Corporate Governance Disclosure and Practice in Libyan Commercial Banks

Institutional Insights

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Ali. M H Elfadli

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Declaration

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Dedication

My father

Who passed away in January 2017 and who always encouraged me to keep on learning

My mother

For her ongoing prayers and support

My beloved wife

For her continuous patience, love and support

My cherished son and daughters

Mohamed, Ethar and Ayat

I hope to be the candle that lights their future

My beloved brothers, sisters and friends

For their continual support, encouragement and love

Abstract

Corporate Governance Disclosure and Practice in Libyan Commercial Banks

Along with other corporate governance principles, disclosure plays an essential role in protecting shareholders, raising corporate performance and reducing the risk of financial crises. In order to improve corporate governance disclosure, it is necessary to understand the context in which it takes place, but so far, there has been little consideration in the literature of the impact that institutions have on corporate governance disclosure and practice, especially in the Meddle East and North Africa MENA countries. This research responds to this gap by shedding light on the recent development of CG disclosure and practice in Libyan commercial banks. This sector, which plays an important role in the Libyan economy, has seen significant CG reforms in recent years; the research investigates how banks have responded to these reforms and to international corporate governance disclosure requirements.

Data for the study were collected in two stages: first from banks' annual reports and websites, and then via semi-structured interviews with key actors in the banking sector. These actors were drawn from a range of stakeholder groups having a particular interest in corporate governance. The interviews sought to investigate their perceptions of the institutions that have had/are having an impact on the development of corporate governance disclosure and practice in Libya.

The findings suggest that despite the reforms, Libyan commercial banks have responded to the corporate governance disclosure requirements to only a very limited extent, and that they disclose much less than companies in the developing countries. The main institutions influencing CG disclosure and practice in Libyan commercial banks appear to be the bureaucratic state, kinship networks, the political context and the law. The bureaucratic state, as represented in the Central Bank of Libya, has had a positive impact by enforcing regulation and supporting banks to change their practice, but other institutions have hindered progress; for example, the traditional emphasis on kinship has undermined the independence of boards and helped foster a culture of secrecy, while political instability has led banks to regard CG as a less urgent priority. Two other institution (religion and market) were shown to have no impact on the development of corporate governance disclosure and practice in Libyan society. The study gives new insights into the influence of institutions on CG disclosure and practice in one MENA country facing significant political change. It discusses the implications of these findings, including how to mitigate the negative impacts and maximize the positive ones, before offering suggestions for future research.

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List of Abbreviations

BCSB	The Basel Committee on Banking Supervision
BM	Board member
CACG	Commonwealth Association for Corporate Governance
CBL	Central Bank of Libya
CG	Corporate governance
CGLSM	Corporate Governance Libyan Stock Market
CGLBS	Corporate Governance of Libyan Banking Sector
CIPE	Centre for International Private Enterprise
EAS	Egypt Accounting Standards
EA	External Auditor
EGX	Egyptian Stock Exchange
EM	Executive Manager
NED	Non-Executive Directors
NIE	New Institutional Economics
NIS	New Institutional Sociology (NIS)
NTC	National Transitional Council
GCGF	Global Corporate Governance Forum
MENA	Middle East and North Africa
OECD	Organisation for Economic Co-operation and Development
OIE	Old Institutional Economics
OPEC	Organisation of Petroleum Exporting Countries
IAS	International Accounting Standards
ISAR	International Standards of Accounting and Reporting
IV	Investor
LAAA	Libyan Accounting and Auditing Association
LCB	Libyan Commercial Bank
LBS	Libyan banking sector
LSM	Libyan Stock Market
P	Preparer (responsible for preparing information for annual reports)
R	Regulator
S&P	Standard and Poor
T&D	Transparency and Disclosure
UNCTAD	United Nations Conference on Trade and Development

Chapter 1 Introduction

1.1 Introduction

Sound corporate governance is essential within the business environment. Weak corporate governance has led to the failure of a number of companies around the world, with the result that it has become a growing matter of concern at the global level (Solomon, 2013). One of the most important principles of corporate governance is disclosure (Hawkamah & IFC, 2008; OECD, 2004); along with other practice, it plays a vital role in ensuring accountability between shareholders, directors and managers. Hawkamah & IFC (2008) argue that a lack of disclosure makes it difficult for shareholders and other stakeholders to monitor the board and managers. This is echoed in the OECD Principles (2004), which assert that the better the quality of disclosure, the less chance there is of corruption in a company or sector UNCTAD (2011) also sees corporate governance disclosure as playing an important role in ensuring markets function properly.

