectives. The development of the questionnaire was also influenced by the reviewed literature; several questions were adopted from Hussain and Mallin (2002), Solomon (2010) and Stiles and Taylor (2001). The OECD's corporate governance assessment instrument (2004) was also used in this section of the research. Finally, a small number of questions were specifically related to the legal and economic environments and Shari'ah law.

Significant effort and time were dedicated to the construction of the questionnaire and the piloting of drafts (see 5.4.4.3). A detailed and careful evaluation of each part of the questionnaire was conducted; this process was also guided by the recommendations of authors such as Oppenheim (2000), Bryman and Bell (2015), Collis and Hussey (2013), Saunders et al. (2012) and Sekaran and Bougie (2010). A number of steps were taken to ensure optimum clarity and user-friendliness in the questionnaire. Firstly, the purpose of the questionnaire was explained to all respondents. Clear instructions were given for each question, all of which were expressed in simple and direct language. To give respondents additional support, the questionnaire was accompanied by a brief glossary of some of the more specific terms. Questions were kept as short as possible without distorting their content and meaning, with questions on a similar theme being grouped together. Respondents were led from general to more specific questions and from relatively easy to more difficult questions. Embarrassing questions were avoided. Finally, the questionnaire was designed to look neat and attractive: the final draft consisted of A4 pages ( 6 Pages) , printed on both sides and stapled to form a booklet. This required less paper and made it appear shorter and more professional. The full text of the questionnaire (in English) is provided in Appendix B.

#### 5.4.4.2. Types of Questions

The questionnaire was divided into three sections. The questions in Section One were designed to obtain general information about the banks in the sample. Those in Section Two were designed to investigate the respondents' perceptions of corporate governance in the Libyan business environment. These questions were important because they were expected to provide the basic data needed for analysing and testing relationships with other variables in the study. The respondents were presented with six definitions of corporate governance (Solomon, 2010), each expressing a different interpretation of CG, and asked to indicate the extent to which they agreed or disagreed with each definition by scoring each one between 1 (strongly disagree) and 5 (strongly agree).

Section Two was also designed to seek the respondents' opinions and perceptions regarding the board's service role, strategic role and control/monitoring role in the Libyan context. In terms of their strategic role, boards of directors fall into two categories: (1) The board creates the bank's objectives, strategies and a board policy, while top management prepares the overall strategy; and (2) the board is involved in the development and implementation of strategy. Respondents were asked to indicate on a five-point Likert scale whether they agreed (or disagreed) with these statements as a description of the role played by their board.

The service role of the board of directors has three main aspects: networking with the external environment, building the firm's reputation and counselling executives. Respondents were asked to indicate on a five-point Likert scale the extent to which they agreed that their board performs its service role by (1) enhancing company reputation, (2) establishing contacts with the external environment and (3) giving advice to executives.

The control/monitoring role has three main aspects: output control, strategic control and behavioural control. The respondents were asked to indicate on a five-point Likert scale the extent to which they agreed that their board engages in (1) output control (monitoring company performance), (2) strategic control (monitoring the execution of approved strategy) and (3) monitoring managers.

The remaining questions in Section Two attempted to elicit more detail about the factors that participants saw as preventing boards from performing their roles effectively, and the role of CG mechanisms in enhancing board efficiency. This section was important in helping the researcher to explore current approaches to corporate governance in Libya and to draw out respondents' opinions regarding its future development.

**Table 5-6: Factors investigated in Section Two of the questionnaire:**

| Factor | How it was measured | Scale | Question |
|---|---|---|---|
| The main key factors influence the role and responsibilities of the board | Participants were asked to identify the degree to which performance is impeded for 8 factors | Likert 5-point | 2.4 |
| Factors that might enhance the effectiveness of boards and corporate governance in Libyan banks | Participants were asked to identify the degree to which board effectiveness and corporate governance in Li byan banks would be enhanced (11 statements). | Likert 5-point | 2.5 |

Section Three of the questionnaire was addressed solely to CEOs, the questionnaire attempted to elicit more details on the practices, roles and responsibilities of boards of directors in public, private and foreign banks operating in Libya. The section looked at corporate governance mechanisms,( composition, diversity, structure, and process) how these mechanisms might diverge from international best practice (Hussain, and Mallin, 2002).

**Table 5-7: Corporate governance mechanisms measured in the questionnaire**

| Factor | How it was measured | Scale | Question |
|---|---|---|---|
| **Board characteristics** | **Background:** Participants were asked to give details of their educational qualifications. Diversity was measured as the number of different occupations represented on the board over the total number of board members, and major of last degree | MCQ | 1.3 and 1.4 |
| | **Experience:** The experience of directors was measured by their number of years on the job including previous job (Milliken and Martins, 1996). | MCQ | 1.4.1 |
| | **Board Gender:** Male and Female | MCQ | 1.5 |
| **Board Composition** | **Executive and non-executive directors:** The board members was measured as the number of board members over the total number of directors. Also computed: the proportion of outsiders (non-management members) on the board, the number of executives and non-executives (Finkelstein and Mooney, 2003). | MCQ and Likert 5- point | 3.1 and 2,6 |
| | **Board size:** The total number of members on the board. | MCQ | 3.3 and 3.4 |
| **Board Structure** | **Committees:** Type of board committee; the total number of members; the ratio of independent non-executive directors in each committee to the total number of committee members and to all the established committees. | MCQ | 3.10 |
| | **Leadership structure/ CEO duality:** Answers were coded 1 when the CEO was not the board chair and 0 when both positions were held by the same individual: determination of the importance of splitting the role of chairman and CEO and statement describing the role, responsibilities and powers of chairman and CEO. | MCQ | 3.5,3.6 and 3.7 |
| **Board Process** | **Board meetings:** The number of meetings per year held by the board of directors and attendance at board meetings. | MCQ | 3.8 and 3.9 |
| | **Selection of the board**: Director selection process and CEO | MCQ | 3.11, 3.12 and 3.13 |

### 5.4.4.3. Pilot Study Questionnaires

A pilot study was carried out in order to identify any potential problems with the design of the questionnaire and to check the internal consistency and reliability of the questions (Saunders et al., 2012). An initial draft of the questionnaire was put together based on the literature. This draft was reviewed by the supervisory team and then piloted among the PhD students at Nottingham Business School. The second stage of the pilot study involved passing the questionnaire to three LBS board members and four academics in Libyan universities (all of whom held PhDs in accounting from UK universities). Their comments on the reliability of the questions were collected, and the wording and scaling of certain questions were modified accordingly. In the third stage of the pilot study, the modified version of the questionnaire was translated from English into Arabic and then reviewed by the same academics to check for any bias or grammatical/semantic mistakes. Their comments were incorporated into the final version of the questionnaire.

### 5.4.4.4. Research Population and Sample for the Questionnaire

As explained in section 5.4.3, Libya's commercial banking sector comprises seventeen operating banks, sixteen of which took part in the study. Six are state- or local government-owned, six are privately owned banks and four are subsidiaries of foreign-held firms. The remaining bank was excluded from the research because it had been frozen by the Libyan government.

The aims of the questionnaire were to gain an insight into the nature and characteristics of boards in the LBS and how banks are governed, and to elicit the attitudes of different groups towards current practice. Since the research questions focus on the real operation of boards in the sector and the impact of internal CG mechanisms, it was necessary to survey not just board members and executive committee members, but also the various internal stakeholders and outsider groups that have an impact on the BOD's role. The difficulties of gaining access to boards were another reason why it was decided that the sampling frame should be as large as possible. The frame was therefore selected according to the following criteria:

1. Most existing studies focus on the perceptions of chairmen and CEOs (Machold et al., 2011; Hassien and Mallin, 2002). Inclusion of all board

members facilitated the investigation of the roles of both non-executive and executive directors. These are a key focus in both academic and prescriptive literatures.
2. Internal stakeholders from a range of managerial roles are called upon as board informants. Directors with major resource allocation and policy-making power were targeted, such as financial managers and internal auditors. Which significantly impact boards of directors role.
3. Board secretaries were included because, as Stiles and Taylor (2001) argue, they may be rather more objective than directors when answering questionnaires. The board secretary is responsible for administration; their duties include convening board and company meetings at the direction of the board, taking minutes of meetings, writing up the company's statutory books and filing returns with the registrar of companies.
4. The questionnaire was also distributed to research and development staff, as some of them accounting lecturers in some of Libya's business schools. These academics influence accounting, corporate governance and disclosure practice in the country.
5. The samples were chosen from both Libyan-owned (public and private) and joint Libyan/foreign-owned banks to allow comparison of corporate governance systems and structures.

Based on previous research experience in Libya, it was predicted that approximately 50% to 70% of the questionnaires would be returned. To maximise the chances of obtaining a sufficient number of responses from each group, 410 questionnaires were therefore sent out to:

1. Board members (depending on the size of the board) 112 questionnaires.
2. CEOs or Executive manager / financial deparment (senior manager, finance director, management accountant) (head office level) 80 questionnaires.
3. Internal auditors (director / head office level) 80 questionnaires.
4. Executive manager members ( sitting) on sub-committee(s) 88 questionnaires.
5. Board secretaries 16 questionnaires.
6. Research and development staff member 34 questionnaires.

A total of 227 questionnaires were answered, giving a response rate of 55% (see, Table 5.8).

**Table 5-8: Responses to the questionnaire survey from each group**

| Type | Distributed | Received | Unanswered | Answered | Percentage |
|---|---|---|---|---|---|
| **Public** | 160 | 83 | 5 | 78 | 49% |
| **Private** | 150 | 87 | 6 | 81 | 54% |
| **Libya/ Foreign** | 100 | 70 | 2 | 68 | 68% |
| **Total** | 410 | 240 | 13 | 227 | 55% |

### 5.4.4.5. Statistical Analysis of Questionnaire Data

The best way to evaluate the reliability of questionnaire responses with a minimum acceptable value of 0.70 is Cronbach's Alpha test (Field, 2013; Santos, 1999). The items in the current data presented on the Likert scale showed an acceptable reliability of 82.2%. The other items in the questionnaire did not require a reliability test because they were drawn as formative measures. These measures indicate that the items adopted from the questionnaire had significant correlation.

After the questionnaire responses had been coded according to respondent type and bank sector, the data was transferred to the SPSS computer package for analysis. There are many techniques for analysing experimental data; descriptive statistics and non-parametric tests were deemed the most suitable techniques for answering the research questions in this case.

Descriptive statistics changes raw data into finished information (Sekaran and Bougie, 2010). This information is presented in the form of frequencies, percentages, overall mean scores, standard deviations and rank orders. Weisberg et al. (1996) comment on the particular usefulness of percentages and frequency distribution as a way of presenting information. The overall mean value of each question attached from the three user groups was used in the ranking of the respondents' mean to the research questions.

The first moment is the mean, which is usually computed as:

$$\overline{x} = \frac{1}{n} \cdot \sum_{i=1}^{n} x_i$$

Where:

X = the mean; N = the total number of respondents in the sample; i = 1,2,3,4, ....n.

The second moment is the standard deviation. This is usually computed as:

$$s = \sqrt{\frac{1}{N-1} \sum_{i=1}^{N} (x_i - \overline{x})^2}$$

Where:

S = the standard deviation; X = the mean; N = the total number of respondents in the sample; and Xi =1 ý2, 3, 4, ....N.

The aim was to compute an indicator that would allow measurement of the unpredictability of an individual response within a particular distribution. Standard deviation measures the spread around the mean of the sample population. Sekaran and Bougie (2010) describe standard deviation as an indicator that allows the researcher to measure the variability within an individual or group's answers and how much they differ from the mean. This statistical method is used to make abstract thought from sample statistics to the population parameters. In this study, it was used to compare respondents' opinions and perceptions of CG and the roles and responsibilities of BODs in public, private and foreign banks operating in Libya.

Non-parametric tests were then conducted to analyse the differences between independent samples. Newbold et al. (2007) advise that non-parametric testing is more suitable in a questionnaire survey, where the data is mainly nominal and ordinal. Leach (1979) argues that in non-parametric testing; relatively few assumptions are made about the nature of the population distribution. As computations are based upon frequency distributions and/or rank order rather than means, neither interval-level data nor assumptions about the shape of the underlying distribution are required.

Siegel and Castellan (1988) identify a number of advantages of non-parametric testing. They argue that non-parametric methods are applicable to all types of data in any analysis, large or small, and that they are suitable for treating samples made up of observations from different populations. They can be used to analyse data that is normally ranked, producing numerical scores that have the strength of ranks. Depending on the parametric procedures selected, non-parametric methods may be almost or even equally (see Bradley, 1968) as powerful as classical procedures when the assumptions of the latter are met. They may be quite a bit more powerful when the assumptions of classical procedures are not met. As they make fewer stringent assumptions than classical procedures, they are easier to apply. Finally, non-parametric methods are cheap to use.

The non-parametric tests employed in this study were the Kruskal-Wallis One-Way Analysis of Variance test and the Mann-Whitney test. The Kruskal-Wallis test was used to test the differences among participants from private, public and foreign banks – specifically in terms of their perceptions of CG. The Kruskal-Wallis test is another version of the parametric ANOVA test for calculating the difference in the population mean. It tests the null hypothesis that independent groups or samples are the same against the alternative hypothesis that one or more of the groups differ from the others. Gall et al., (2007) define the Kruskal-Wallis test as:

> "a statistical technique used to compare categorical data. It also gives a comparison of the distribution of individual variables from two or more different groups and produces a measure of relationship, called the contingency coefficient, which is similar to the correlation coefficient." (p. 405)

In line with Curwin and Slater's recommendation (2007), this study was conducted at the 5% level of significance and 95% level of confidence for the various statistical tests. A statistically significant result on the Kruskal-Wallis test indicates a difference between groups, while an insignificant result indicates that they are the same.

The Kruskal-Wallis value is computed using the following formula:

$$H = \frac{12}{n(n+1)} \sum_{j=1}^{k} \frac{R_j^2}{n_j} - 3(n+1)$$

Where:

H = Kruskal-Wallis value Rj = sum of the ranks of the jth group

nj = sample size of the jth group or sample

N = combined sample sizes of all groups or samples

R = average of the ranks in the jth samples or groups.

k = the number of groups

A mean value was computed for each item on the questionnaire, reflecting the respondent's behaviour in regard to that item. A five-point scale, with 1 representing the lowest point and 5 representing the highest point, accompanied each question.

Respondents' mean responses to each of the questions were ranked. These rankings represent the capability of response in terms of level of value or agreement/disagreement. This rank order is vital because it signals the relative level of importance attributed by the respondents to each item.

The Mann-Whitney test, which is a non-parametric test similar to the (parametric) t-test, is used to test the difference between two independent groups on a continuous measure. The test turns the scores for the continuous variable into ranks (Chan et al., 2009) and measures whether the ranks for the two groups differ significantly. The Mann-Whitney test is also used to test the difference between two paired samples. The underlying assumption of this test is that the data (in the one sample situation) or the difference-scores (in the two sample situation) is continuous ordinal data from a symmetric population. Leach (1979) adds that each subject's data is independent of the data from other subjects.

Where there is no significant difference between the means of the two groups, the Mann-Whitney value is computed for the second group, using the following formula:

$$\mathrm{U} = S - \frac{n1(n1-1)}{2}$$

Where:

S = the sum of the ranks assigned to the sample under study

N1 = the total number of respondents in sample1

In this study, the MW test was used to verify which pairs of group averages were significantly different from each other. If the two groups were the same size, the Mann-Whitney value was computed for the second of the two groups.

**5.4.4.6. Respondents' Demographic Details**

The survey questionnaire began by gathering information about the respondents' personal backgrounds; they were asked about their place of work, last educational qualification, degree subject, current position and relevant work experience. Apart from yielding useful data, these questions were helpful in introducing respondents to the format of the questionnaire. Table 5.9 illustrates that 44.5% of respondents worked in the state-owned banking sector, 31.3% in the private sector and 24.2% in the Libyan foreign sector. The vast majority of respondents (84.6%) had top management responsibilities. 57.3% held a bachelor's degree, while 33.4% had a PhD or other post-graduate qualification.

**Table 5-9: General information about the respondents**

| Bank sector | Frequency | Percentage |
|---|---|---|
| State-owned (public) | 101 | 44.5 |
| Private | 71 | 31.3 |
| Libyan /foreign | 55 | 24.2 |
| Total | 227 | 100.0 |
| Job title and position | | |
| Member of board of directors | 94 | 41.4 |
| CEO or Executive manager / Financial department (senior manager, finance director, management accountant) | 39 | 17.2 |
| Internal auditor (director) | 37 | 16.3 |
| Executive manager member (setting) on a sub-committee(s) eg audit committee | 22 | 9.7 |
| Secretary of the board | 16 | 7.0 |
| Research and development staff member (adviser) | 19 | 8.4 |
| Total | 227 | 100.0 |
| Highest qualification | | |
| Lower than Bachelor Degree | 17 | 7.5 |
| Bachelor degree | 130 | 57.3 |
| Master Degree | 60 | 26.4 |
| PhD | 16 | 7 |
| Other | 4 | 1.8 |
| Total | 227 | 100.0 |
| Major of last degree | | |
| Accounting | 78 | 34.4 |
| Banking | 44 | 19.3 |
| Business Administration | 46 | 20.3 |
| Economics | 22 | 9.7 |
| Law | 13 | 5.7 |
| Finance | 19 | 8.4 |
| Other | 5 | 2.2 |
| Total | 227 | 100.0 |

*Source: design by researcher*

Table 5.10 indicates that 41.4% of the respondents were board members, 17.2% worked in the financial department (as senior managers), 16.3% were internal auditors (these were directors), 9.7% were members of one or more sub-committees, 7% were board secretaries and 8.4% worked in research and development (serving the board in an advisory capacity). More than half (59%) of the participants had between 5 and 10 years' experience, 31.3% had between 11 and 15 years' experience and 7.0% had more than 15 years' experience. 2.6% had less than five years' experience in their current position.

**Table 5-10: Respondents' position and years of experience**

| Post | Years' experience | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Less than 5** | | **5-10 years** | | **11-15 years** | | **More than 15 years** | | **Total** | **%** |
| | **Freq** | **%** | **Freq** | **%** | **Freq** | **%** | **Freq** | **%** | | |
| Board member | | | 47 | 50.0 | 37 | 39.4 | 10 | 10.6 | 94 | 41.4 |
| CEO /Executive manager/Financial department (senior manager, finance director, management accountant ) | 6 | 15.4 | 32 | 82.1 | 1 | 2.6 | | | 39 | 17.2 |
| Internal auditor (director) | | | 34 | 91.9 | 3 | 8.1 | | | 37 | 16.3 |
| Executive manager member setting on subcommittee(s) e.g audit committee | | | 16 | 72.7 | 6 | 2.6 | | | 22 | 9.7 |
| Secretary of the board | | | 5 | 31.3 | 11 | 27.3 | | | 16 | 7 |
| Research and development (adviser) | | | | | 13 | 68.4 | 6 | 31.6 | 19 | 8.4 |
| Total | 6 | 2.6 | 134 | 59.0 | 71 | 31.3 | 16 | 7.0 | 227 | 100 |

It may be concluded from the above information that the respondents were generally knowledgeable and relatively highly experienced. Most respondents had a background in banking, finance or accounting, making them well placed to provide relevant information regarding current corporate governance practice in Libya and the BOD's role (see Appendix A Table 5).