However, while international corporate governance codes acknowledge the importance of disclosure and practice, they ignore the impact that the domestic environment has on these principles. This is problematic, given that developing countries vary from developed countries, and indeed from each other, in terms of their institutional environment (Judge, 2009). Researchers have responded in recent decades by investigating the role the institutional environment plays in shaping corporate governance disclosure and practice (Grecco, FM Filho, Segura, Sanchez, & Dominguez, 2013; Khadaroo & Shaikh, 2007; Oliveira, Ceglia, Lima, & Ponte, 2014). This study seeks to contribute to this discussion by focusing on the impact of the institutional environment on corporate governance disclosure and practice in the Libyan banking sector, where the institutional context differs from that in both other developing and developed countries.

The banking sector was chosen for the current study as its corporate governance arrangements are set out in law (Lundgren & Catasús, 2000) and it is subject to close scrutiny by a range of stakeholders. The sector plays a significant role in the Libyan economy; not only does it account for 50% of all companies listed on the Libyan Stock Market (LSM), but it provides assistance to companies in other sectors by advancing them loans (CBL, 2009). Significant reforms have been implemented in the sector over the last decade or so, including the development of a privatization policy and the issuing of first a voluntary (in 2006) and then mandatory (in 2010) corporate governance code by the Central Bank of Libya (CBL). However, despite these reforms and the dramatic changes that have taken place in Libyan culture since the 2011 Arab Spring, very little research has been conducted into corporate governance in this or any other sector in Libya (Larbsh, 2010; Magrus, 2012; Zagoub, 2011). The few studies that have emerged indicate that CG in Libya is still in its early stages. To the best of the researcher's knowledge, no research has been conducted specifically into CG disclosure within the banking sector. This is, therefore, the focus of this thesis. The study investigates how Libyan commercial banks (LCBs) are responding to national and international CG disclosure requirements, drawing on institutional theory to investigate how the institutional context impacts on corporate governance disclosure and practice in the banking sector of a Middle East and North Africa (MENA) and developing country.

1.2 Rationale of the Study

The motivation for this study arises from the belief that understanding how corporate governance operates in emerging societies is crucial to understanding the underlying causes of financial turmoil in these societies (Mitton, 2002). As one of the Meddle East and North Africa MENA countries, Libya shares a number of cultural characteristics (e.g. language, religion and attitudes towards kinship) with its MENA neighbours that distinguish it from developed countries, and affect its approach to CG. At the same time, it differs from its neighbours in that this approach has also been shaped by the 42 years of the Gaddafi regime, and by great mineral wealth (Libya produces 1.8 million barrels of oil per day). It is both interesting and useful to understand how corporate governance operates in such a country. which has undergone so much change in recent years. Although clearly the political upheaval in Libya affects all aspects of people's lives as well as the ability of businesses to function, the role of corporate governance in assuaging difficulties and in improving the redevelopment of businesses is crucial and requires research in order to assess its effectiveness in enhancing the business environment as well as ultimately leading to societal improvements.

Another motivation for the study is a belief that there is a need to improve corporate governance, especially those aspects related to disclosure, in banks in developing countries. This need is particularly urgent in Libya's case as the government has initiated a series of reforms designed to encourage private investment by domestic and foreign shareholders, including the establishment of the LSM in 2006 and the privatization of numerous state-owned enterprises. The dramatic cultural changes that have taken place in some of the MENA countries, including Libya, as a result of the Arab Spring also make this study more important. Even before the crisis, MENA countries suffered from poor access to finance and a lack of foreign direct investment, and since January 2011, foreign direct investment and market confidence have shown further decline. More than ever, as they embark upon the post-conflict process of transition, these countries need help with corporate governance (IFC, 2015). This is especially true in Libya which, unlike its neighbours Egypt and Tunisia, has seen the Arab Spring revolution give way to war, and national division split its institutions.