### 5.4.5. Data Collection via Semi-Structured Interviews

The questionnaire results mainly addressed the first research question, while the second, third and fourth research questions were addressed principally through the interviews. The questionnaire results were used to frame the interview questions, which also drew on findings from previous studies. The interviews, which were conducted between September 2012 and January 2013, were used to confirm the results from the questionnaire survey, to gain further understanding of the findings and to obtain more specific information about the roles and responsibilities of BODs and CG practice in the Libyan banking sector, including any differences between private and public banks.

Liew (2007) and Solomon et al. (2002) show that interviews are an effective data collection method when studying corporate governance systems. The interviewees, who included board chairmen, CEOs and non-executive directors, were chosen purposefully for the significant impact they have on the practice and development of corporate governance in the banking sector. The primary objective of the interviews was to gain further insight into the directors' perceptions regarding the BOD's role. These perspectives were used to develop an understanding of how these directors conceived of their role on the board.

#### 5.4.5.1. Face-to-Face Interview Method

Opdenakker (2006) states that interviews may be conducted face-to-face (FtF), over the telephone, or via MSN messenger or email. He adds that face-to-face interviews are the most common, but that telephone interviews are also popular. Each of the four options has its own advantages and disadvantages, depending on the degree to which it is a synchronous or asynchronous form of communication (see Table 5.11).

**Table 5-11: The four interview techniques by degree of synchronous asynchronous communication**

| | Time | Place |
|---|---|---|
| **Synchronous communication** | FTF, MSN messenger and Telephone | FTF |
| **Asynchronous communication** | Email | Email , MSN messenger and Telephone |

Source: adapted from Opdenakker (2006)

As seen in Table 5.11, FtF interviews facilitate communication that is synchronous in both time and place. Email interviews offer asynchronous communication in time and place, while MSN messenger and telephone interviews are synchronous in time but asynchronous in terms of place. Although it can be more expensive and time-consuming than other types of interview, the face-to-face interview technique was employed here because it offers more advantages than the other techniques. As Opdenakker (2006) highlights, it is unique in enabling communication that is synchronous in both time and place. There is no significant time delay between question and answer; in other words, the interviewer and interviewee can directly react to what the other says or does. The interviewer has the chance to create the right ambience, and the interviewee's answers are more likely to be spontaneous. Ending an FtF interview is also easier than ending other forms of interview as there are likely to be enough clues in the interaction between interviewer and interviewee to indicate when the interview is drawing to a natural conclusion.

The fact that FtF interviews can be recorded (with the permission of the interviewee) makes it easier for the researcher to compile an accurate report, but it is still important to take notes during the interview: (1) to check that all the questions have been answered, (2) in case the recorder malfunctions and (3) in case of "interviewer malfunction". In the event, the researcher in this study had to rely entirely on note taking as none of the interviewees were willing to be recorded.

#### 5.4.5.2. Semi-Structured Interviews

Three types of interview have been identified in social research (Saunders et al., 2012): the structured interview, the semi-structured interview and the unstructured interview. Researchers choosing to conduct structured interviews employ a predetermined, standardised or identical set of questions. Those choosing semi-structured interviews may also go in with a list of questions (see Appendix C), but these are only used as a starting point. One advantage of the semi-structured interview is that it offers the flexibility to explore areas of interest as they arise. Unstructured interviews are used to explore in depth a general area of interest. The goal is to put the interviewee at ease so that they feel able to express themselves freely.

The face-to-face semi-structured interview was chosen as the main data collection tool for this study because it had the capacity to provide important insights into BODs, including how their role and practices have developed over time, from the perspective of well-informed respondents (Yin, 2013). The semi-structured format provided a framework for the interview (rather than allowing respondents to talk in general ways about the research problem), while still giving interviewees the space to provide additional explanations where they felt it necessary (Deegan and Blomquist, 2006).

#### 5.4.5.3. Instrument Development

The design of the instrument reflected the aims and objectives of the research and drew on previous qualitative studies, such as those by O'Neal and Thomas (1995), Solomon (2010), Stiles and Taylor (2001), Hill (1995) and Okpara (2011). The OECD's corporate governance assessment instrument was also used in this section of the research. A small number of questions were drawn from the Libyan legal and economic environments, as well as from Shari'ah law. The guidelines given by Saunders et al. (2012) were closely followed when formulating the questions. These authors recommend three types of questions for use in semi-structured interviews: open questions that elicit definition and description of a situation or event; probing questions to explore significant responses to the research topic; and specific and closed questions to obtain specific information, or to confirm a fact or opinion.

The interview schedule included questions about: the corporate governance concept; board roles and responsibilities; factors that affect the board's roles and responsibilities in the Libyan banking sector, and how these might diverge from international best practice; factors that prevent boards from carrying out their roles and responsibilities effectively; and factors that could enhance the efficiency and effectiveness of Libyan boards. The original interview questions, which were drafted in English, were a mixture of open-ended and closed questions. To enhance validity and reliability, the researcher's supervisors, who have the relevant expertise, reviewed the questions, and their comments were taken into consideration. Since Libya's official language is Arabic, it was necessary to translate the instrument. This was done by the researcher and a bilingual Arabic/English colleague. The interviews were conducted in Arabic to optimise the chances of gathering full and detailed responses. For the purpose of the analysis, the interviews in Arabic were translated into English and then back into Arabic in order to minimise any misunderstandings arising from inaccurate translation.

All the interviews were conducted by the researcher. Interviewees were first contacted and an appointment arranged. The time and place of the interviews were chosen by the interviewees, be it the workplace or elsewhere. Prior to the actual interview, each participant was given a description of the research purpose at a confirmation meeting. This helped ensure they understood the questions and would feel more relaxed and comfortable (and thus would be more likely to give honest answers). The respondents were also allowed to make comments about the questions before their interview. This provision may have also promoted the validity of the data by enabling the interviewees to think about the information being requested beforehand.

An attempt was made at the beginning of each interview to establish a good relationship with the interviewee by discussing a matter unrelated to the research. This is a Libyan tradition and was a necessary preamble. After thanking the interviewee for participating in the study, the nature of the research was again outlined. It was stressed that it was the interviewee's opinions that were being sought, that there were no "right" or "wrong" answers to the questions, and that no prior technical knowledge of any kind was either assumed or required. The informed consent form was introduced and it was explained that that was a university requirement aimed at ensuring the researcher behaves ethically vis-à-vis their interviewees. The opportunity was also taken at this point to describe the broad objective of the research, to specify the interviewee's right to refuse to answer any question, and to describe the procedures to ensure anonymity. The participant was made aware that they would have the opportunity to retrospectively verify the accuracy of the interview transcript and amend it. The participant was then asked to sign the consent form.

Typically, the data collection process began with general questions about the interviewee's profession/background and the name of the bank that they were associated with. The researcher used the interview guidelines during the interviews (see Appendix C). The interviewees were allowed to speak without interruption and were given sufficient time to develop their arguments and provide useful information. The average time of the interviews was one and a half to two hours, and all were conducted on a one-to-one basis. Detailed notes were taken in the interviews, with the permission of the interviewees. Note taking was necessary as none of the interviewees wanted to be tape-recorded. All of the interviewees subsequently confirmed they were satisfied with the notes that had been taken. Four requested a copy of the interview transcript. All participants signed the Ethical Approval consent form, giving permission for the collected data to be used and published in this thesis. A promise of anonymity was given to all interviewees. After each interview, the researcher thanked the respondent. All interviews were transcribed immediately afterwards in Arabic and then translated into English.

#### 5.4.5.4. Pilot Interviews

According to Gill and Johnson (2010), conducting a pilot study in advance of the main study allows any potential problems in the form of the interview to be identified and corrected. Yin (2009) also highlights that a pilot study helps the researcher to refine their data collection plans in terms of content and the procedures to be followed. Accordingly, two sets of pilot interviews were conducted – one group in the UK and one in Libya. The process allowed the researcher to detect any ambiguity or redundancy in the questions and to assess their validity and reliability as data collection tools (Saunders et al., 2012).

The interview questions were first discussed with the supervisory team at NTU. This draft was then piloted among PhD students at Nottingham Business School, Nottingham Trent University, to elicit their comments and feedback on the wording and structure of the questions. A final draft was prepared using this feedback and the preliminary results from the analysis of the questionnaire. In the second stage of the pilot process, another set of interviews was conducted in Libya to assess whether the interview questions were appropriate for use with the target sample. To avoid any bias and ensure accuracy, the questions were translated from English into Arabic with professional help. Three individuals were interviewed in two different banks during July and August 2012: these were a regional manager, a board secretary and a non-executive director. All interviews took place in the respondent's workplace and lasted approximately one hour. Most of the interviewees expressed a belief in the importance of the study and proposed the names of other potential interviewees. One recommendation to emerge from the pilot study was that the researcher should use his personal contacts to identify key personnel for interviews.

The rationale behind the pilot study was both to produce a more valid and reliable instrument and to practise the qualitative interview and data analysis process. It was essential to ensure that the interview questions were clear and made sense to the respondents, but it was an equally valuable opportunity to test the validity of the research questions. The pilot study was also important in terms of measuring the time needed for interviews; it was useful, when collecting the main study data, to be able to anticipate their likely length. In practical terms, the pilot study provided an opportunity to practise the analysis of data using NVivo software. Finally, the initial outcomes of the pilot study analysis enabled the target group of directors to enhance their own understanding of the subject.

#### 5.4.5.5. Research Population and Sample for the Interviews

According to Kumar (2005), in qualitative research, sampling is less significant as the main aim of this type of enquiry is to explore or describe the diversity in a situation, phenomenon or issue. As discussed earlier, the researcher was ultimately able to meet with representatives from sixteen of Libya's seventeen commercial banks, but finding individuals who were available and willing to be interviewed was extremely challenging (see section 5.4.1). Therefore, it was decided that the sampling frame should be as large as possible within certain constraints. The interviewees were chosen using the snowball method of sampling. Non-probability sampling techniques may be justified where the research process is: "one of 'discovery' rather than the testing of hypotheses" (Denscombe, 2007), as was the case here.

Following Kamel and Elbanna (2010), the interview sample was selected according to a number of criteria. Firstly, interviewees had to have participated in the questionnaire survey. They also had to have the relevant knowledge and experience; that is, they had to be on the main board of one of the banks and have some experience in the field of corporate governance. They had to be able to spare an hour for the in-depth interview and be available for possible follow up conversations. Finally, since it was important for them to be as neutral as possible (Sekaran and Bougie, 2010), care was taken to find individuals who understood and agreed with the purpose of the research and who would respond as honestly and objectively as possible.

Libyan banking law (2005) requires each bank to have: a managing director (CEO) (regardless of whether or not he serves on the board), a chairman of the board, from two to four executive directors, and from two to four non-executive directors. Care was taken to ensure that one of the interviewees from each bank was an executive member of the board and another was an independent member of the board. It was initially intended to conduct approximately 34 semi-structured in-depth interviews, but in the end, the researcher was only able to conduct 24 interviews, after emphasising that the study would respect the confidentiality and anonymity of the data collected from the interviewees. Table 5.12 shows the number of interviews that were conducted and the interviewees' roles, qualifications and levels of experience.

**Table 5-12: Interviewees' roles, qualifications and experience**

| Bank sector | Code | Interviewee's role in board and bank | Qualification | Years of experience |
|---|---|---|---|---|
| **Public** | C1 | Chairman | Degree in Accounting | 25 |
| | C2 | CEO | MSc in Accounting | 15 |
| | C5 | Chairman | PhD in Accounting | 17 |
| | C6 | Executive | MSc in Banking | 21 |
| | C14 | Non-executive | PhD in Accounting | 25 |
| | C15 | Non-executive | PhD in Banking | 26 |
| | C16 | Chairman and CEO | Degree in Accounting | 24 |
| | C19 | Chairman | PhD in Business | 13 |
| | C20 | Chairman | PhD in Accounting | 10 |
| | C23 | Non-executive | Degree in Accounting | 14 |
| **Private** | C7 | Chairman and CEO | Degree in Accounting | 12 |
| | C9 | Non-executive | Degree in Law | 7 |
| | C11 | CEO | Degree in Accounting | 11 |
| | C12 | Chairman and CEO | MSc in Accounting | 10 |
| | C17 | CEO | MSc in Accounting | 9 |
| | C18 | Executive | Degree in Management | 12 |
| | C21 | Chairman | PhD in Management | 10 |
| | C22 | Non-executive | Degree in Law | 7 |
| **Libyan and Foreign** | C3 | CEO | Degree in Management | 9 |
| | C4 | Non-executive | Degree in Law | 10 |
| | C8 | Chairman and CEO | Degree in Law | 23 |
| | C10 | CEO | Degree in Accounting | 20 |
| | C13 | Chairman | PhD in Accounting | 18 |
| | C24 | Non-executive | Degree in Management | 11 |

All interviews were conducted by researcher. Following the same procedure for the entire sample mitigated the effect of any bias resulting from the snowball sampling. Board chairmen were asked to nominate potential interviewees. In a few cases, the chairmen consulted with top managers to nominate directors for interview. Since this might have reduced the credibility of the collected data (interviewees were likely to express similar views), the chairmen and top managers were urged to nominate directors according to their position within the organisation (i.e. CEOs/managing directors and executive directors). The researcher was also able to convince chairmen to nominate a number of non-executives who had established reputations in the sector. Finally, some directors were approached directly by the researcher.

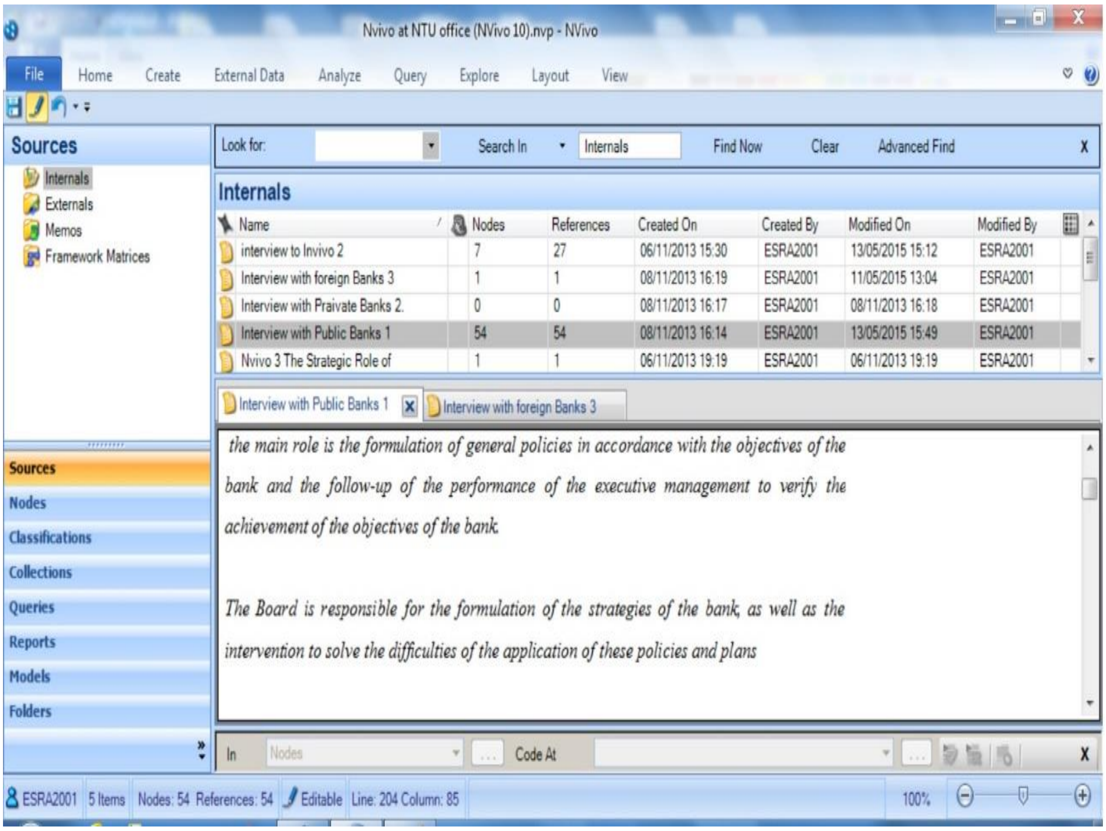
#### 5.4.5.6. Analysis of Interview Data

Data analysis is essentially the examination, categorisation, tabulation and interpretation of evidence to support, reject or amend a theory and/or to generate new theory. There is no standardised approach to the analysis of qualitative data (Saunders et al., 2012). According to Taylor and Bogdan (1998), every researcher develops their own way of analysing this kind of data. Miles et al. (2013) identify three stages in qualitative data analysis. Data reduction is the process of selecting, focusing, simplifying, abstracting and transforming the data obtained in order to focus on emergent constructs. This is followed by data display, which is the organisation of the compressed data so as to make visible the themes that run through it. The third stage is conclusion drawing and verification: these involve the researcher interpreting the data, extracting meaning, identifying patterns and themes and using strategy to develop theory.

Kumar (2005) argues that the analysis of qualitative data involves identifying the main themes, assigning codes to these themes, classifying responses under the main themes and integrating the themes and responses into the text of the report. This can be done manually (e.g. by cutting text and putting it into different folders, or by implementing a card index system) or with software such as Ethnograph, ATLAS, NVivo or X Sight. The large amount of textual data derived from the transcribed interviews was managed using version 10 of NVivo by Qualitative Solutions and Research. This is a popular package for qualitative data analysis (see Figure 5.2). Computer Assisted Qualitative Data Analysis Software (CAQDAS) has a number of advantages over manual analysis

(Silverman, 2013). Eriksson and Kovalainen (2008) observe that software programs make it easier for the researcher to carry out several activities concurrently, from making notes in the field, to writing up or transcribing notes, developing interview materials, editing or coding data, attaching key words and tags to segments of text for storage, implementing search and retrieve commands, data linking and report writing. Computer programs are faster than manual analysis and can handle complicated statistical procedures, print reports, display the analysed data and present it graphically. Kumar (2005), pointing out the labour they save, recommends that researchers use one of these programs wherever possible, as the research will benefit.