There are very few studies investigating corporate governance disclosure and practice in MENA countries, especially in the banking sector, even though this sector has unique characteristics and plays a significant role in the economy of all MENA countries. To the best of the researcher's knowledge, only three studies have investigated the practice of corporate governance in general in Libya. Larbsh (2010) investigated CG practice in Libya from the stakeholder perspective, but did not focus on any one industry or corporate governance code. Magrus (2012) examined CG practice in Libyan listed companies following the introduction of the LSM's 2007 code, while Zagoub (2011) investigated how institutional pressures (as evidenced in the tendency to isomorphism) impact on CG practice in LCBs. However, even since these studies were undertaken, Libyan culture has undergone further fundamental change and more reforms have been implemented in the banking sector, including the introduction of the mandatory corporate governance code (CGLBS, 2010). No one has yet examined CG disclosure within this sector.

1.3 Research Questions

The main research question which this study addresses is:

What is the current state of corporate governance disclosure and practice in LCBs from an institutional theory perspective, giving consideration to the socio-political and economic context of Libya?

In order to investigate the various aspects of this main research question, it was broken down into the following sub-questions:

1- To what extent do LCBs adhere to the international requirements regarding CG disclosure in their annual reports and websites?

2- Is there any significant variation in CG disclosure between LCBs?

3- How do LCBs differ from companies in other developing countries in terms of their CG disclosure?

4- How have LCBs improved their CG disclosure over recent years in their annual reports and on their websites?

5- How do the key social actors perceive the development of CG disclosure and practice in LCBs?

6- What are the institutions that may be influencing this development in LCBs?

7- How do the key social actors think these institutions are impacting the development of CG disclosure and practice in LCBs?

1.4 Methodology

The study adopted a mixed methods approach to answer the research questions. The first stage of data collection involved the analysis of LCBs' annual reports and websites. Content analysis of these documents enabled the compilation of a disclosure index for LCBs, providing empirical evidence of the extent to which these banks comply with international requirements regarding CG disclosure. By examining the banks' reports and websites over a period of years, it was also possible to trace the development of CG disclosure in each bank.

In the second stage of data collection, semi-structured interviews were conducted with key actors to investigate their perceptions of CG disclosure and practice and of the institutional factors shaping this disclosure and practice in Libya in general and in the banking sector in particular. Table 1.1 shows how the research questions were addressed in the data collection process.

Table 1.1 Research questions and instruments for data collection

No	Research questions	Content & document analysis	Interviews
.1	To what extent do LCBs adhere to the international requirements regarding CG disclosure in their annual reports and websites?	Annual reports & websites	
2	Is there any significant variation in CG disclosure between LCBs?	Annual reports & websites	
3	How do LCBs differ from companies in other developing countries in terms of their CG disclosure?	Annual reports & websites	
4	How have LCBs improved their CG disclosure over recent years in their annual reports and on their websites?	Annual reports & websites	
5	How do the key social actors perceive the development of CG disclosure and practice in LCBs?		Different groups of stakeholders
6	What are the institutions that may be influencing this development in LCBs?		Different groups of stakeholders
7	How do the key social actors think these institutions are impacting the development of CG disclosure and practice in LCBs?		Different groups of stakeholders

As indicated in the table, the first four research question were addressed by analysing LCBs' annual reports and websites, while interviews were conducted with different groups of stakeholders to answer research questions 5-7.