**Figure 5-2: The default main screen in NVivo**




A major advantage of the NVivo software used in this study is its ability to allow data to be allocated into categories, giving a more streamlined structure for discovering emergent themes (Rowe, 2007). The package is similar to a word processing package to use, making it easier for the researcher to code straight onto the screen (Anderson-Gough, 2004). Bazeley and Jackson (2013) highlight five principal ways in which NVivo supports the analysis of qualitative data:

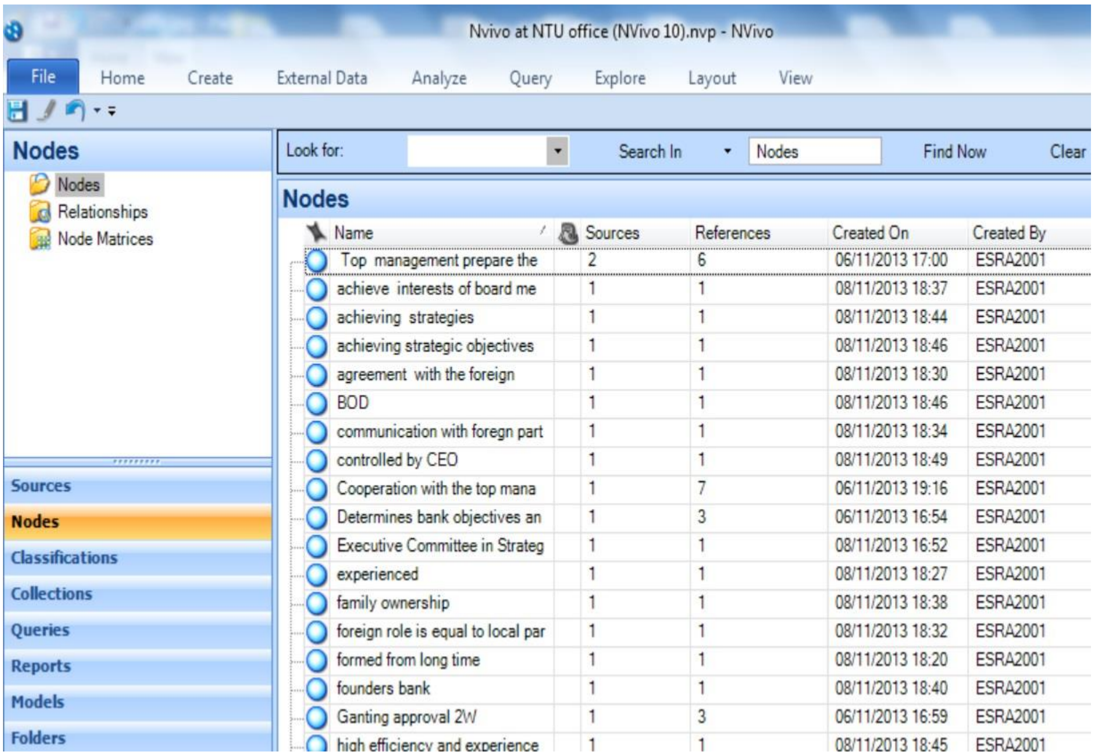
- It helps them to manage ideas – to organise and quickly access conceptual and theoretical knowledge.
- It enables the researcher to manage data – to organise and keep track of the many, messy records that go into making a qualitative project.
- It enables them to query the data. The researcher can ask simple or complex questions of the data, and NVivo retrieves the answer from the relevant database.
- It enables the researcher to model the data in graphic form – to show the cases, ideas or concepts being built from the data and the relationships between them, and to present those ideas and conclusions in visual displays using models and matrices.
- It enables the researcher to report on the data.

Primary analysis of the collected data was undertaken before NVivo was applied. This primary analysis was a four-step process. Each interview was transcribed (in Arabic) into Microsoft Word 2010 document format, leaving out only those portions where the interviewee or interviewer digressed from the research focus completely. O'Dwyer et al. (2004) recommend that researchers transcribe interviews as this enables them to analyse the material in depth as they go and to get a feel for the data. The second step was to conduct a microanalysis of each interview, with a view to uncovering any hidden meanings within the words, phrases, sentences and finally paragraphs that might impact researcher understanding of the data. Miles et al. (2013) advise that prior to sifting and sorting data, the researcher must familiarise themselves with its diversity and gain an overview of the gathered material. The third step was to translate each interview from Arabic into English and back to Arabic, making every effort to retain the original meaning. The final step was to transfer and store the interview transcripts on the NVivo 10 software.

The study borrowed a number of codes and categories for the analysis from the literature. Thus, boards were categorised as: rubber stamp, legal fraction, gate keeping, high-level, counsel or monitoring body (Stiles and Taylor, 2001; Zahra and Pearce, 1989; Solomon, 2010). Strauss and Corbin (2008, p.79) show that concepts from the relevant literature "have some advantages insofar as they are loaded with analytic meaning and may already be considerably well developed in their own right". However, borrowing should be done carefully as borrowed concepts often bring with them commonly held meanings and associations.

The interview transcripts were examined, sentence by sentence, to identify emerging themes and patterns. The Key Word in Context method was used at an early stage to identify and code categories such as "review strategy", "executive committee's role", "role of foreign partners", "Shari'ah committee's role" and "board chairman's role". These categories were analysed in the same order (with the same meaning) to develop categories in which they presented the same phenomena, thus enabling themes and patterns to emerge. The secondary analysis used NVivo version 10 to develop a system of codes to categorise the detailed data and facilitate its retrieval, as Kumar (2005) recommends (see Figure 5.3). A provisional node list was created using initial quotation and node data. The provisional nodes identified the themes and organised them into a set of lists. As the analysis progressed, nodes were reclassified, existing nodes were modified and new ones added. The final nodes were then grouped and arranged in order, to present the research data in the form of matrices, models and reports.

**Figure 5-3: The sets of nodes coordinated in NVivo**




## 5.5. Conclusion

This chapter discusses the research philosophy and methodology that were applied to answer the research questions. It explains why a pragmatic paradigm was chosen as the most appropriate approach to examine the actual and perceived roles and responsibilities of boards of directors in the LBS and to identify the factors that facilitate and hinder board efficiency. It argues that this philosophical standpoint recognises the significance of individual interpretation while emphasising that there exists an external reality that can be understood. As such, it allows a deeper understanding of the social processes that shape the BODs' roles, and of how these roles and processes are perceived by the individuals involved.

A mixed-method approach was employed, with data being collected from archival sources, questionnaires and interviews, in the belief that the various data sources would be mutually enriching. The chapter discusses the qualitative and quantitative approaches that were employed in the study, explaining that the main instrument for data collection was the face-to-face, semi-structured interviews. It describes the pilot studies that were carried out before the actual fieldwork and how these contributed to the research design. It also discusses the challenges the researcher faced in gaining access to both interviewees and documents, how these challenges were overcome and how they affected the research. Finally, it presents the analytical methods that were used to code, classify, analyse and present the qualitative and quantitative data. Descriptive statistical techniques and tests were used to analyse the data collected from the questionnaires. NVivo software was utilised to convert the qualitative data collected from the interview questions into numerical data, providing a structured approach to the organisation, coding and presentation of the emerging themes. The results of these analyses are presented in the following chapters.

# Chapter 6: The Role and Responsibility of the Board of Directors in the Libyan Banking Sector

## 6.1. Introduction

This chapter presents and discusses this study's findings, focusing specifically on the first two research questions (see section 1.3). The first of these questions addresses the extent to which current practice among boards in the LBS conforms to international CG regulations, while the second investigates how the respondents perceived their roles and responsibilities as contributing to efficient corporate governance.

As discussed in Chapter Four, theorists identify three main roles for the board of directors: the strategic role, the service role and the monitoring role (Andrews, 1980; Kemp, 2006; Kakabadse et al., 2010). The researcher first sought to understand to what extent directors' perceptions were in line with international boardroom norms concerning these roles. To this end, a series of statements describing the board's strategic, service and control roles were extracted from the literature and the survey respondents were asked to indicate on a five-point Likert scale whether they agreed or disagreed with each statement. These statements were: the board is involved in developing bank strategy, the board creates the bank's objectives, strategies and a board policy, while top management prepares the overall strategy, the board controls the performance of the bank, the board monitors managers, the board monitors the execution of approved strategy, the board enhances company reputation, the board establishes contacts with the external environment, and the board provides advice and counsel to executives. Overall, the data shows that the directors considered their strategic and control roles as their main function, with the service role being seen as less important. This is reflected in the top three ranked statements (see Table 6.1): the board is involved in developing bank strategy (B), the board monitors the execution of approved strategy (E) and the board controls the performance of the bank (C). The following sections offer a summary of the main findings from this survey question.

# Chapter 7: Corporate Governance and Factors that Facilitate or Hinder Libyan Boards' Effectiveness

## 7.1. Introduction

The previous chapter discussed the three primary roles (the service role, the control role and the strategic role) played by BODs in Libyan banks. These roles, and the board's ability to perform them efficiently, are influenced by a number of factors, including operational issues (Baranchuk and Dybvig, 2009) and external factors. In addition to discussing these factors in more detail, this chapter considers how corporate governance mechanisms could be made more effective in Libya, thereby addressing the first, third and fourth research questions (see 1.3).

# Chapter 8: Conclusion

## 8.1. Introduction

The main purpose of this chapter is to collate and explain the key findings of the study and how they meet the aims and objectives of the research. It is organised into six sections. The first section illustrates how the research aims and objectives have been achieved. The second section discusses the extent to which international CG principles are reflected in Libya's CG guidelines and practice in the banking sector. Section three summarises the key findings of the research project and explains the model of board roles. Section four summarises the study's contribution to existing knowledge and its implications for practice and policy. Finally, the last section discusses the limitations of the study, giving also some suggestions for further research.

The final framework (Figure 8-1) covers the three main board roles (service, strategic and monitoring), presenting the direct and indirect relationships between actors/elements that affect board formation and activities. However, the framework does not include all the actors and elements that were included in the original version (Chapter 4). For instance, some of the board sub-committees are omitted as they are not found in the Libyan environment. On the other hand, the final model shows the significant role that is played by the Shari'ah committee. To be able to summarise the main results of the research, the findings are presented one after the other, in relation to each of the objectives and through this model.

## 8.2. Conclusions Relating to the Research Aims and Questions

The financial crisis of 2009 has enhanced corporate governance in developed countries by forcing firms to improve directors' roles and board effectiveness; however, as stated previously, it is unclear whether the same has happened in developing countries as CG is still under-researched in these countries. This study seeks to address this gap by examining the actual and perceived roles and responsibilities of boards in the LBS and identifying the factors that facilitate/hinder board efficiency. Libya provides a particularly interesting setting for this study as corporate governance and boards of directors in the banking sector are highly influenced by Shari'ah law. The aims of the study were to understand if boards in the LBS conform to boardroom norms in terms of their strategic, service and control roles, and to develop a conceptual model that will give a better understanding of how these roles work in an Islamic and developing country where banks are expected to consider not just shareholders' interests but also those of other stakeholders. Poor performance of these roles leads to internal division, dissatisfied shareholders, disgruntled customers and lacklustre organisational performance, all of which were witnessed first hand by the researcher during his time as a senior manager in the sector.

The research employed a pragmatic paradigm and mixed methods, including a survey, and semi-structured interviews. This mixed-method approach has allowed a better understanding of individual perceptions and the social processes that shape the roles of boards. The literature is reviewed in Chapters 2, 3 and 4, while Chapter 5 describes the methodology and methods employed to carry out the research. Chapters 6 and 7 report the findings from the questionnaire, interviews and secondary data. Figure 8-2 illustrates how the research aims and objectives were addressed through the adopted methods and where they are discussed in the thesis, while Figure 8-1 presents the finished model.

**Figure 8-1: Model of board roles and the main factors affecting these roles in the LBS**

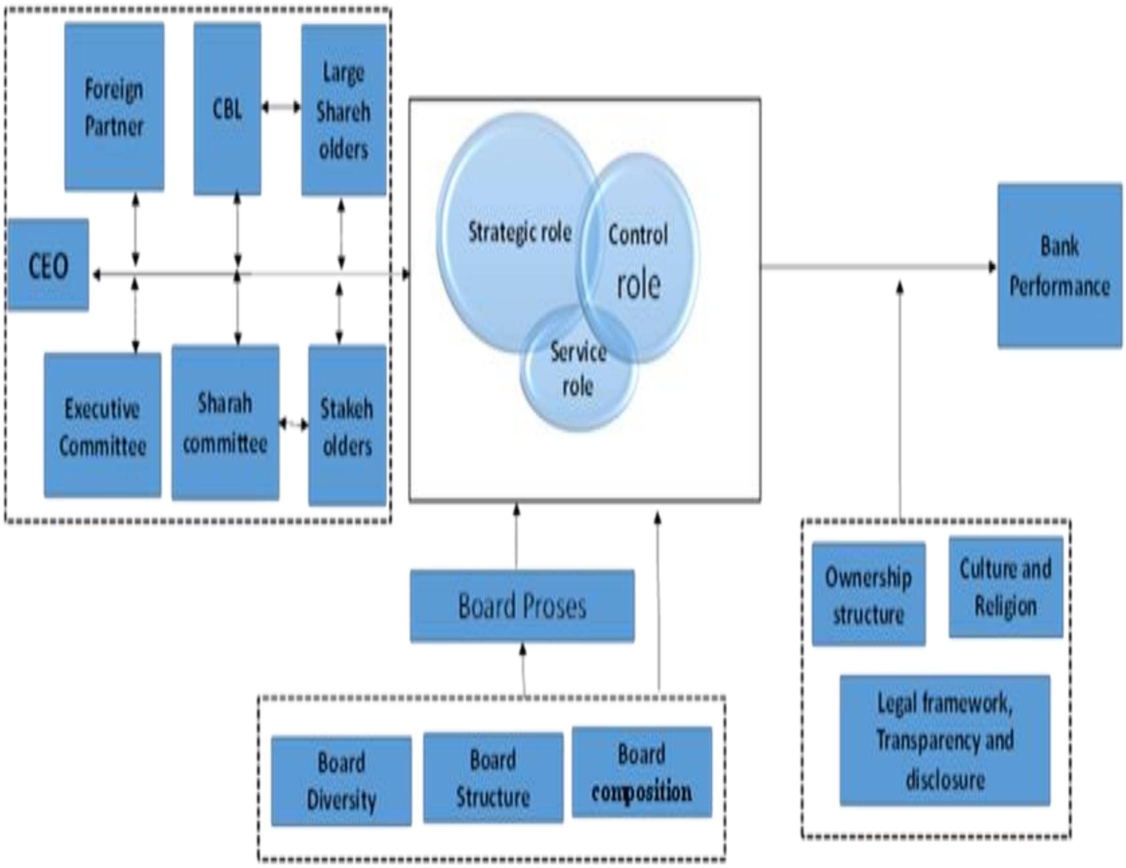
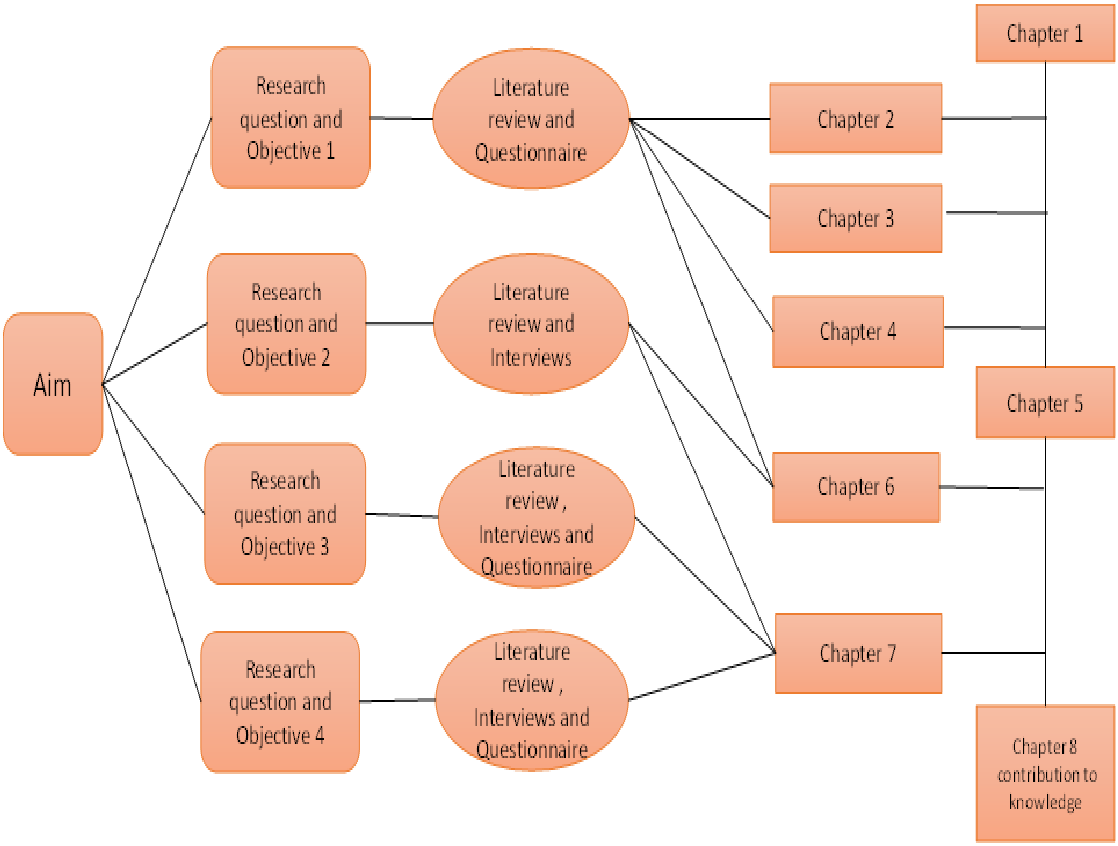


**Figure 8-2: Summary of how the study addresses the research aim and objectives**




## 8.3. The Libyan Context and the Influence of CG Principles on Practice in the Libyan Banking Sector

The first objective of this study was to explore the actual/current practices, roles and responsibilities of boards of directors in the LBS. Although Libya's legal system already accommodates some of the international CG principles regarding the role of the board of directors, many of the study participants saw CG as a new concept for Libya – one that requires more attention in terms of education and integration. Nevertheless, the questionnaire answers showed that Libyan banks have already incorporated a number of key international CG principles into their own practice. At the moment, CG regulations vary from bank to bank, but this is nevertheless an encouraging development.

The respondents generally agreed that CG is a useful mechanism for protecting shareholders' and stakeholders' rights and determining the responsibilities of the board. Most of the large and foreign banks were applying the CG system, deriving many benefits from it and advising others to apply it. The audit committee was seen as a particularly valuable CG mechanism because of its role in improving disclosure and transparency, and particularly the quality of financial reporting, helping shareholders and boards to make informed decisions and evaluate the bank's performance over time. The study found significant positive returns for the banks that had adopted the two main recommendations of the Cadbury Committee : that boards should contain at least three non-executive directors, two of whom should be independent of management; and that the positions of chairman and CEO should not be held by the same individual. Respondents generally ranked relevant business skills and experience, and professional qualifications, as the first, and second, most important qualifications for non-executive directors. However, many had significant concerns about board size, composition, diversity and structure in the LBS.

## 8.4. Main Findings

This study aimed to test theories and to develop a general framework that might be used to understand how board members perceive their roles, and the internal and external factors that impact board roles and performance. Drawing on the work done by other researchers in developed and developing economies (see Figure 4-1), a final framework was developed that is more applicable to an emerging market such as the LBS. This conceptual framework (Figure 8-1) was then tested empirically. The researcher has since delivered a number of lectures in the presence of board members to confirm the framework's applicability to the LBS. The reaction of the board members has been positive, with most agreeing that it reflects reality in terms of board roles.

### 8.4.1. Main Role and Responsibilities of the BOD

The final model (Figure 8-1) covers the three main board roles: strategic, control and monitoring and service.

**The Strategic Role**

The analysis of the interview and questionnaire data showed that the main role of the board is to develop and determine the strategic context. As discussed in Chapter 6, boards in the LBS play a significant role in determining bank strategy, either by being involved in strategy formulation itself, or by reviewing the strategy prepared by top management.