1.5 Contributions

This thesis contributes to our knowledge by narrowing the literature gap regarding CG disclosure and practice in banking sectors in the MENA countries. There is little research in this area (Darmadi, 2013; Feldioreanu & Seriaa, 2015; Nwakama, Okereke & Arewa, 2011; Thomas & Boolaky, 2009; Union of Arab Banks, 2007); in Libya's case, there has been no study of CG disclosure and practice in the banking sector since the banking reforms and the significant change in Libyan culture. The findings of this research provide information regarding the development of CG disclosure and practice in LCBs since these changes. It is the first study to give insights into the level of CG disclosure being offered by Libyan banks, thereby allowing comparison with CG disclosure levels in other developing and developed countries.

The study thus enriches our knowledge by providing evidence of the advances that have been made in the sector in regard to CG disclosure and practice over recent years and by giving an insight into how LCBs are responding to the reforms.

The study sheds light on issues that have been neglected by previous CG disclosure and practice studies, such as the impact of the political and social context on this disclosure and practice. This opens the door for further research into CG disclosure and practice in Libya and other MENA countries. Previous CG studies (e.g.Renders& Gaeremynck, 2012; Germain, Galy & Lee, 2014; Ayuso, Rodríguez, García-Castro & Ariño, 2014; Tricker,1994; Solomon, 2013; Hart,1995; Shleifer & Vishny, 1997; Gillan & Starks, 1998; Clement, 2005; Luoma & Goodetein ,1999; Dittmar, Mahrt-Smith &Servaes, 2003, Mayer &Solomon, 2006; Ezzamel & Willmott,1993) have mostly considered CG from the perspective of economic theories such as stewardship theory, agency theory, stakeholder theory and transaction cost theory and have largely ignored the impact of cultural context on the development of CG. Since the emergence of the institutional perspective, more researchers have sought to take a broader view of CG and to pay greater attention to the network of relationships between companies, stakeholders and society, and the influence on CG of institutional and legal factors (Davis & Useem, 2002). However, the majority of these studies have been conducted in developed countries, which differ significantly from developing countries in both culture and economy. This study addresses this gap by investigating CG disclosure and practice from the perspective of institutional theory and providing evidence from a context whose institutional environment differs in key ways from those in both developed and other developing countries. It explores the institutions that form this environment and demonstrates how they impact and shape CG disclosure and practice in LCBs.

Finally, the findings of the research have policy implications for those regulators and policy makers in Libya who are concerned with CG disclosure and practice in LCBs. The analyses of CG disclosure and practice in LCBs and of stakeholder responses suggest steps policy makers can take to improve practice not just in the banking sector but across Libya's business environment as a whole.

1.6 The Structure of the Study

This thesis is divided into nine chapters. Chapter Two discusses corporate governance in general terms, including its importance in the banking sector, before focussing specifically on the disclosure requirement. It reviews the existing literature pertaining to CG disclosure and practice in the banking sectors of MENA countries generally and then in Libya, showing how the research questions address the literature gap.

Chapter Three presents an overview of the Libyan environment, including the political, economic, religious and cultural context. This context is important as it provides the framework within which the observations of this study should be interpreted and understood. The chapter discusses Libya's uniqueness among its Arab Spring neighbours before describing the development and current structure of the LBS and providing a critical review of CG initiatives undertaken so far. The discussion gives a holistic picture of how the CG principles, including those governing disclosure and transparency, are accommodated within Libya's current legislative/regulatory framework, including any points of difference between Libya's various CG codes and between Libya's framework and those in developed countries.

Chapter Four presents the theoretical framework of the study. The chapter discusses the traditional theoretical approaches to corporate governance and disclosure before focusing on institutional theory, the theory adopted in this study. The chapter introduces the main institutions that may have an impact on CG disclosure and practice: the bureaucratic state, religion, kinship, the market, politics and the law.

Chapter Five introduces the methodology and methods that were used in the research. It discusses the chosen research philosophy (critical realism), justifies the choice of the mixed methods approach and introduces the data collection methods, explaining their relationship to the research questions. The chapter describes how data were retrieved by reviewing companies' annual reports and websites over several years (addressing research question1, 2,3 and 4), and by interviewing key social actors (addressing research question 4,5 and 6).

Chapter Six presents the findings from the analysis of LCBs' annual reports and websites. Drawing on each bank's most recent available annual report and/or website, it provides a descriptive analysis of CG disclosure performance across the sample as a whole and identifies the level of disclosure in each of the information categories in the ISAR benchmark. This gives an initial picture of recent practice in Libyan commercial banks and the factors that may be shaping this practice. The chapter then compares the disclosure performance of LCBs with that of companies in other developing countries, before analysing the individual disclosure performance of eleven of the sixteen banks, as revealed in websites and annual reports published over the last ten years.

Chapter Seven presents the findings from the semi-structured interviews. These include the interviewees' views on the recent development of corporate governance disclosure and practice in LCBs and their current performance in the ISAR categories, and their perspectives on the institutional factors shaping the emergence and development of CG disclosure and practice in Libya.

Chapter Eight discusses the findings in the context of the existing literature, concluding that the results are broadly in line with those of other corporate governance studies conducted in developing countries and that they provide the most up-to-date picture we have of recent improvements in CG disclosure and practice in Libya.

Finally, Chapter Nine summarizes the findings of the study and highlights how it contributes to existing knowledge. The chapter considers the theoretical and practical implications of the findings before discussing the limitations of the research and offering suggestions for future study.

Chapter 2 Literature Review

2.1 Introduction

This chapter provides a review of the current literature on corporate governance disclosure and practice. It focuses on six main areas: defining corporate governance and exploring its importance (and the importance of disclosure and transparency) in the banking sector; reviewing the empirical literature relating to the development of corporate governance in the banking sectors of developed, developing and MENA countries; and identifying the literature gap in regard to CG disclosure and practice and explaining how this is addressed in this research.

The chapter is organized as follows. Section 2.2 discusses the various ways in which corporate governance has been defined and considers its importance. Section 2.3 then focuses on its importance specifically within the banking sector. Section 2.4 reviews the empirical literature relating to the emergence of corporate governance in developed countries (the UK and the US), while section 2.5 discusses its emergence in developing countries. CG disclosure and transparency requirements are presented in section 2.6, and the importance of CG disclosure and transparency is discussed in section 2.7. Section 2.8 reviews the empirical literature relating to corporate governance disclosure in the banking sector, while section 2.9 reviews the literature focusing specifically on MENA countries and section 2.10 examines the few studies that address corporate governance disclosure and practice in Libya. Section 2.11 offers a brief concluding discussion.

2.2 Definitions of Corporate Governance

Corporate governance has been defined in several different ways. These definitions can be either narrow or broad in focus, depending on the viewpoint of the policy maker, practitioner, researcher or theorist concerned (Solomon, 2013). Those taking the narrow view see corporate governance as simply a mechanism to ensure that management acts to maximize the wealth of the company's shareholders. Thus Keasey, Thompson & Wright (1997) assert: *"In its narrowest sense, the term may describe the formal system of accountability of senior management to the shareholder"* (p.2). Shleifer & Vishny (1997) define corporate governance as the *"ways in which suppliers of finance to corporations assure themselves of getting a return on their investment"* (p.737).

However, critics of this narrow view argue that corporations are not just accountable and responsible to shareholders but to all stakeholders. The Hampel Report (1998) extends the notion of corporate governance to take into account the interests of all constituencies (stakeholders) with a relevant interest in the company's business, while the Organisation for Economic Co-operation and Development (OECD, 2004) states that:

> *"Corporate governance involves 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"* (p.11).

Monks & Minow (2008) define corporate governance as: *"the relationship among various participants in determining the direction and performance of corporations" (*p.9). Solomon (2013) argues that under the broadest definition, companies are considered accountable to the whole of society, future generations and the natural world. Thus, she defines corporate governance as: "*the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity"* (p.17).