The respondents saw the strategic role as the board's main function (and most respondents enjoyed this role more than the board's other roles). The empirical data (see chapter 6, 6.2) showed that the vast majority of boards in the LBS play a significant role in the formulation of bank strategy. Those that help set up key firm objectives and are directly involved in the formulation of core strategy may be said to play a greater strategic role than top management; in other words, in this context, they are more than merely partners. Thus, the findings identify a new category of board involvement in strategy formulation. Only 12.5% of respondents (all from the private sector) saw the board's role as being merely to review the strategic plans presented to it by top management and to verify that they conform to the relevant laws and regulations. The interviews confirmed that the board's strategic role differs between state banks and other banks. In public banks, the CBL plays a key role in developing and implementing bank strategy. The process is less restricted in foreign banks, where strategies can be developed and improved at executive management level. In private banks, the ownership structure may make this more difficult.

The research confirms that board members see their role as being to add value to the organisation by ensuring that managers' strategic proposals are viable. However, most of the respondents felt that boards do not always carry out due diligence in this regard because they are thinking primarily about shareholders' interests. It was also apparent that in practice, directors' influence over the strategic direction of the bank is limited by managers screening the information that comes to the board, making it difficult for them to comprehensively discuss issues of strategic importance.

**The Control and Monitoring Role**

There was some disagreement among participants on the extent to which the board performs a monitoring/control role. The empirical data (see chapter 6, 6.3) shows that boards in the LBS play this role in three ways; by monitoring the execution of strategy, by monitoring the top management of the bank and by controlling the performance of the bank. While respondents from all three sectors agreed that the board monitors the execution of approved strategy (although the foreign banks were the most supportive of this role), only about 50% of the respondents felt the board's role was to monitor top management. Respondents from the public sector did not consider monitoring the top management team as their primary role. Boards of directors generally play little part in selecting the CEO and executive management in these banks, and they tend to have little power because of the influence of major owners such as the CBL.

Consequently, some of the participants from the public sector saw their role as being to assist rather than to observe top management; they felt that their supervisory role should be limited to the review of the annual balance sheet and the recruitment of independent board members. This result suggests that top management are primarily monitored by large shareholders rather than by non-executive directors, but, in any case, since large shareholders are also classified as non-executive directors, it is unclear how independent NEDs actually are in practice. This is a distinctive feature of the Libyan market; concentrated ownership plays a critical role in corporate management, with large shareholders regulating the board and controlling the selection of its members. Nor was there a clear consensus in terms of who possesses the power to control bank performance. Eleven of the interviewees felt that control is shared between top management and the board; five argued that banking regulations put power in the hands of the board, while another eight believed that, in practice, control is in the hands of the CEO.

**The Service Role**

It was clear from the survey results that understanding of, and support for, the board's service role was lower than for the other two roles (see chapter 6, 6.4). Zahra and Pearce (1989) define the board's service role as "enhancing company reputation, establishing contacts with the external environment, and giving advice and counsel to executives" (p.292). Maintaining relationships with investors and shareholders was seen as central to enhancing the bank's reputation and consequently its competitiveness; it demonstrates accountability and signals an effective and vigilant board, which is seen as crucial for enhancing business performance. Participants from all sectors felt that their boards were more interested in building a good network with shareholders than with other external stakeholders, although they saw internal and external networks as complementary; as they saw it, good relationships with the external environment enable the bank to achieve its objectives, which benefits the shareholders.

As far as consultation and advice to management are concerned, the results are in line with those obtained by Dahya et al. (2002). It became evident in the interviews that the public banks were more committed to the advice and consultation role than their private and foreign counterparts. There are several possible reasons for this low level of engagement in the private and foreign banks, including a lack of legal power and clearly defined legal responsibilities, lack of independence, lack of technical expertise, perceived low status, information shortage and lack of incentives. However, the main cause seemed to be a lack of harmony between non-executive directors, executives and executive management. Non-executive directors support the board's service role by extending the bank's external networks and providing data to help it achieve its objectives, but the lack of understanding and openness between executive and non-executive members on some boards reduces their ability to counsel the board effectively. If the CEO sees NEDs as primarily serving a control function, they may be dismissive of the NEDs' suggestions and advice, or even reluctant to give them the information they need to be useful counsellors. Researchers have asserted the importance of positive interaction between board members and CEO, and this was borne out in the current study; in a number of the banks, the lack of unity affected the flow of data and information to the board, forcing some board members to rely on unofficial channels instead. Weak relationships within the board and with management not only damage board performance but do little to strengthen the competitiveness of these banks.

### 8.4.2. Factors Facilitating/Hindering BODs' Performance of their Roles and Responsibilities in the LBS

These three roles, and the board's ability to perform them efficiently, are influenced by a number of factors, including operational issues (Baranchuk and Dybvig, 2009) and external factors. The model produced in this study (see Figure 8.1) shows the direct and indirect relationships between actors/elements that affect board roles and activities in the LBS. These relationships vary from strong to minimal in terms of the influence they have. The arrows show that while some relationships are uni-directional, with one element influencing the other, other pairings are mutually influential.

The model shows that the influence of board committees varies from one bank to another, although all three sectors agreed on the key roles played by the auditing, executive and Shari'ah committees and the importance of their relationships with the board of directors. The auditing committee has a direct effect on the board's monitoring role, with the influence of the ownership structure and shareholders being only slightly less strong. But while some respondents saw the audit committee as an effective mechanism, others were dissatisfied with the performance of their audit committee to the point that they felt it made the board as a whole less effective in its monitoring and control role (see chapter 7, 7.3.2.2.2). The executive committee was perceived as having a direct relationship with the board's strategic role and with the ownership structure and CEO. It was seen as important for setting policies and helping the board implement decisions.

The model shows that the Shari'ah committee has a strong, direct influence on executive management and supports the board's three roles by giving guidance and preparing control reports. It facilitates the application of governance principles. Islamic banks work in the same way as commercial ones but provide products and services which conform to Islamic rules. Suleiman (2000) argues that these banks should develop a distinct institutional culture aimed at fostering spiritual awareness while maintaining growth. The Shari'ah committee makes a crucial contribution to this, serving as an additional control factor and ensuring adherence to the Muslim community's expectations (Lewis and Algaoud, 2001). An independent body selected by the board of directors, it issues opinions on matters referred to it by senior management, who nominate its members from among directors and executive managers. The committee is involved in setting the bank's strategies and monitoring and controlling its activities, issuing fatwa to address problems, and lobbying for bank transactions that adhere to Islamic rules. It also sends periodic reports to the board of directors (see chapter 7, 7.3.2.2.3).

Most boards in the sample do not have a nomination committee to review applications or submit recommendations to the administration. Banks find this difficult to implement because the process is so dominated by large shareholders, owners and even the CBL. This was seen as having a negative impact on board performance as it is difficult to foster a team spirit in these circumstances.

The model shows that non-executive directors play an important part in the BODs' strategic and service role, but that they have less impact on the control role. At the same time, however, the independence of NEDs was seen as particularly crucial because of its importance in raising investor confidence in the integrity of the board (Pass, 2004) (see chapter 7, 7.3.3.2). The model shows the crucial role played by executive management in supporting board roles.

Leadership structure directly affects the role of the board of directors. The power and authority of the chairman differs from bank to bank, depending on size and ownership structure. The results confirm that the roles of chairman and CEO are separated in most public and foreign banks, but that this is not always the case in the private banks.

Board size, diversity and meetings have a less direct effect. Board size impacts board performance indirectly via its influence on board cohesion and decision making (see chapter 7, 7.3.3.1). If the board has more than seven members, some individuals are less able to contribute during discussions, the likelihood of cognitive conflict increases and decision making becomes more difficult. This adversely affects the board's ability to perform its three key roles effectively. Meetings were seen as crucial for providing information to the board and ensuring that everyone has the opportunity to participate in decision making.

Diversity in terms of educational background, qualifications and gender has an indirect impact on board performance through its effect on board processes and decision making. The argument is that graduates with specialist skills are more likely to be able to contribute usefully to strategic planning. As far as gender diversity is concerned, interviewees argued that women are less likely to engage in corrupt behaviour and can play an active role in the oversight and control of executive management.

As far as external factors are concerned, the model indicates that ownership structure has a strong, direct effect on board roles in all three sectors; foreign partners (in joint banks), major shareholders in all banks, family owners in private banks, and the CBL in public banks all affect the board's strategising, service and control roles. Ownership structure is in turn affected by executive management, board committees and the board. The CBL has a direct and strong effect on the board in public banks as it is able to interfere in the appointment of the CEO. Stakeholders other than shareholders also play a significant monitoring role.

The model also shows the importance of religious culture in reinforcing corporate governance principles and strengthening the board's role. Religion is recognised as having an impact on the practice of corporate governance and boards' roles because it requires the rights of shareholders and stakeholders to be protected. It can be argued that religion helps institutions to perfect their governance, since, as Rizk (2008) argue, it contributes to the formation of moral behaviour. In Libyan society, it is informing corporate governance principles and making them more acceptable, which may enhance transparency, honesty and directors' independence. The general perception is that corporate governance principles are applied more conscientiously in banks following Shari'ah law than in banks who do not (see chapter 7, 7.4.3).

The model shows that most banks in Libya do not have formal policies in place to enforce disclosure and transparency, and that this has a significant impact on board performance (see chapter 7, 7.4.2).

### 8.5. Contribution of the Study

The research makes several contributions to our knowledge about boards of directors and to the development of corporate governance literature and theory, particularly in relation to CG in banks and the LBS.

**1.** The main contribution , which is one of the first studies in the Libyan banks sector provides a framework that explains corporate governance and the role of boards of directors in the Libyan banking sector. This framework focuses on the board of directors as a central instrument of governance, rather than on corporate governance in general. Scholars argue that as the structure of corporate governance is influenced by different factors in different countries, one single framework cannot be applied to all contexts (Khanchel El Mehdi, 2007; Hussain and Mallin, 2002; Okike, 2007). Thus, it is the contention of this research that existing (western-originated) frameworks cannot fully explain corporate governance in Libya. And, indeed, whilst the results show some commonalities between Libya and other countries, they also suggest some significant differences, thereby underlining that researchers need to recognise the importance of national context as a contingency variable in corporate governance research (Zahra and Pearce, 1989).

Whilst board composition and firm performance have been examined exhaustively in western countries (Baranchuk and Dybvig, 2009), less CG research has been conducted in African countries such as Libya (Mangena et al., 2012), although, as the literature indicates, many of these countries are attempting to improve their corporate governance (De Andres and Vallelado, 2008). Against this background, this investigation of Libya's CG systems is especially timely and relevant; as Larbsh (2010) observes: "The role and responsibilities of the Board of Directors and the obstacles to disclosure and transparency in Libya might be a fertile field of future research" (p.247).

The research contributes to CG literature by exploring whether boards in the banking sector play an active role or are little more than legal figureheads dominated by major shareholders (particularly families) and/or managers. The developed framework addresses a gap in the literature by explaining the role of boards of directors in an emerging country – this theoretical framework has then been empirically tested. The results show that in emerging countries such as Libya, board structural attributes, composition and diversity are not as critical in ensuring board effectiveness as board cohesiveness, board decision making and board operations. Members of the board have to work together to enable governance and they have to be supported with efficient administrative back up. The conceptual framework and study findings may incentivise researchers to seek practical insights into shareholder activities from various angles. The findings may also be useful to shareholders, managers, policy makers and the wider community.

**2.** Although directors' impact on board effectiveness has been highlighted in the literature, their roles are often ill-defined (Petrovic, 2008); in fact, there is no general consensus on what these roles are (Johnson et al., 1996; Roberts et al., 2005). Scholars disagree on the number of roles played by the board (Hillman and Dalziel, 2003; Zahra and Pearce, 1989) and on precisely what these roles involve (Huse, 2007; Minichilli et al., 2012; Petrovic, 2008; Stiles and Taylor, 2002). Previous studies have generally theoretically measured a single board role (Zhang, 2010). Surveys have been employed as the main data collection instrument (Payne et al., 2009) to study board roles, their antecedents and board performance. Minichilli et al. (2009) and Zhang (2010) explain that researchers have used multi-item perception measures and often relied on a single respondent per board. This may be why there is often a significant gap between what directors do in practice and what the business literature proposes they should do (see Brennan, 2006; Finkelstein and Mooney, 2003; Machold and Farquhar, 2013). According to Cornforth and Brown (2013) and Halton (2013), accessing information on the boardroom activities of directors is an extremely challenging task in practice. The confidentiality of internal board activities and information as well as the reluctance of directors to cooperate with studies of this nature mean that there are only a few studies that draw on directors' own accounts of the role and responsibilities of the board (Stiles and Taylor, 2001; McNulty and Pettigrew, 1998; Pettigrew, 1992; Pye, 2000). Moreover, there is no evidence to suggest that such an investigation has been undertaken in a developing economy, until now.

This study addresses this gap. This study of directors' perceptions in sixteen Libyan bank boards provides new insights into how these boards perform in practice. It highlights that boards in the Libyan banking sector perform two aggregated board roles: strategic and control. The greatest emphasis is placed on the strategic role, while there is least support for the board's service role. The findings show that the majority of interviewees saw the board's role as being to determine key objectives, to fully engage with strategy making and to monitor the execution of approved strategy. The finding supports Stiles (2001) and Schmidt and Bauer (2006), who argue that the board works with management to develop strategic direction. According to this view, the board is an active participative entity (Wood, 1983) that shares leadership with top management (Herman, 1981; Molz, 1985; Zahra, 1990; McNulty and Pettigrew, 1999; Golden and Zajac, 2001; Carpenter and Westphal, 2001; Huse, 2007; Pugliese and Wenstøp, 2007). Vance (1983) describes active boards as "collegial boards". However, as these boards set up key firm objectives and are directly involved in formulating core strategy, they can in fact be said to have a greater input than top management. In other words, in this context, they are more than simply partners. Thus, the findings identify a new category of board involvement in strategy formulation.

The investigation of the directors' perceptions revealed that the effects of internal and external factors such as board size, composition, diversity and structure are issues of significant concern for boards in the LBS. Ownership structure was also identified as having a strong, direct effect on board roles in all three sectors.

This study contributes methodologically to the domain of board research and adds to the small but growing body of scholarly works that use qualitative methods to collect primary data (Pettigrew, 1992; Pye, 2000; Stiles and Taylor, 2001). Rather than relying solely on data from surveys, this study also draws on documentary sources and interviews to investigate board processes and behaviours and to establish a holistic picture of what boards do.

**3**. The Shari'ah-based governance model brings an additional set of expectations to existing CG frameworks, including transparency, trust, ethical behaviour, credibility and faith (Nathan and Ribieri, 2007). More Libyan banks are implementing Shari'ah governance and introducing Shari'ah supervisory boards into their systems to ensure that all activities and transactions are in harmony with Shari'ah precepts. Grassa (2015) points out that the authority given to SSBs varies from one country to another and that little attention has been given to the impact of these supervisory boards on board performance. Not only does this study focus on a context that is significantly different from the west, but it enriches the corporate governance literature by investigating what

SSBs add to the board of directors. The findings highlight that Islamic law has a major effect on corporate governance practice and BOD decisions, as these decisions must take into account the wish of traders and clients that transactions be conducted according to Islamic principles. The Shari'ah committee has influence over executive management and supports the board's three roles by giving guidance and preparing control reports, thus facilitating the application of governance principles. Most Islamic bank managers in the sample explained that Islamic banks work in the same way as commercial ones, but provide products and services which conform to Islamic rules.

**4.** Comparing CG practice with codes or best practice recommendations is the most common research approach in both developed and developing countries (Akkermans et al., 2007; Mallin, 2007). Studies have empirically proved that disclosure of compliance levels not only has a positive impact on performance (Mallin and Ow-Yong, 2012) but also ensures that firms remain aware of codes (Akkermans et al., 2007). Identifying levels of non-compliance allows countries to track the gap between standars of CG and reality and to take corrective action (e.g Parsa et al., 2007). An awareness of the overall standard of corporate governance is particularly important for the LBS if it is to achieve its development goals and attract foreign investment. Thus, the findings of this study could potentially contribute to the economy of Libya in two ways. Firstly, they indicate that CG in Libya has improved significantly since Larbsh conducted his study in 2010; Libya's legal system already accommodates some of the international CG principles regarding the BODs' role, and Libyan banks have incorporated a number of key international CG principles into their own practice. At the moment, CG regulations vary from bank to bank, but this is nevertheless an improvement on previous practice. This sign of improvement in the governance standard may be expected to raise the confidence of both domestic and foreign investors in the LBS. Secondly, the findings may give the LBS the information it needs to take corrective action to improve its governance standard even further. This is especially important, given that Libya's economic backwardness has been blamed on the lack of good governance in Libyan banks.

**5.** The findings contribute to 'Governance Literature and Theory' by identitifying the discrepancies between CG theory, as described in the literature, and its practice in the context of the Libyan banking system. Prior studies have documented the strong and consistent links between corporate governance and the role of the BOD under agency, stakeholder, resource dependency, stewardship and institutional theories (as identified in chapter 3), but the theories are not without contradictions (Daily et al., 2003; Christopher, 2010; Zahra and Pearce,1989; Johnson et al., 1996)

Corporate governance is a complex phenomenon which can be influenced by many factors, including religion, culture and ownership structure (Mallin, 2007). This is especially true in Libya, where the legal and banking system are shaped by Islamic teachings and rules. Furthermore, the various theories that have been applied to examine corporate governance all have limitations. The complexity of the phenomenon and the limitations of existing theory rendered it necessary to adopt a combination of theories for this research. Hence, agency theory was employed alongside stakeholder theory and institutional theory, as discussed in chapter 3. This combination of theoretical perspectives has allowed a better understanding of board roles and the factors that can impact board performance in the LBS.

The need for corporate governance and the role of the BOD have been explained by reference to agency theory: adequate monitoring and control mechanisms need to be established to protect shareholders from managerial opportunism – the so-called agency cost being the most important implication. Accordingly, normative recommendations include appointing a board that has a majority of outside directors, independent directors and separate chairman and CEO. However, institutional theory views these mechanisms as practices that are imposed by legislators to improve organisational effectiveness, or that are adopted in imitation of other organisations – in other words, they originate externally rather than internally.

The findings support agency theory’s assumptions that the role of the board is to maximise shareholder wealth and that the ownership structure can help mitigate the agency problem and reduce agency costs (Denis and McConnell, 2003). The view of some respondents in public and private banks was that, as major shareholders have a strong motive to monitor and control the executive body, concentrated ownership (whether this is family ownership, individuals, institutions or the state) helps protect and promote the interests of shareholders. It encourages managers to take decisions that will maximise shareholder wealth, limits their power and strengthens the board’s control role. Thus, the findings indicate that ownership is an important factor determining the quality of governance and board performance in Libyan banks.

Conversely, none of the other internal corporate governance variables examined in this research, apart from board size and board meetings, were found to have any significant effect on the BODs' role. The findings do not support agency theory assumptions that the presence of independent directors enhances the ability of the board to monitor and control the executive management (Young, 2008), or that audit committees and NEDs mitigate agency problems and reduce agency costs by aligning the interests of controlling owners with those of the company (Choi et al., 2007; Christopher, 2010; Johnson et al., 1996; Sundaramurthy and Lewis, 2003). In fact, the participants suggested that NEDs are largely ineffective, despite the fact that they may make up as much as two-thirds of the board in Libyan banks. Indeed, the interviews revealed concerns at the incidence of nepotism and lack of independence. This finding is best explained by reference to institutional theory, which views these mechanisms as externally imposed (Cohen et al., 2007 and Scott, 2008). This suggests that institutional theory may be more appropriate than agency theory as a way of understanding internal CG mechanisms in developing countries such as Libya. In terms of the BODs' role, institutional theory and agency theory are complementary.The Islamic banking system is not consistent with the hypotheses of agency theory either. Governance in Islam is characterised by distinctive features which distinguish it from other systems of governance: while the Anglo-Saxon model is based on the agent principle (Frank and Meyer, 1997) and prioritises the protection of shareholders' interests, and the European or stakeholder model is a two-level system comprising a supervising committee and an independent board of executive members, the Islamic model operates on the principle that the company is accountable before Allah. Roles are performed according to the Shari'ah principles, and shareholders are seen as having a duty to work towards social justice, the ultimate goal of governance in Islamic banking (Choudury and Hoque, 2004).

The growth of Islamic banking stems from a rising popular distrust of traditional banks, which are believed to put shareholders' profits ahead of society's interests. Shari'ah committees ensure that Islamic banks serve the interests of all stakeholders – this is especially important given that the state's legal and regulatory framework (and Islamic banking regulation) is not yet robust enough to protect shareholders' rights and alert them to their role (Grais and Pellegrini, 2006 and Hasan, 2009). Shari'ah committees aim to maximise well-being and justice for all members of the community; in other words, this becomes one of the aims of governance. Thus, the Islamic model is consistent with the principle of stakeholder theory (stakeholder-oriented), in that it sees companies as being created to offer value for others. As such, they should be managed to cater for the needs of all stakeholders, including customers, managers, suppliers, local communities and shareholders. Letza et al. (2004) confirm that companies are involved in many aspects of social life and have the potential to improve the well-being of many people. It is important, therefore, that they are aware of their obligations to work towards equality and social justice. In both Islam and the west, CG plays a significant role in helping organisations achieve their set objectives and aims; primarily, these lie in the maximisation and protection of stakeholders' interests, but in the Islamic bank system, they must also adhere to the objectives of Islamic law.

The major theoretical contribution of this study is to the ongoing debate over which is the appropriate model of governance for developing countries such as Libya. As discussed in Chapters 3 and 7, critics have argued that the shareholder perspective is inappropriate and that the stakeholder perspective is the best alternative for developing and Islamic countries. The few existing studies on Libya also recommend the country explores the possibility of adopting the stakeholder approach (Larbsh, 2010). However, it is not clear whether the stakeholder model would be the optimal solution, especially when countries like Libya suffer from widespread corruption, nepotism and lack of independence ( see chapter 2). The findings of this study are useful in that they suggest that neither perspective is enough on its own for developing countries such as Libya, and that it may be more appropriate to combine features from different models. In this respect, the study is a response to researchers including Letza et al. (2008), who have argued for researchers to go beyond the traditional static concept of governance and understand it in new ways. In view of this, the empirical findings of this research have responded to the views of Letza et al. (2008) and Hasan ( 2008, 2010), and in particular have outline three theories, stakeholder theory, agency theory and institutional theory, that provides a sensible explanation of the practices of corporate governance and the Board of Director roles in Libya. In chapter 3 it was shown that, institutional theory complements agency theory. Therefore, this study also provides theoretical validity by proposing that institutional theory is more appropriate than agency theory in describing the practices of corporate governance and board roles in public and private banks in developing countries such as Libya. However, stakeholder oriented theory strongly influences institutional theory in Libyan context because the influence of culture and religion has a major part to play in the Shari'ah Committees.

Although, shareholder perspective is the least important concept, it still retains some significance which was also supported by responses received from interview and survey participants, who believed the concept of CG in Libya to be predominantly stakeholder-oriented, with relatively little emphasis being placed on protecting shareholders' interests.

## 8.6 Practical Implications

The literature, especially that produced in recent years, provides a good theoretical framework for understanding the board's role; to complement this, the following paragraphs discuss some of the practical implications of this study's findings.

1. Board members are not selected on the basis of their abilities or expertise but through personal contacts and favouritism. This means that roles are not allocated appropriately and the board does not develop. It is crucial to address board appointment and decision-making procedures if board performance in the LBS is to improve. In particular, the politicisation of board appointments and the intrusion of personal relationships into corporate appointments in public banks must be discouraged or eliminated through appropriate legislation by the CBL. Policy should be geared towards improving the structural design of boards of directors.
2. The board's structure determines how it works. The results confirm that board composition has some impact on board performance through its effect on board processes. This implies that, rather than focusing on increasing the number of non-executive directors, boards should seek to find the best balance between internal and external parties and should delineate these roles more clearly.
3. There is a lack of standards or legislation governing the way boards and their mechanisms function. Therefore Libyan banks should benefit from CG principles that comply with application mechanisms. The most important mechanism is internal and external networking between directors and stakeholders.
4. There was almost universal agreement among the participants on the impact of ownership on board performance. Currently, governance in public and foreign banks serves the interests of major shareholders, with decisions aimed at increasing their wealth. The study found less correlation between ownership structure and board roles in private banks, which may indicate a lack of awareness and vision among investors, or that many are only interested in short-term investment. Conferences and seminars are needed to raise awareness of the board's role among investors. This would help protect their rights and create a more stable investment environment.
5. External factors that affect the role of boards need to be developed in Libya. Establishing accounting principles and standards would enhance disclosure and

transparency. There is also room for further regulation to determine the roles and responsibilities of boards and to protect shareholders' rights.

6. Gender diversity on LBS boards is very poor compared to developed countries, with boards invariably being controlled by men. This reflects the culture-based inequality in Libyan society. The representation and participation of women on these boards should be addressed in regulations, which should define the skills, qualifications and experience required.
7. Executive and Shari'ah committees are effective control mechanisms, but auditing committees may be less so because their members lack independence. The lack of accounting and auditing standards also does little to promote independence.
8. Self-regulation will become increasingly important for boards in the LBS as firms strive to attract investment capital. Directors and boards must understand the importance of complying with local and international corporate governance standards, but appreciate that wholesale application of corporate governance standards and practices as designed for developed countries may not work in the LBS, given its unique political and socio-cultural circumstances. It is important that they make efforts to understand differences in boardroom culture, working methods and board organisation, and attempt to configure new standards and practices specific to the LBS context.
9. Board involvement in strategy formulation is crucial. The board should attempt to guide the actions of lower-level management to reflect its strategic intention and resolve any problems that arise during the implementation of strategic plans.
10. Boards must monitor important changes in their bank. This should not be limited to monitoring significant events. Effective directors go beyond this, developing contacts with a range of internal and external constituencies (Bower and Weinberg, 1988). The maintenance of such contacts is an essential requirement for directors.
11. Boards have a major role to play in reviewing strategic plans. Directors must be able to participate in discussions. This requires that they be given adequate information and time to review plans before they come before the board.
12. The study revealed varying attitudes towards the board's role in monitoring top management. Each board must specify the extent to which it intends to monitor top management and which variables it will monitor.

By addressing these issues and providing training courses and workshops to better prepare directors, the LBS can improve governance in the sector.

## 8.7. Implications for Policy Makers

Corporate governance is a main concern of regulators, academics and practitioners in most countries worldwide. This study highlights some aspects that are in need of attention from Libyan policy makers.

1. Boards in all three sectors exhibited governance features seen in international companies, but a number of aspects were missing. There were also issues related to autonomy and corporate responsibilities, which limit a board's ability to carry out its roles effectively. Training is needed to make directors more aware of their responsibilities and to give them the skills they need to protect shareholders' interests.
2. Corporate governance in the LBS promotes the interests of shareholders, who influence the appointment process and decision making. Considering the rights of shareholders and giving them some level of control are key factors in CG in Libya.
3. At policy level, efforts have focused on changing investment regulations to ensure that the environment is conducive to foreign investment. The study shows that joint-owned banks are seeking the aid of their foreign partners to implement international standards of corporate governance. The involvement of foreign partners has had a significant effect on the development of board roles and corporate governance in the LBS. On the other hand, foreign partners have not done much to address internal corporate governance weaknesses in Libyan banks. Unless internal governance systems, such as boards of directors, are strengthened, their ability to attract investment capital will be limited, weakening their performance and their capacity to drive economic growth. The findings of the study confirm that corporate governance in developing and emerging countries like Libya is going through a transitional period.
4. The Commercial Law (2010) and the Banking Law (2005, 2012) are too broad and do not address specific areas of CG weakness in banks. Bank governance structures will only improve with robust legislation regulating the activities and structure of banks, and when regulators have the power and the will to penalise offenders.
5. Both public and private sectors face challenges in terms of improving board performance. Any programmes or activities to introduce and improve corporate governance practices in the LBS should involve public-private sector collaboration. For example, industry associations like the Chamber of Commerce and other professional bodies in the private sector could partner public institutions such as the Libyan Stock Market Authority and the government. Public-private sector collaborations might be employed to create development opportunities for bank directors. Training programmes should consider the importance of board cohesion and unimpeded information flow, and how directors can employ their knowledge and skills to foster board relationships.
6. The introduction of Shari'ah committees has created a two-tier model similar to the European stakeholder model. Beyond this, the study participants felt that religious adherence generally encourages compliance with the rules of corporate governance as long as they are consistent with the principles of Islamic Shari'ah.
7. Banks in Libya are generally reluctant to disclose the information needed to improve corporate governance systems and ensure accountability. The full and

timely disclosure of information on all aspects of the firm must be mandatory if Libya is to attract foreign investment.

## 8.8. Limitations and Future Research

The lack of good governance in Libya is not restricted to the banking sector; it is a major problem across the financial sector, in public and private firms alike. An in-depth analysis of the governance in these firms and how it affects their performance is beyond the scope of this research, but such an analysis is certainly warranted, since they play a significant role in creating an environment that is conducive to business growth. To this end, the theoretical model could be extended to explore its relevance to non-commercial banks and other organisational forms such as not-for-profits orqanisations.

Although the focus of this thesis is on the role of boards of directors, there are other equally important mechanisms of corporate governance. Again, they are beyond the scope of this thesis. The decision to adopt a cross-sectional approach was dictated by resources and time limitations, but future research might employ time-series data to capture the dynamics of, and causal relationships between, board attributes, board process and board performance. Research that relates measures of board performance to firm performance would further enhance understanding of how boards contribute to firm performance in Libyan banks. The study might also be repeated at some future point to enable longitudinal research. This would allow the results of the study to be compared with future studies and help increase the understanding of board effectiveness.

This research relies heavily on the self-reporting of respondents, but the accuracy of self-reporting depends on a number of factors, including the respondent’s reasons for participating. Measures were taken to address these concerns – efforts were made to establish a rapport with the respondents and they were assured of full confidentiality and anonymity in both the questionnaire surveys and the interviews – but future researchers may be able to employ other research techniques that allow them greater access to the internal activities of the board. For example, it would have been useful to observe board meetings, but the current climate of fear and mistrust made this impossible.

Libya has much in common with other Islamic countries, but there are obvious differences in terms of economic capabilities, cultural practices and political and legal systems. These differences may have important implications for governance in Libya, but time and resource constraints rendered empirical investigation of other countries impractical. Future research that considers these differences would be useful in illuminating how they influence corporate governance practices. Replicating the study using data from other countries would enable the investigation of board processes and board effectiveness both within-country and between-countries and help in developing a universal framework for investigating corporate governance (Minichilli et al., 2012).

Finally, the researcher focused only on a certain set of board characteristics and their impact on board roles, but other characteristics such as age and ethnicity could have been considered. Further research could also be undertaken to examine the effect of board committees, NED compensation and degree of independence on board effectiveness in Libya's financial companies.

In conclusion, given the importance of the banking sector to Libya's economy and the absence of descriptive empirical data, this thesis makes an important contribution to knowledge in this field. The researcher strongly believes that the theoretical framework and the findings of this thesis will stimulate practitioners and scholars of strategy, organisational behaviour and corporate governance to examine boards and their activities from many perspectives, particularly from the process side. The findings of this study have important implications for all stakeholders, directors, managers, regulators and shareholders.

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## Appendix A: Tables

**Table 1:** Evolution of corporate governance in the UK

| The Report | Recommendations |
|---|---|
| Cadbury 1992 | The Cadbury Committee addressed the quality of corporate financial reporting. The report stipulates there should be a minimum of three executives in the company. It makes recommendations regarding board composition, the formation of committees and appointments, the independence of non-executive directors, remuneration, financial reports and control. |
| Greenbury 1995 | The Greenbury Committee focused on board remuneration, especially the role of the remuneration committee and its payment of bonuses to the CEO and other directors, and the disclosure of directors' remuneration. |
| Hampel 1998 | This committee was set up to investigate whether the Cadbury and Greenbury recommendations were being implemented by companies (or whether they were just "box-ticking"), and to emphasise the positive effects of good corporate governance. |
| Combined Code 1998 | The Combined Code consolidated the principles and recommendations of the Cadbury, Greenbury and Hampel reports. It specified that at least a third of the board should comprise non-executive directors. |
| Turnbull 1998 | The Turnbull Committee dealt mainly with the issue of internal control and risk management. It stressed that the board is responsible for confirming the presence of internal control systems and demanded that companies should issue reports on their internal control and risk management. |
| Myners 2001 | The committee was established to promote greater shareholder activism. |
| Higgs and Smith 2003 | The Higgs and Smith Committee's responsibility was to examine the role of non-executive directors. In a detailed report, it advised that companies' annual reports should give details of how often the board and its committees meet, and directors' attendance records. It advised that directors' performance should be evaluated once a year. It examined the role of the audit committee and in particular how to emphasise that financial reporting and internal control are there to protect the interests of shareholders. |

**Table 2: The OECD principles (2004) framework**

| Principle | | |
|---|---|---|
| The first principle | Ensuring the basis for effective corporate governance | The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities |
| The second principle | The rights of shareholders and key ownership functions | The corporate governance framework should protect and facilitate the exercise of shareholders' rights |
| The third principle | Equal treatment of shareholders | The corporate governance framework should ensure the equitable treatment of all shareholders, including the minority and the foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights |
| The fourth principle | The role of shareholders in corporate governance | The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporation and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. |
| The fifth principle | Disclosure and transparency | The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company |
| The sixth principle | The role and responsibility of the board | The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. |

**Table 3: Years of experience**

| | Less than 5 years | | 5 – 10 years | | 11-15 years | | More than 15 years | | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | Freq | % | Freq | % | Freq | % | Freq | % | |
| Board Members | 0 | 0 | 47 | 50.0 | 37 | 39.4 | 10 | 10.6 | 94 |

### Table 4: Highest qualification

| Bank sector | Bachelor's degree | | Master | | PhD | | Total |
|---|---|---|---|---|---|---|---|
| | Freq | % | Freq | % | Freq | % | |
| Public | 18 | 47.37 | 14 | 36.84 | 6 | 15.79 | 38 |
| Private | 20 | 64.52 | 11 | 35.48 | 0 | 0 | 31 |
| Foreign | 9 | 36.00 | 12 | 48.00 | 4 | 16.00 | 25 |
| **Overall** | 47 | 50.00 | 37 | 39.36 | 10 | 10.64 | 94 |

### Table 5: Degree subject

| **Bank sector** | Banking | | Accounting | | Economics | | Business | | Law | | Finance | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Freq | % | Freq | % | Freq | % | Freq | % | Freq | % | Freq | % | |
| Public | 2 | 6.5 | 15 | 48.4 | 0 | 0 | 8 | 25.8 | 1 | 3.2 | 12 | 18.4 | 38 |
| Private | 20 | 6.5 | 11 | 35.4 | 0 | 0 | | | | | | | 31 |
| Foreign | 4 | 16.0 | 6 | 24.0 | 0 | 0 | 8 | 32.0 | 1 | 4.0 | 6 | 24.0 | 25 |
| **Overall** | 26 | | 32 | | 0 | | 16 | | 2 | | 18 | | 94 |

### Table 6: Formal statement of roles and responsibilities

| Does your bank have formal statements describing the roles, responsibilities and powers of the chairman, CEO, executive and non-executive directors? | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Sector** | Chairman | | CEO | | Executive directors | | I-non-executive directors | |
| | yes | no | yes | no | yes | no | yes | no |
| Public | 33.3% (2) | 4 | 33.3% (2) | 4 | 16.7% (1) | 5 | 16.7% (1) | 5 |
| Private | 50% (3) | 3 | 50% (3) | 3 | 0.0% (0) | 6 | 0.0% (0) | 6 |
| Foreign | 75% (3) | 1 | 75% (3) | 1 | 50% (2) | 2 | 25% (1) | 3 |
| **Overall** | 50% (8) | 8 | 50% (8) | 8 | 18.8% (3) | 13 | 12.5% (2) | 14 |

### Table 7: CEO as board member

| Is the CEO a board member? | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Yes | | No | | No answer | | **Total** | |
| **Sector** | Freq | % | Freq | % | Freq | % | **Freq** | **%** |
| Public | 3 | 50.0 | 3 | 50.0 | - | - | 6 | 37.5 |
| Private | 5 | 83.3 | 1 | 16.7 | - | - | 6 | 37.5 |
| Foreign | 3 | 75.0 | 1 | 25.0 | - | - | 4 | 25 |
| **Overall** | 11 | 68.75 | 5 | 31.25 | - | - | 16 | 100 |

## Table 8: Status of chairman

| Is the chairman of your bank board seen as a i-non-executive? | | | | |
|---|---|---|---|---|
| **Sector** | Yes | No | No answer | **Total** |
| Public | 66.7% (4) | 33.3% (2) | - | 6 |
| Private | 50% (3) | 50% (3) | - | 6 |
| Foreign | 75% (3) | 25% (1) | - | 4 |
| **Overall** | 63% (10) | 37% (6) | - | 16 |

## Table 9: Split between chairman and CEO roles

| Are the roles of chairman and CEO split in the bank? | | | | |
|---|---|---|---|---|
| **Sector** | **Yes** | **No** | **No answer** | **Total** |
| Public | 66.7% (4) | 33.3% (2) | - | 6 |
| Private | 50% (3) | 33.3% (2) | 16.667% (1) | 6 |
| Foreign | 75% (3) | 25% (1) | - | 4 |
| **Overall** | 62.5% (10) | 31.25% (5) | 6.25% (1) | 16 |

## Table 10: Executive committee

| **Sector** | Yes | No | **Total** | Average number of members | Average number of executives | Average number of NEDs |
|---|---|---|---|---|---|---|
| Public | 83.3% (5) | 1 | 6 | 4.4 | 1.4 | 3 |
| Private | 33.3% (2) | 4 | 6 | 4.5 | 1.5 | 3 |
| Foreign | 100% (4) | 0 | 4 | 3.75 | 1.5 | 2.25 |
| **Overall** | 68.8% (11) | 5 | 16 | 4.22 | 1.43 | 2.75 |

## Table 11: Audit committee

| **Sector** | **Yes** | **No** | **Total** | **Average number of members** | **Average number of executives** | **Average number of NEDs** |
|---|---|---|---|---|---|---|
| Public | 66.7% (4) | 2 | 6 | 5 | 2 | 3 |
| Private | 33.3% (2) | 4 | 6 | 3.25 | 2 | 1.25 |
| Foreign | 100% (4) | 0 | 4 | 3 | 1 | 2 |
| **Overall** | 75% (10) | 6 | 16 | 3.75 | 1.66 | 2.084 |

### Table 12: Nominations committee

| Sector | Yes | No | Total | Average number of members | Average number of executives | Average number of NEDs |
|---|---|---|---|---|---|---|
| Public | 33.3% (2) | 4 | 6 | 4 | 2 | 2 |
| Private | 16.7% (1) | 5 | 6 | 3 | 1 | 2 |
| Foreign | 50% (2) | 2 | 4 | 3 | 2 | 2.50 |
| **Overall** | 31.3% (5) | 11 | 16 | 3.33 | 1.66 | 2.17 |

### Table 13: Remuneration committee

| Sector | Yes | No | Total | Average number of members | Average number of executives | Average number of NEDs |
|---|---|---|---|---|---|---|
| Public | 33.3% (2) | 4 | 6 | 4.5 | 2 | 2.5 |
| Private | 0% (0) | 6 | 6 | 0 | 0 | 0 |
| Foreign | 50% (2) | 2 | 4 | 4 | 2 | 2 |
| **Overall** | 25% (4) | 12 | 16 | 4.25 | 2 | 2.25 |

### Table 14: Corporate governance committee

| Sector | Yes | No | Total | Average number of members | Average number of executives | Average number of NEDs |
|---|---|---|---|---|---|---|
| Public | 50% (3) | 3 | 6 | 3.33 | 0 | 3.33 |
| Private | 16.7% (1) | 5 | 6 | 4 | 2 | 2 |
| Foreign | 75% (3) | 1 | 4 | 4.33 | 1.66 | 2.66 |
| **Overall** | 43.8% (7) | 9 | 16 | 3.87 | 1.22 | 2.65 |

### Table 15: Shari’ah committee

| Sector | Yes | No | Total | Average number of members | Average number of executives | Average number of NEDs |
|---|---|---|---|---|---|---|
| Public | 50% (3) | 3 | 6 | 4.66 | 0 | 4.66 |
| Private | 33.3% (2) | 4 | 6 | 3 | 0 | 3 |
| Foreign | 100% (4) | 0 | 4 | 3.33 | 0 | 3.33 |
| **Overall** | 56.3% (9) | 7 | 16 | 3.66 | 0 | 3.66 |

## Table 16: Board size and representation of executive and non-executive directors

| Sector | Average number of directors | Average number of executive directors | Average number of NEDs |
|---|---|---|---|
| Public | 8.6 | 2.3 | 6.3 |
| Private | 6.4 | 3 | 3.4 |
| Foreign | 7 | 1.5 | 5.5 |
| **Overall** | 7.33 | 2.27 (31%) | 5.06 (69%) |

## Table 17: Frequency of board meetings

| How many times per year does your board meet? | | | | |
|---|---|---|---|---|
| **Board meetings per year** | **Fewer than 4** | **4 – 8** | **More than 8** | **Total** |
| Public | 0 | 83.3% | 16.7% | 6 |
| Private | 33.3% | 16.7% | 50% | 6 |
| Foreign | 0 | 50% | 50% | 4 |
| **Overall** | 12.5% | 50% | 37.5% | 16 |

## Table 18: Number of directors at board meetings

| Sector | 50%-59% | 60%-69% | 70%-79% | 80%-89% | 90%-100% | Total |
|---|---|---|---|---|---|---|
| Public | 16.7% | 16.7% | 33.3% | 0 | 33.3% | 6 |
| Private | 0 | 16.7% | 0 | 66.7% | 16.7% | 6 |
| Foreign | 0 | 75% | 0 | 25% | 0 | 4 |
| **Overall** | 6.25% | 31.3% | 12.5% | 31.3% | 18.78% | 16 |

## Table 19: Selection of independent directors

| Sector | BOD | | CEO | | Shareholders | | Mixture | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Freq | % | Freq | % | Freq | % | Freq | % | |
| Public | 0 | 0 | 0 | | 5 | 83.3 | 1 | 16.6 | 6 |
| Private | 2 | 33.3 | 0 | | 2 | 33.3 | 2 | 33.3 | 6 |
| Foreign | 1 | 16.7 | 0 | | 3 | 50 | 0 | 0 | 4 |
| **Overall** | 3 | 18.75 | 0 | 0 | 10 | 62.5 | 3 | 18.75 | 16 |

## Table 20: Nomination of board members

| Sector | BOD | | CEO | | Shareholders | | Mixture | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Freq | % | Freq | % | Freq | % | Freq | % | |
| Public | 1 | 16.7 | 3 | 50 | 1 | 16.7 | 1 | 16.7 | 6 |
| Private | 1 | 16.7 | 3 | 50 | 2 | 33.3 | 0 | | 6 |
| Foreign | 1 | 25 | 1 | 25 | 2 | 50 | 0 | | 4 |
| **Overall** | 3 | 18.75 | 7 | 43.75 | 5 | 31.25 | 1 | 6.25 | 16 |

## Table 21: Selection/appointment of CEO

| Sector | BOD | | Nomination committee | | Shareholders | | Mixture | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Freq | % | Freq | % | Freq | % | Freq | % | |
| Public | 1 | 16.7 | 0 | 0.0 | 4 | 66.7 | 1 | 16.7 | 6 |
| Private | 4 | 66.7 | 0 | 0 | 2 | 33.3 | 0 | 0.0 | 6 |
| Foreign | 0 | 0.0 | 0 | 0.0 | 3 | 75.0 | 1 | 25.0 | 4 |
| **Overall** | 5 | 31.25 | 0 | 0 | 9 | 56.25 | 2 | 12.5 | 16 |

## Table 22: Summary of findings for the strategic role

| | **The strategic role** | **Empirical finding** |
|---|---|---|
| 1 | The board is involved in developing the bank's strategy.<br>A. The board contributes to the formulation and review of bank strategy.<br><br>**B.** The board discusses the strategic plan.<br><br>C. The board cooperates with top management to formulate and develop strategy. | The interviews confirmed the results of the questionnaire survey, identifying three different ways in which this role operates:<br><br>A. The board is responsible for the formulation of strategy (taking strategic decisions) (3 public banks and 3 private banks)<br><br>**B.** Top management prepares the firm's overall strategy and passes it on to the board which discusses it, comments on it or asks for amendments (2 foreign banks, 3 public banks and 1 private bank).<br><br>**C.** The board works alongside top management to develop strategy (4 public banks and 4 foreign banks). The findings suggest a new category of board involvement in terms of strategy formulation. |
| 2 | The board creates the bank's objectives, strategies and a board policy, while top management prepares the overall strategy. | Interview responses generally echoed questionnaire responses in expressing neutrality towards or disagreement with this statement.<br>The exceptions were two board members from private banks, who each said their board has no direct role in setting up strategy. The board's role is to define the bank's main objectives, and then top management prepares the overall strategy. The boards in these private banks are passive entities. |
| 3 | The board has no strategic role. | One director from the private sector and one from the foreign sector said their board does not engage in any strategy-related activity.<br>These boards may have other roles instead. |

## Table 23: Summary of findings for the control and monitoring role

| | The control and monitoring role | Empirical finding |
|---|---|---|
| 1 | Monitoring the execution of approved strategy | Received the highest mean score (4.09). Ranked the board's most important way of controlling and evaluating bank performance and reviewing this performance against the plan.<br><br>The monitoring role is carried out through the mechanism of board meetings, during which managers present financial and non-financial reports detailing how the bank's strategic objectives are being implemented, to be reviewed by the board. After briefly reviewing past performance, the board mainly focuses on future prospects. 21 out of 24 interviewees agreed on the importance of this role. |
| 2 | Monitoring the top management and CEO<br>. | There was less support for this role. 55% (13/24) of interviewees agreed on the importance of this role (3 public, 5 private and 5 foreign).<br>**A**. The board's role in this case is to assist rather than observe top management.<br>**B.** The board controls top management by selecting the CEO, stressing the importance of appointing independent members and evaluating management performance. |
| 3 | Controlling the performance of the bank | There was no clear consensus in terms of who possesses the power to control bank performance.<br>A. 11 interviewees said this function is shared with the top management.<br>B. B. 8 said the CEO has full authority to control the work of the bank.<br>C. C. 5 said the board controls the work of the bank through board committees such as the auditing committee, the compliance committee and the Shari'ahh committee. |

**Table 24**: **Summary of findings for the service role**

| | The service role | Empirical finding |
|---|---|---|
| 1 | Establishing contacts with the external environment | There was no general agreement among respondents regarding the significance of the board's service role. Both survey respondents and interviewees showed less support for the service role than for the other two roles.<br>A. 3 interviewees said the board is responsible for creating a good rapport with shareholders and for communicating with them regularly.<br>B. 8 interviewees said the board is responsible for establishing contacts with the external environment. |
| 2 | Providing consultation and advice | 9 interviewees said the board's role is to provide consultation and advice (2 from private banks, 6 from public banks and 1from a foreign bank). |
| 3 | Enhancing company reputation | The interviewees were divided on whether the board's role is to enhance company reputation There is less focus on this kind of communication in public banks, where the state is the only shareholder. |

**Appendix B: Questionnaire**

## Information sheet

On behalf of myself and my supervisory team, Dr. Donald Harradine and Dr. Petra Molthan-Hill, I am writing to ask for your assistance in completing this questionnaire as a requisite for obtaining a PhD degree in Accountancy at Nottingham Trent University (NTU), UK. The attached questionnaire is part of a research project entitled: *Investigating the roles and responsibilities of the board of directors in the Libyan banking sector*. The main aims of the research are to examine the practices, roles and responsibilities of boards of directors in the Libyan banking sector and to identify the internal and external obstacles that directors see as affecting their ability to perform these roles and responsibilities effectively.

The questionnaire, which is designed to investigate the strategic, institutional, control and monitoring roles and functions of boards, should take approximately 15-25 minutes to complete. I would be grateful if you could answer all of the questions and write any further relevant comments on the last page of the questionnaire. No personal information is required.

The research is being conducted in accordance with the ethical framework set out by Nottingham Trent University and will abide by any non-disclosure requirement from the companies involved. In the interests of confidentiality, all collected data will be anonymised and kept in a safe and secure place.

I would be grateful if you could complete and return the questionnaire to me in person as soon as you can. Your cooperation in completing this survey is greatly appreciated. Thank you very much in advance for your assistance.

Yours faithfully

Abdalla Shalba

PhD researcher at Nottingham Trent University

Email: Abdalla.Shalba@ntu.ac.uk Tel/Libya: +218912130560 /UK +447429921037

NOTTINGHAM
TRENT UNIVERSITY

**Investigating the roles and responsibilities of the board of directors in the Libyan banking sector**

**INFORMED CONSENT FORM[8]**
**(To be completed after Participant Information Sheet has been read)**

The purpose and details of this study have been explained to me. I understand that this study is designed to further scientific knowledge and that all procedures have been approved by Nottingham Trent University.

I have read and understood the information sheet and this consent form.

I have had an opportunity to ask questions about my participation.

I understand that I am under no obligation to take part in the study.

I understand that I have the right to withdraw from this study at any stage for any reason, and that I will not be required to explain my reasons for withdrawing.

I understand that all the information I provide will be treated in strict confidence and will be kept anonymous and confidential to the researchers unless (under the statutory obligations of the agencies with which the researchers are working) it is judged that confidentiality will have to be breached for the safety of the participant or others.

I agree to participate in this study.

Your name ______________________________

Your signature ______________________________

Date ______________________________

Name of investigator ______________________________

Signature of investigator ______________________________

Date ______________________________

[8] **Completion of this informed consent form is not compulsory for participation in the questionnaire survey.**

# Questionnaire

**Section One: Personal and general information**

**1**. **1**. Bank sector……………...........................................................………. ………

| Public sector | Private sector | Libyan and foreign sector |
|---|---|---|
| | | |

**1.2.** What is your position? Please tick one.

| Member of board directors | CEO or Executive manager. eg; Financial department (senior manager, finance director, management accountant, et..) | Internal auditors ( director) | Executive Manager Member (setting) on a sub-committees (eg., audit committee) | Secretary of the board | Research and development staff member (adviser) |
|---|---|---|---|---|---|
| | | | | | |

**1.3.** Highest educational qualification obtained. Please tick one.

| Lower than Bachelor's Degree | Bachelor's Degree | Master's degree | PhD | Other |
|---|---|---|---|---|
| | | | | |

If other please specify ---------------------------------------------------------------------------

**1.4.** Major of last degree

| Accounting | Banking | Business Administration | Economics | Law | Finance | Other/Please specify |
|---|---|---|---|---|---|---|
| | | | | | | |

**1.4.1.** Please state length of experience working in this field (including previous jobs).

| Less than 5 years | 5-10 years | 11-15 years | More than 15 years |
|---|---|---|---|
| | | | |

**1.5.** Are you: Female ☐ or Male ☐

**Section Two: General perceptions of corporate governance and the role of the B.O.D**

**2.1.** The concept of corporate governance

The following is a list of possible definitions of corporate governance. In relation to the Libyan business environment, please indicate whether you agree/disagree with the following statements by circling the appropriate number on the 5-point scale:

| (1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly agree)<br>Corporate governance is…. | | | | | | |
|---|---|---|---|---|---|---|
| **1** | …the process of supervision and control intended to ensure that the company's management acts in accordance with the interests of shareholders. | **1** | **2** | **3** | **4** | **5** |
| **2** | …. not concerned with the running of the business of the company per se, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations of accountability and regulation by interests beyond the corporate boundaries. | **1** | **2** | **3** | **4** | **5** |
| **3** | …. the governance of an enterprise is the sum of those activities that make up the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership and control. It incorporates the trusteeship of assets, their management and their deployment. | **1** | **2** | **3** | **4** | **5** |
| **4** | …the relationship between shareholders and their companies and the ways in which shareholders act to encourage best practice (e.g.by voting at AGMs and regularly meeting senior management). Increasingly, this includes shareholder "activism" – a shareholder or group of shareholders campaigning to effect change in the company. | **1** | **2** | **3** | **4** | **5** |
| **5** | ….the structures, processes, cultures and systems that engender successful operation in an organisation. | **1** | **2** | **3** | **4** | **5** |
| **6** | ….the system by which companies are directed and controlled. | **1** | **2** | **3** | **4** | **5** |

**2.2.** Does your board have a clear mission statement regarding its roles and responsibilities? Yes☐ No☐

**2.3.** Researchers have identified the following archetypal board roles. Which role(s) (if any) does your board primarily adopt? Please indicate whether you agree/disagree with the following statements by circling the appropriate number:

| (1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly agree) | | | | | | |
|---|---|---|---|---|---|---|
| **2.3.1** | What do you think is the role of the board of directors? | | | | | |
| **A** | It is a forum for the serious discussion of all the significant matters of the bank. | **1** | **2** | **3** | **4** | **5** |
| **B** | It is rather perfunctory; the CEO dominates board meetings, and the views of other directors are not welcomed. | **1** | **2** | **3** | **4** | **5** |
| **2.3.2** | What does the board do? | | | | | |
| **A** | The board creates the bank's objectives and a board policy, while top management prepares the overall strategy. | **1** | **2** | **3** | **4** | **5** |
| **B** | The board is involved in developing and determining bank strategy. | **1** | **2** | **3** | **4** | **5** |
| **C** | The board controls the performance of the bank. | **1** | **2** | **3** | **4** | **5** |
| **D** | The board monitors the behaviour of the CEO and top managers. | **1** | **2** | **3** | **4** | **5** |
| **E** | The board monitors the execution of approved strategy. | **1** | **2** | **3** | **4** | **5** |
| **F** | The board enhances the company's reputation. | | | | | |
| **G** | The board establishes contacts with the external environment. | **1** | **2** | **3** | **4** | **5** |
| **H** | The board provides advice and counsel to executives and management. | | | | | |

**2.4.** Please indicate whether you agree/disagree that the following key factors influence or effectiveness the role and responsibilities of the board:

| (1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly agree) | | | | | | |
|---|---|---|---|---|---|---|
| **1** | The experience and educational background of directors | **1** | **2** | **3** | **4** | **5** |
| **2** | Poor transparency and disclosure and a lack of systems and procedures governing board activities | **1** | **2** | **3** | **4** | **5** |
| **3** | Inappropriate board composition (lack of diversity) and the limited role played by non-executive directors | **1** | **2** | **3** | **4** | **5** |
| **4** | Ownership structure and the powerful influence of large shareholders | **1** | **2** | **3** | **4** | **5** |
| **5** | Chairman's leadership style; CEO/Chairman role duality | **1** | **2** | **3** | **4** | **5** |
| **6** | Libya's culture and religion | **1** | **2** | **3** | **4** | **5** |
| **7** | The level of preparation for board meetings; whether directors have timely access to the relevant information | **1** | **2** | **3** | **4** | **5** |
| **8** | How board members are selected | **1** | **2** | **3** | **4** | **5** |

**2.5.** In the accounting literature, a large number of studies have found that corporate governance mechanisms enhance the effectiveness of the board of directors. Please indicate whether you agree/disagree that the following actions can enhance the effectiveness of the board in Libyan board rooms:

| | (1=Strongly disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly agree) | | | | | |
|---|---|---|---|---|---|---|
| **1** | Separating the functions of CEO and chairman | **1** | **2** | **3** | **4** | **5** |
| **2** | Instituting regular board meetings, for which directors have access to accurate, relevant and timely information | **1** | **2** | **3** | **4** | **5** |
| **3** | Appointing well-qualified board members and adopting a code of conduct for directors | **1** | **2** | **3** | **4** | **5** |
| **4** | Appointing a high proportion of well-qualified INEDs who can devote sufficient time to their responsibilities | **1** | **2** | **3** | **4** | **5** |
| **5** | Ensuring a high proportion of shares are owned by the board of directors (ownership concentration), giving them greater control | **1** | **2** | **3** | **4** | **5** |
| **6** | Creating large boards | **1** | **2** | **3** | **4** | **5** |
| **7** | Requiring board members to disclose any material interests in transactions or matters affecting the company | **1** | **2** | **3** | **4** | **5** |
| **8** | Ensuring that boards establish audit, remuneration and nomination committees with the proper accounting, auditing and/or financial expertise, and that these meet regularly | **1** | **2** | **3** | **4** | **5** |
| **9** | Ensuring all relevant information is disclosed to the board and that it takes into account the interests of shareholders and stakeholders when making decisions | **1** | **2** | **3** | **4** | **5** |
| **10** | Ensuring that board members are fully informed and act in good faith | **1** | **2** | **3** | **4** | **5** |
| **11** | Ensuring that the CEO does not serve on the remuneration and nomination committees | **1** | **2** | **3** | **4** | **5** |

**Section Three: For CEOs only**

**3.1.** Is the CEO a board member?.................................................. .Yes ☐ No☐

**3.2.** How many board members does the bank have? Female ☐ Male ☐

**3.3**. What is the number of executive directors? ☐

**3.4.** What is the number of i-non-executive directors? ☐

**3.5.** Are the roles of chairman and CEO split in the bank? Yes ☐ No☐

**3.6**. Is the chairman of your bank considered a i-non-executive? Yes ☐ No☐

**3.7.** Does your bank have formal statements describing the roles, responsibilities and powers of: Yes No

A. The Chairman ☐ ☐
B. The Managing Director/CEO ☐ ☐
C. The executive directors ☐ ☐
D. The i-non-executive directors ☐ ☐

**3.8.** How many times per year does your board meet? Please select one.

| Less than 4 | 4 - 8 | More than 8 |
|---|---|---|
| | | |

If more than 8, please state how many………………………………..………….

**3.9.** On average, how many directors attend the board meetings? Please select one.

| 60-69% | 70-79% | 80-89% | 90-100% |
|---|---|---|---|
| | | | |

**3.10.** Please indicate whether your bank has any of the following sub-committees. If yes, please indicate the composition of the sub-committee:

| | Committee | Yes | No | No of Executive | No of non-Executive | Executive Chair | Non-executive Chair |
|---|---|---|---|---|---|---|---|
| 1 | Audit | | | | | | |
| 2 | Remuneration | | | | | | |
| 3 | Nomination | | | | | | |
| 4 | Executive | | | | | | |
| 5 | CG | | | | | | |

If other (e.g. crisis, strategy, Shari'ah, investment, etc.) please specify:……………

**3.11**. How are independent directors selected? Please tick one.

| Board of directors | CEOs | Shareholders | Mixture |
|---|---|---|---|
| | | | |

**3.12**. Who nominates board members? Please tick one.

| Board of directors | CEOs | Shareholders | Mixture |
|---|---|---|---|
| | | | |

**3.13.** Who selects/appoints the CEO? Please tick one.

| Board of directors | CEOs | Shareholders | Mixture |
|---|---|---|---|
| | | | |

In conclusion, please write below any other comments that could assist in this research.

……………………………………………………………………………………………

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## Appendix C: Semi-structured interview questions

## Semi-structured interview questions

1. What do you understand by the term **corporate governance**?

2. How do you monitor bank performance?

3. Given your view of what an ideal board should be and do, in what ways should **the board's role** be expanded or reduced? Would a detailed written charter of **board responsibilities** be useful?

4. What does the board do (what is the **job of the board)**?

5. Which of the following do your board of director do effectively?

| | |
|---|---|
| 1 | The board creates the bank's objectives, strategies and a board policy, while top management prepares the overall strategy. |
| 2 | The board is involved in developing bank strategy. |
| 3 | The board controls the performance of the bank (output control). |
| 4 | The board has "the power to affect the management of a corporation" by monitoring managers (behavioural control). |
| 5 | The board monitors the execution of approved strategy. |
| 6 | The board enhances the company's reputation. |
| 7 | The board establishes contacts with the external environment. |
| 8 | The board provides advice and counsel to executives. |

6. Do you agree that Libyan board members **understand and are committed** to their roles and responsibilities? If yes, could you provide an example of a decision you were involved in where they showed commitment?

7. What kind of **information** do you generally receive as a director and how could it be improved in terms of presentation, timeliness, level of detail, content or focus?

8. How do **executive and i-non-executive directors** contribute to the board; how do the services they offer differ?

9. How do you find being **an executive board** member and a **manager** at the same time?

10. Does the **size of your board** reflect the complexity of the bank?

11. How important are audit committees, remuneration committees, nomination committees, executive committees and CG committees in Libyan banks? How are these sub-committees composed in your bank?

12. How are these committees formed/established? Do they have clear written mandates?

13. How could **board meetings** be improved in terms of frequency, duration, content and interest level?

14. Who sets the meeting agenda? How?

15. What do you see as the role of the **board committees** in preventing wrongdoing and errors?

16. Is there a clear division of responsibility between what the **board** can do, and what **managers** and employees can do? How is this responsibility divided?

17. How does the board, especially the **chair,** interact with management and the **CEO**? Are the roles of chairman and chief executive split in your bank?

18. How are the members of the board of directors nominated and **selected**? Who is responsible for selection?

19. To what extent do corporate strategies influence the **selection** process? What factors determine the **selection** of the board chairman?

20. How do you think the **ownership structure** affects the board? What role does it play in preventing wrongdoing and errors?

21. How do board members perceive their relationship with the **shareholders**?

A. What role do major shareholders play in setting up the bank's strategy?

B. What role do foreign partners play in setting up the bank's strategy?

22. How do you think Libya's **cultural, religious and legal systems** affect board performance and corporate governance?

23. What role does the Shari'ah supervisory committee play in setting and enforcing roles?

24. How do you think introducing **Islamic banking** into the banking system will affect the performance of boards?

25. Do most directors in your bank see the need for **transparency and disclosure**? And, Do you feel there is sufficient transparency and disclosure in BOD?

**26.** What are the internal and external **factors** or deficiencies that stop you carrying out your roles and responsibilities effectively? Are there any subjects that you cannot discuss in meetings?

**27.** What do you think a board of directors needs to be effective?

**28.** What other **factors** do you think affect directors' roles and responsibilities?

**29.** How do you think board diversity such as the F/M balance and background experience affect the board's performance of its roles?

**30.** Do you have a **clear list** of the roles and responsibilities of the management, committees and the board as a whole? May I have a copy of it, please?

**Investigating the roles and responsibilities of the board of directors in the Libyan banking sector**

**INFORMED CONSENT FORM[9]**
**(To be completed after Participant Information Sheet has been read)**

The purpose and details of this study have been explained to me. I understand that this study is designed to further scientific knowledge and that all procedures have been approved by Nottingham Trent University.

I have read and understood the information sheet and this consent form.

I have had an opportunity to ask questions about my participation.

I understand that I am under no obligation to take part in the study.

I understand that I have the right to withdraw from this study at any stage for any reason, and that I will not be required to explain my reasons for withdrawing.

I understand that all the information I provide will be treated in strict confidence and will be kept anonymous and confidential to the researchers unless (under the statutory obligations of the agencies with which the researchers are working) it is judged that confidentiality will have to be breached for the safety of the participant or others.

I agree to participate in this study.

Your name ______________________________

Your signature ______________________________

Name of investigator ______________________________

Signature of investigator ______________________________

Date ______________________________

[9] **Completion of this informed consent form is not compulsory for participation in the the questionnaire survey..**

## Information sheet

## Title of the Research:

**Investigating the roles and responsibilities of the board of directors in the Libyan banking sector.**

**Researcher:**

Abdalla Shalba (PhD student)

Business School

Nottingham Trent University (NTU) UK

**Supervisors:**

Dr Donald Harradine

Dr Petra Molthan-Hill

### Introduction

The consequences of the financial crisis in the West have spread to other parts of the world. In developed countries, the focus has been on enhancing corporate governance practice and on forcing firms to give directors a greater role and to improve board effectiveness. Much less has been done in developing countries like Libya, however, not least because the relative lack of research on CG and board performance in these countries means our understanding of these issues in this context is limited. The main aims of this research are therefore to examine the practices, roles and responsibilities of boards of directors in the Libyan banking sector and to identify what directors see as the internal and external obstacles that prevent them from performing these roles and responsibilities effectively. The study is particularly relevant, given the increasingly important role Libya's financial sector is playing in the country's economic growth.

### Confidentiality and Anonymity

This research will be carried out within the ethical framework set out by Nottingham Trent University. It will also abide by any non-disclosure agreement deemed necessary by any of the banks involved. Strict attention will be paid to the confidentiality of the collected data, which will be anonymised and kept in a safe and secure place.

Participation in the project is voluntary and unpaid. The interview, which will be conducted at a place and time that is convenient to you, will be designed to be approximately 45 minutes in length, though you will be free to expand on the topic or talk about related ideas if you wish. Your answers may be reported by position, but the data gathered in the study will be anonymous and no individual names will be included in the analysis. If there are any questions you would rather not answer, the interview will be stopped or moved on to the next question. Withdrawing from the project will not result in any negative consequences for you or your bank. You will have the right to review, comment on and/or delete information prior to the project submission. All interview notes will be kept in a secure environment and if required, all raw data such as transcripts, notes and electronic files will be destroyed within three months of the completion of the project.

Please keep a copy of this consent form. If you have any questions concerning your participation in this project, please contact the student researcher, Abdalla Shalba.

Yours faithfully

**Abdalla Shalba**

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**Thank you very much in advance for your assistance and cooperation.**

NOTTINGHAM
TRENT UNIVERSITY

**ورقة معلومات عن الاستبيان**

بالنيابة عن نفسي وعن زملائي فريق الإشراف الدكتور دونالد هاراداين والدكتورة بيترا مولتان هيل، أود أن أشكركم على منحي جزءا من وقتكم الثمين لملء هذا الاستبيان كمتطلبات للحصول على شهادة الدكتوراه في المحاسبة من جامعة "نوتنغهام ترنت" بالمملكة المتحدة. الإستبيان المرفق هو جزء من مشروع بحثي بعنوان: " التحقق في أدوار ومسؤوليات مجالس الادارة في القطاع المصرفي الليبي". ويهدف هذا البحث أساسا إلى فحص الممارسات والأدوار والمسؤوليات لمجالس الإدارة في القطاع المصرفي الليبي والتعرف على المصاعب والعقبات الداخلية والخارجية التي تواجه مجالس الإدارة في ممارسة أدوارهم ومسؤولياتهم بشكل فعال.

تم تصميم هذا الاستبيان لفهم الأدوار والوظائف المنوطة بمجالس الإدارة في القطاع المصرفي الليبي وذلك في نطاق الأدوار الاستراتيجية والخدمية وكذا في الإشراف والرقابة وسوف يستغرق استكمال هذا الاستبيان من 15 الى 25 دقيقة تقريبا. سأكون ممتناً جدا إذا تمكنتم من الإجابة على جميع الأسئلة وكتابة أي تعليقات إضافية متعلقة بموضوع البحث في الصفحة الأخيرة من الاستبيان.

هذا البحث سوف يكون في نطاق إطار العمل الأخلاقي الذي وضعته جامعة "نوتنغهام ترنت"، وكذلك اتفاقية المحافظة على السرية وعدم الكشف عن المعلومات التي تعتبر ضرورية من قبل المصارف المشاركة في البحث. ولقد تم اتخاذ إجراءات المحافظة على السرية والخصوصية للمشارك وعدم الكشف عن هويته على محمل الجد في هذا البحث حيث أن البيانات التي يتم جمعها سيتم حجب هوية أصحابها وإخفاؤها وحفظها في مكان آمن. كما أن أي معلومات تعطى سوف تستخدم فقط لعملية البحث وسريتها مكفولة من الباحث. وسأكون ممتناً جدا إذا تمكنتم من استكمال هذا الإستبيان وإعادته لي في أسرع وقت ممكن.

إن تعاونكم في استكمال هذا البحث يحظى بخالص التقدير، وشكرا جزيلا مقدما على دعمكم وتعاونكم.

أشكركم مرة أخرى على مساعدتكم وتفضلوا بقبول فائق الاحترام مني.

عبد الله محمد خليفة شلبة

باحث دكتوراه في جامعة "نوتنغهام ترنت" – بريطانيا.

البريد الالكتروني: abdalla.shalba@ntu.ac.uk
هاتف / ليبيا: 00218913152742 / 00218912130560
هاتف / بريطانيا: 00447577667079

# استبيان

## القسم الأول: معلومات عامة

1.1. من فضلك حدد القطاع الذي ينتمي إليه المصرف التي تعمل به من بين القطاعات التالية؟ الرجاء وضع علامة (√) بالمكان المناسب.

| قطاع عام | قطاع خاص | قطاع ليبي أجنبي مشترك |
|---|---|---|
| | | |

1.2. ما هو موقعك الوظيفي؟ الرجاء وضع علامة (√) بالمكان المناسب

| عضو مجلس إدارة | رئيس تنفيذي أو مدير عام الاول (مثلا: ادارة المالية و الحسابات..و غيره) | إدارة المراجعة الداخلية | عضو تنفيذي لجنة المجلس (مثل الترقيات أو لجنة المكافآت...و غيرة) | سكرتير مجلس الإدارة | إدارة البحث والتطوير |
|---|---|---|---|---|---|
| | | | | | |

1.3. أعلى شهادات تعليمية تحصلت عليها. الرجاء وضع علامة (√) بالمكان المناسب

| أقل من درجة البكالوريوس | شهادة جامعية | ماجستير | دكتوراه | أخرى |
|---|---|---|---|---|
| | | | | |

إذا كان اختيارك على شهادة أخرى فيرجى تحديدها ..........................................................

1.4. من فظلك حدد مجال تخصصك العلمي :

| محاسبة | مصارف | ادارة اعمال | اقتصاد | قانون | مالية | اخري الرجاء التحديد |
|---|---|---|---|---|---|---|
| | | | | | | |

1.4.1 من فضلك بين مدة الخبرة في العمل في هذا التخصص (بما في ذلك الوظائف السابقة)

| اقل من 5 سنوات | من 5 سنوات الي 10 سنوات | من 11 سنوات الي15 سنه | اكثر من 15 سنة |
|---|---|---|---|
| | | | |

1.5. يرجى تحديد الجنس ...................... أنثى □ ذكر□

## القسم الثاني: تصورات عامة لحوكمة الشركات ودور مجالس الإدارة:

2.1 . المفهوم العام لحوكمة الشركات :التالي هو عبارة عن مجموعة من المفاهيم العامة لحوكمة الشركات. الرجاء تحديد إلى أي مدى تتوافق أو لا تتوافق معها فيما يتعلق ببيئة الأعمال الليبية:

| يرجى وضع دائرة حول الرقم المناسب: 1= غيرموافق بشدة 2= غير موافق 3= محايد 4= موافق 5 = موافق بشدة | | | | | | |
|---|---|---|---|---|---|---|
| 1 | حوكمة الشركات هي عملية الأشراف والرقابة بهدف التأكد من أن إدارة الشركة تعمل وفق مصلحة المساهمين. | 1 | 2 | 3 | 4 | 5 |
| 2 | حوكمة الشركات ليست معنية بإدارة أعمال الشركة في حد ذاتها، ولكن إعطاء التوجيه العام للشركة بهدف الإشراف والرقابة على أعمال السلطة التنفيذية وتلبية التطلعات المشروعة للمساءلة والتنظيم. | 1 | 2 | 3 | 4 | 5 |
| 3 | حوكمة الشركات هي مجموعة الأنشطة التي تشكل اللائحة الداخلية للأعمال والامتثال للالتزامات التي تفرضها التشريعات على الشركة عن طريق الملكية والسيطرة، وهي تشمل السيطرة على الأصول وإدارتها. | 1 | 2 | 3 | 4 | 5 |
| 4 | حوكمة الشركات هي العلاقة بين المساهمين وشركاتهم والطريقة التي يتصرف بها المساهمون لتشجيع أفضل الممارسات (مثلاً، عن طريق التصويت في الجمعية العمومية، اللقاءات الدورية مع كبار المدراء). بالإضافة الي ذلك، النشاط الذي ينطوي عليه قيام أحد المساهمين أو مجموعة من المساهمين بإحداث تغيير ما في الشركة. | 1 | 2 | 3 | 4 | 5 |
| 5 | حوكمة الشركات هي القواعد والعمليات والثقافات والأنظمة التي تولد عملية الإدارة الناجحة للشركة. | 1 | 2 | 3 | 4 | 5 |
| 6 | حوكمة الشركات هي النظام الذي من خلاله تُدار وتُوجه الشركة ويُسيطر عليها. | 1 | 2 | 3 | 4 | 5 |

2.2. هل يصدر مجلس إدارة مصرفكم بيانا واضحا فيما يتعلق بالمهام والمسؤوليات؟ نعم □ لا □

2.3. وفقا لبحث أجري مؤخرا، التالي هو عبارة عن مجموعة من الأدوار المبدئية لمجلس الإدارة التي تم تحديدها. أي هذه الأدوار (إن وجدت) يتبنى مجلس إدارة مصرفكم بشكل أساسي؟ يرجى الإشارة إلى درجة الاتفاق / عدم الاتفاق مع العبارات التالية وذلك بوضع دائرة حول الرقم المناسب:

| | | | | | | |
|---|---|---|---|---|---|---|
| من فضلك، ضع دائرة حول الرقم المناسب:<br>1 = غير موافق بشدة 2= غير موافق 3= محايد 4= موافق 5= موافق بشدة | | | | | | |
| | **ما رأيك حول دور مجلس الإدارة؟** | | | | | |
| (أ) | هو مجلس للمناقشة الجادة حول جميع المسائل الهامة للمصرف | 1 | 2 | 3 | 4 | 5 |
| (ب) | هو دور سطحي: فالمدير التنفيذي هو الذي يهيمن على اجتماعات المجلس وتباين وجهات النظر بين المدراء غير مرحب به. | 1 | 2 | 3 | 4 | 5 |
| | **ماذا يفعل مجلس الإدارة؟** | | | | | |
| (أ) | مجلس يحدد أهداف البنك وسياسة المجلس، في حين يتم إعداد الاستراتيجية الشاملة من قبل الإدارة العليا. | 1 | 2 | 3 | 4 | 5 |
| (ب) | يشارك المجلس في تطوير وتحديد استراتيجية البنك. | 1 | 2 | 3 | 4 | 5 |
| (ج) | المجلس يتحكم في أداء البنك. | 1 | 2 | 3 | 4 | 5 |
| (د) | المجلس يراقب سلوك الرئيس التنفيذي وكبار المديرين (السلطة). | 1 | 2 | 3 | 4 | 5 |
| (هـ) | المجلس مراقبة تنفيذ الاستراتيجية المعتمدة. | 1 | 2 | 3 | 4 | 5 |
| (و) | المجلس تعزيز سمعة الشركة. | 1 | 2 | 3 | 4 | 5 |
| (ز) | المجلس إقامة اتصالات مع البيئة الخارجية. | 1 | 2 | 3 | 4 | 5 |
| (ح) | يوفر المجلس النصح والمشورة للمديرين التنفيذيين للمجلس. | 1 | 2 | 3 | 4 | 5 |

2.4 الرجاء حدد درجة موافقتك أو عدم موافقتك مع المؤثرات التالية التي يمكن أن تؤثر و تعيق أدوار ومسؤوليات أعضاء مجلس الإدارة؟

| | | | | | | |
|---|---|---|---|---|---|---|
| من فضلك ضع دائرة حول الرقم المناسب:<br>1= غير موافق بشدة 2= غير موافق 3= محايد 4 = موافق 5 = موافق بشدة | | | | | | |
| 1 | الخبرة والخلفيات التعليمية من مديري يمكن أن تؤثر على المجلس لاتخاذ القرارات السليمة وتؤثر أدوار المجلس | 1 | 2 | 3 | 4 | 5 |
| 2 | ضعف الشفافية والإفصاح وعدم وجود أنظمة والإجراءات التي تحكم أنشطة المجلس | 1 | 2 | 3 | 4 | 5 |
| 3 | تكوين غير لائق من مجلس الإدارة وتفتقر إلى دور مدير غير تنفيذي | 1 | 2 | 3 | 4 | 5 |
| 4 | هيكل الملكية ودور كبار المساهمين | 1 | 2 | 3 | 4 | 5 |
| 5 | أسلوب القيادة الرئيس والدور المزدوج الذي تلعبه نفس الشخص في منصب الرئيس التنفيذي ورئيس مجلس الإدارة. | 1 | 2 | 3 | 4 | 5 |
| 6 | الثقافة ليبيا والدين تؤثر الأدوار BOD | 1 | 2 | 3 | 4 | 5 |
| 7 | مستوى التحضير لاجتماعات مجلس الإدارة وتوفير المعلومات في الوقت المناسب ذات الصلة لمجلس الإدارة | 1 | 2 | 3 | 4 | 5 |
| 8 | اختيار أعضاء مجلس الإدارة | 1 | 2 | 3 | 4 | 5 |

## 2.5 تصور عام للآليات الداخلية لحوكمة الشركات بهدف تعزيز كفاءة وفاعلية مجالس الإدارة بالمصارف الليبية.

في الأدب المحاسبي وُجد في الكثير من الدراسات أن آليات حوكمة الشركات تسهم في تحسين فعالية مجالس الإدارة. حدد إلى أي مدى تتفق أو لا تتفق مع كون الإجراءات الآتية يمكنها أن تحسن من فعالية مجالس الإدارة في المصارف الليبية.

| من فضلك، ضع دائرة حول الرقم المناسب: 1= غير موافق بشدة 2= غير موافق 3= محايد 4 = موافق 5 = موافق بشدة | | | | | | |
|---|---|---|---|---|---|---|
| 1 | ينبغي أن يفصل المجلس بين أدوار كل من رئيس مجلس الإدارة والرئيس التنفيذي. | 1 | 2 | 3 | 4 | 5 |
| 2 | ينبغي على المجلس أن يعقد اجتماعات دورية لمجلس الإدارة أن يوفر المعلومات الدقيقة ذات الصلة للأعضاء في الوقت المناسب وبشكل متزامن. | 1 | 2 | 3 | 4 | 5 |
| 3 | وينبغي أن يكون أعضاء مجلس الإدارة مؤهلين بشكل أفضل وأن يعتمدوا مدونات قواعد السلوك للمديرين. | 1 | 2 | 3 | 4 | 5 |
| 4 | يجب أن يكون على ذمة أعضاء مجلس الإدارة نسبة عالية من المديرين الخارجيين المؤهلين ممن سيكرسون وقتا كافيا لمسؤولياتهم. | 1 | 2 | 3 | 4 | 5 |
| 5 | يجب أن يكون للمجلس نسبة عالية من الأسهم مملوكة من قبل أعضاء مجلس الإدارة (تركيز الملكية) لتكون أكثر قدرة على السيطرة. | 1 | 2 | 3 | 4 | 5 |
| 6 | وينبغي أن يكون مجلس موسعا. | 1 | 2 | 3 | 4 | 5 |
| 7 | ينبغي أن يطالب أعضاء مجلس الإدارة بالإفصاح عن أية مصالح مادية في المعاملات أو الأمور التي تؤثر على الشركة. | 1 | 2 | 3 | 4 | 5 |
| 8 | يجب إنشاء مجلس لجنة التدقيق، ولجنة الأجور والترشيح، مع خبرة كافية في مجال المحاسبة والمراجعة و/أو التمويل، والذين لديهم اجتماعات متكررة. | 1 | 2 | 3 | 4 | 5 |
| 9 | وينبغي على أعضاء المجلس أن يضمنوا عملية الإفصاح عن المعلومات بطريقة مناسبة وأن يؤخذ في عين الاعتبار مصالح المساهمين وأصحاب المصالح عند اتخاذ القرارات. | 1 | 2 | 3 | 4 | 5 |
| 10 | يجب على أعضاء مجلس الإدارة أن يعملوا بمبدأ العلم التام وبنية حسنة. | 1 | 2 | 3 | 4 | 5 |
| 11 | يجب على مجلس الإدارة أن يعين لجان التدقيق وينبغي على الرئيس التنفيذي ألا تكون لجان الأجور والترشيح من صلاحياته. | 1 | 2 | 3 | 4 | 5 |

## الجزء الثالث: هذا الجزء يتعلق بالمدير التنفيذي فقط:

3.1. هل الرئيس التنفيذي عضو في مجلس الإدارة؟ نعم □ لا □

3.2. كم عدد أعضاء مجلس الإدارة في المصرف؟ ......................أنثى ☐ ذكر ☐

3.3. كم هو عدد المدراء التنفيذيين؟........................................................ ......... ☐

3.4. كم هو عدد المدراء غير التنفيذيين (المستقلين)؟ ........................................................ ☐

3.5. هل دور رئيس مجلس الإدارة منفصل عن دور المدير التنفيذي في المصرف؟ نعم □ لا □

3.6. هل رئيس مجلس إدارة المصرف غير تنفيذي (مستقل)؟ نعم □ لا □

3.7. هل يصدر المصرف بيان واضح ورسمي يبين فيه أدوار ومسؤوليات وسلطات كل من:

(أ) رئيس مجلس الإدارة نعم □ لا □

(ب) المدير العام / المدير التنفيذي نعم □ لا □

(ت) المدراء التنفيذيين نعم □ لا □

(ث) المدراء غير التنفيذيين (المستقلين) نعم □ لا □

3.8. كم عدد اجتماعات مجلس إدارة المصرف خلال السنة؟ الرجاء وضع علامة (√) بالمكان المناسب:

| أقل من 4 مرات | من 4 الى 8 مرات | أكثر من ثماني مرات |
|---|---|---|
| | | |

إذا كان عدد المرات أكثر من ثمانية، يُرجى تحديد العدد.........................................................

3.9. كم هو متوسط عدد المدراء الذين يحضرون اجتماعات المجلس؟ الرجاء وضع علامة (√) بالمكان المناسب:

| %59-50 | %69-60 | %79-70 | %89-80 | %100-90 |
|---|---|---|---|---|
| | | | | |

3.10. هل لدى مجلس الادارة أي من اللجان الفرعية الآتية؟ إن كان الجواب بنعم، من فضلك حدد تكوين اللجان :

| رقم | اللجان | نعم | لا | كم عدد الأعضاء التنفيذين؟ | كم عدد الأعضاء غير التنفيذين؟ | هل رئيس اللجنة تنفيذي؟ | هل رئيس اللجنة غير تنفيذي؟ |
|---|---|---|---|---|---|---|---|
| 1 | المراجعة | | | | | | |
| 2 | المكافئات | | | | | | |
| 3 | التعيينات | | | | | | |
| 4 | التنفيذية | | | | | | |
| 5 | أخرى | | | | | | |

إذا كان اختيارك على أخرى (مثلا: اللجنة الاستثمارية، اللجنة الشرعية (شريعة)، لجان الأزمات (المخاطر) أو الاستراتيجيات... الخ) من فضلك حدد: ..........................................................................................

3.11. كيف تم اختيار المدراء غير التنفيذيين (المستقلين)؟ من فضلك اختر واحدة فقط:

| مجلس الإدارة | المدير التنفيذي | المساهمين | آخر، من فضلك حدد |
|---|---|---|---|
| | | | |

3.12. كيف كان ترشيح أعضاء مجلس الإدارة؟ من فضلك اختر واحدة فقط:

| مجلس الإدارة | المدير التنفيذي | المساهمين | آخر، من فضلك حدد |
|---|---|---|---|
| | | | |

3.13. كيف كان اختيار/تعيين الرئيس التنفيذي؟

| مجلس الإدارة | المدير التنفيذي | المساهمين | آخر، من فضلك حدد |
|---|---|---|---|
| | | | |

في الختام، أود أن أشكركم جزيل الشكر علي تكرمكم بتعبئة هذه الاستبانة مكررا التأكيد لكم أن المعلومات التي أدليتم بها سوف تتم المحافظة على سريتها التامة.
من فضلكم، إذا كان لديكم أية ملاحظات أو تعقيبات قد تساعد في إنجاز هذا البحث فيمكنكم تدوينها أدناه:

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**ورقه معلومات عن مقابلة**

عنوان البحث:

حوكمة الشركات في ليبيا: التحقق في أدوار ومسؤوليات مجالس الإدارة في القطاع المصرفي الليبي.

اسم الباحث: عبد الله محمد خليفة شلبة

كلية الاقتصاد والأعمال

جامعة نوتنغهام ترنت بالمملكة المتحدة

المشرفين: دكتور : دونالد هاراداين دكتورة : بيترا مولتان هيل

المقدمة

اثر الأزمة الاقتصادية في دول الغرب امتدت إلي أجزاء أخرى من العالم. في البلدان المتطورة يتم التركيز على تعزيز ممارسة حوكمة الشركات, حيث أن الشركات بهذه الدول تعمل علي الرفع من أداء و كفاءة أدوار مجالس إدارتها. ومع ذلك, فان الدول التي تسعي إلي تطوير اقتصادياتها لازالت تعتبر حقل نشئ لدراسة والتحقق و ذلك لاعتبار أن الأبحاث التي أجريت فيها تعتبر قليلة مقارنة بالدول الأكثر تطورا . تعتبر ليبيا هي أحدي هده الدول التي يلعب فيها القطاع المصرفي دوراً متزيداً الأهمية في النمو الاقتصادي. علية فان الهدف الرئيسي من هذا البحث إلى فحص الممارسات والادوار والمسؤوليات لمجالس الإدارة في القطاع المصرفي الليبي و التعرف علي المصاعب والعقبات الداخلية والخارجية التي تواجه مجالس الإدارة في ممارسة أدوارهم ومسؤولياتهم بشكل فعال.

هذا البحث سوف يكون في نطاق إطار العمل الأخلاقي الذي وضعته جامعة نوتنغهامترنت بالمملكة المتحدة ، وكذلك اتفاقية المحافظة على السرية وعدم الكشف عن المعلومات التي تعتبر ضرورية من قبل المصارف المشاركة في البحث. ولقد تم اتخاذ إجراءات المحافظة على السرية والخصوصية للمشاركوعدم الكشف عن هويته على محمل الجد في هذا البحث حيث أن البيانات التي يتم جمعها سيتم حجب هوية أصحابها و إخفاؤها وحفظها في مكان آمن. كما أن أي معلومات تعطى سوف تستخدم فقط لعملية البحث وسريتها مكفولة من الباحث.

المشاركة في البحث طوعية غير مدفوعة الأجر, ستجري المقابلة في وقت ومكان يتناسب مع ظروف المشاركين ولفترة 45 دقيقة تقريبا, و مع ذلك سيكون للمشارك الحرية في تمديد الوقت و التوسع في الحديث حول موضوع البحث وأفكار ذات العلاقة. سيتم استخدام إجابةالمشترك وذلك بذكر منصبهالوظيفي ولن يتم تضمين أي أسماء شخصية في الدراسة. كذلك ان كان هناك أي أسئلة لا يفضل المشارك الإجابة عليها أو لا يشعر بالارتياح إذا أجابه عليها، فيمكن للمشارك الحق في أن يطلب وقف استمرار المقابلة أو اجتياز ذلك السؤال إلى سؤال أخري. الانسحاب من المشاركة لن يؤثر علي المشارك أو علي مصرفه و من حق المشارك أن يراجع أو يسحب البيانات التي تم جمعها قبل تسليم النهائي للبحث. جميع مذكرات المقابلات سوف يتم حفظها في مكان آمن وعند الضرورة فإن جميع البيانات غير المعالجة مثل النصوص والملاحظات والملفات الإلكترونية سيتم إتلافها في غضون ثلاثة أشهر من انتهاء الدراسة.

من فضلك احتفظ بنسخة من نموذج موافقة قبول المشاركة و إذا كان لديك أسئلة أخرى تخص مشاركتك في المشروع من فضلك اتصل بالباحث.

أن تعاونكم في استكمال هذا البحث يحظى بخالص التقدير والشكر الجزيل مقدما على دعمكم وتعاونكم.

أشكركم على مساعدتكم وتفضلوا بقبول فائق الاحترام مني

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هاتف / ليبيا : 00218913152742 / 00218912130560

هاتف / بريطانيا : 00447429921037

**نموذج موافقة بقبول المشاركة**

جامعة نوتنغهام ترنت بالمملكة المتحدة

حوكمة الشركات في ليبيا: التحقق في أدوار ومسؤوليات مجالس الإدارة في القطاع المصرفي الليبي.

(يتم ملء النموذج بعد قراءة ورقة معلومات)

تفاصيل والغرض من هذه الدراسة تم شرحها لي وأنا أتفهم أن هذه الدراسة مصممة من اجل المساعدة في عملية البحث العلمي و أنها وفق الإجراءات التي تعتمده جامعة نوتنغهام ترنت بالمملكة المتحدة وذلك وفق الأتي.

قرأت وفهمت ورقة المعلومات واستمارة الموافقة هذه.

توفرت لي الفرصة لطرح أسئلة حول مشاركتي.

أتفهم أني أساهم في هذا البحث بدون ضغط أي التزامات.

أتفهم أن لدي الحق بالانسحاب من الدراسة في أي مرحلة لأي سبب والحق في عدم شرح أسباب الانسحاب.

أتفهم أن جميع المعلومات التي أدلي بها سوف يتم التعامل معها بثقة و بكامل السرية ويتم حفظها بشكل سري من قبل الباحث وعدم الكشف عن هوية أصحابها ما عدا (تحت ضغوط طارئة من الجامعة التي ينتمي لها الباحث).

أنا أوافق على المشاركة في هذه الدراسة.

اسم المشارك : ______________________

توقيع المشارك:______________________

التاريخ:______________________

أسم الباحث: عبدا لله محمد خليفة شلبة

توقيع الباحث:______________________

التاريخ:______________________

**اسئلة المقابلة**

1. ماذا تفهم من معنى مصطلح " حوكمة الشركات
2. كيف تراقب أداء المصرف؟.
3. أعطي وجهة نظرك في كيفية عمل وتكوين مجلس الإدارة، وبأي طرق يمكن توسيع أو تقليص أدوار المجالس؟ هل ينفع كتابة مخطط مفصل حول مسؤوليات المجالس؟
4. ماذا يفعل مجلس الإدارة ( وظيفة المجلس)؟
5. في أي مجال قيد المناقشة يتعامل معه مجلس الإدارة بشكل فعال؟ ناقش التالي (كيف) :

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| 1 | مجلس يحدد أهداف البنك وسياسة المجلس، في حين يتم إعداد الاستراتيجية الشاملة من قبل الإدارة العليا. |
| 2 | يشارك المجلس في تطوير وتحديد استراتيجية البنك. |
| 3 | المجلس يتحكم في أداء البنك. |
| 4 | المجلس يراقب سلوك الرئيس التنفيذي وكبار المديرين (السلطة). |
| 5 | المجلس مراقبة تنفيذ الاستراتيجية المعتمدة. |
| 6 | المجلس تعزيز سمعة الشركة. |
| 7 | المجلس إقامة اتصالات مع البيئة الخارجية. |
| 8 | يوفر المجلس النصح والمشورة للمديرين التنفيذيين للمجلس. |

6. هل توافق على أن أعضاء مجالس الإدارة في ليبيا يفهمون ويلتزمون بأدوارهم ومسؤولياتهم؟ إذا كان الجواب نعم فهل يمكنك تقديم مثال لشرح قرار شاركت فيه ويظهر فيه التزامهم؟.
7. أي نوع من المعلومات تستلم عادة كونك عضو في مجلس الإدارة وكيف يمكن لمعلومات معدة للمجلس أن يتم تحسينها من حيث طريقة العرض والتوقيت أو مستوى التفصيل أو المحتوى؟
8. ما هي خدمات الأعضاء التنفيذيين والغير تنفيذيين (المستقلين) وكيف يختلف بعضهم عن بعض داخل المجلس؟.
9. كيف تجد كونك عضو بمجلس الإدارة وكونك مديرا تنفيذي في نفس الوقت؟
10. هل يعكس حجم مجلس إلا دارة ادوار و مسئوليات المجلس والي أي مدي يؤثر علي واقع عمل المصرف من ناحية الإفصاح والشفافية؟.
11. ما أهمية اللجان التالية في المصارف الليبية, لجنة المراجعة، لجنة المكافآت، لجنة التعيين، اللجنة التنفيذية و لجنة المخاطر. من فضلك حدد هيكلية و تركيبة هذه اللجان الفرعية؟..
12. كيف يتم تشكيل وتأسيس هذه اللجان؟ هل لديهم توصيات وأوامر مكتوبة و واضحة؟
13. كيف يمكن تحسين اجتماعات مجلس الإدارة من حيث العدد والتكرار الاجتماعات والمواضيع والاهتمامات؟
14. من يضع جدول أعمال مجلس الإدارة؟ وكيف؟
15. كيف يمكنك تقييم أداء المجلس و لجان مجلس الإدارة في منع التجاوزات والأخطاء ؟
16. هل تتوفر الشفافية و الواضحة للمسؤوليات بين عمل المجلس وبين عمل المدراء التنفيذيين؟ كيف ؟
17. هل دور كل من رئيس مجلس الإدارة والمدير التنفيذي منفصلين في مصرفك؟ كيف يتعامل رئيس المجلس مع المدير التنفيذي؟
18. كيف يتم تعيين واختيار أعضاء مجلس الإدارة؟ من المسئول عن الاختيار؟
19. إلى أي مدى قد تؤثر استراتيجيات المصرف في عملية الاختيار؟ على أي عوامل تبنى عملية اختيار رئيس المجلس؟
20. كيف يمكنك تقييم دور تركيبات الملكية المختلفة بمجلس الإدارة وفي تفادي سوء التصرف والأخطاء؟..................
21. كيف يري أعضاء مجلس الإدارة علاقتهم بالمساهمين؟
    أ. ما هو دور المساهمين الرئيسيين في وضع إستراتيجية المصرف؟
    ب. ما هو دور الأطراف الأجنبية في إعداد إستراتيجية المصرف؟.
22. ما هو اعتقادك ورأيك حول تأثير الثقافة والشريعة الإسلامية و النظام القانوني و السياسي (الليبية) في أداء مجلس الإدارة وتطبيق و تطوير نظام حوكمة الشركات في ليبيا؟

23. ما هو دور الشريعة الإسلامية في إعداد وتسيير إستراتيجية المصرف؟
24. ما هو اعتقادك حول تأثير تطبيق نظام المصارف الإسلامية في النظام المصرفي الليبي على أداء مجالس الإدارة؟
25. كيف يقوم أعضاء مجلس الإدارة بتفهم و تصور الشفافية والمصداقية؟
26. ما هي العوائق الداخلية والخارجية ونقاط الضعف والقصور التي تجدها عند قيامك بدورك ومسؤولياتك بشكل فعّال في مجلس الإدارة؟ حسب وجهة نظرك كيف يمكننا من تفعيل وتطوير تطبيق حوكمة الشركات في ليبيا ,ومن المسئول عن ذلك ؟
27. ماذا تعتقد كونه مهم و ضروريا لكي نحصل على مجلس إدارة فعّال؟
28. ما هي العوامل الداخلية والخارجية التي تعتقد بأنها تؤثر في أدوار ومسؤوليات أعضاء مجلس الإدارة؟
29. . كيف ترى التنوع مجلس مثل ذكر /أنثى والخبرة , تجربة تؤثر على أداء مجلس الإدارة الأدوار؟
30. هل لديك بيان واضحة بالأدوار والمسؤوليات المنوط إلي كلا من مجلس الإدارة وللجان المجلس ؟ هل يمكنني الحصول على نسخة منها إذا سمحت من فضلك؟