Broadening the perspective even further, institutional research has taken a more holistic view of corporate governance, seeing it as a configuration of interdependent elements (Beatty & Zajac, 1994) from within and outside the company. As Fiss (2008) explains: *"Corporate governance systems themselves are embedded in larger institutional and legal frameworks, and … effective practices are highly contingent on the institutional environment in which corporations and their stakeholders are embedded"* (p.390). Similarly, Williamson (2000) recognizes that corporate governance is embedded in wider society, while North (1990) argues that corporate governance can be seen as an institutional matrix that determines both the roles played by key actors and the corporation's goals. This more institutionally-oriented definition is the one adopted in this study.

2.3 The Importance of Corporate Governance in the Banking Sector

The nature of the banking sector can make corporate governance more problematic than in other sectors. Firstly, the information asymmetry between insider and outsider stakeholders is greater in banks than in other organisations. This can make banks seem more opaque and lead to agency problems; equity and debt holders may find it difficult to control managers who may be more concerned with furthering their own interests than with increasing value, while bidders are unlikely to exert enough control to develop governance significantly. Secondly, the strict regulation to which banks are subject can itself adversely affect CG practice; reassured by the presence of this regulation, stakeholders may make monitoring the bank less of a priority, leaving the way open for managers to take risks. Finally, unlike the industrial sector, the banking sector's monopolistic nature means there is less competition, which also negatively impacts on corporate governance. State ownership in particular significantly shifts the balance of power when it comes to CG (Caprio & Levine, 2002).

Addressing these challenges is crucial because effective corporate governance is essential in banks, especially in developing countries, where financial markets tend to be undeveloped. In these countries, banks are usually corporations' main source of finance. They are also the major depositories for government funds, being generally state-owned (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2000). In a government-owned bank, the potential for conflict between depositors and managers increases or decreases according to the credibility of the government, since it is the government that ultimately guarantees deposits; a credible government and political stability will reduce the likelihood of such clashes (Arun & Turner, 2004). The main cause of CG problems in these banks is when the interests of managers conflict with those of the government (ibid).

In recent years, many developing countries have begun liberalizing their banking sector, privatizing banks and reducing economic regulation. While this has given managers greater freedom in how they run their banks (Arun & Turner, 2004), it has also raised problems. The high incidence of domination by family owners, for example, opens the door to the abuse of power by insiders at the expense of outsiders. More generally, both public and private banks in developing countries tend to be less transparent and informative than their counterparts in developed economies (Caprio& Levine, 2002). They also tend to lack deposit insurance schemes (Caprio& Levine, 2002; Levine, 2004). There are thus compelling reasons for focusing on corporate governance in this crucial sector.

2.4 The Development of Corporate Governance in Developed Countries

Concern about corporate governance in developed countries started in 2001 with the collapse of Enron, one of America's largest companies. The ensuing scandal focused international attention on the role of corporate governance in preventing company failure. The UK and US responded by strengthening their corporate governance frameworks, with the UK issuing the Combined Code of Corporate Governance in 2003 and the US promulgating the Sarbanes-Oxley Act in 2002. The next sections discuss the historical development of corporate governance in these two countries.

2.4.1 Development of Corporate Governance in the UK

The development of corporate governance in the UK has historically been driven primarily by high profile financial failures (Mallin, 2007), starting with the South Sea Bubble in 1720, which prompted the government of the day to introduce reforms designed to protect investors (Dragomir, 2008). More than two centuries later, in the early 1990s, several high profile collapses led many to question the reliability of financial reporting and the audit function in the

UK (Dulewicz, 2004). In an effort to restore investors' confidence in the system, a series of major CG reforms were implemented (Arcot & Brun, 2006), the first of these being the issuing of the Cadbury Report in 1992. This gave significant attention to financial reporting and accountability, identifying three main mechanisms of corporate governance: the board of directors, shareholders and auditors (Solomon, 2013). The Cadbury Report was followed in 1995 by the Greenbury Report, which aimed to respond to shareholders' concerns about director remuneration and board structure (Mallin, 2007). In 1998, the Hampel Report was issued, reviewing the extent to which the recommendations of the Cadbury and Greenbury committees had been implemented. This was followed in 2003 by the Combined Code (Dragomir, 2008), which drew together elements from the Cadbury, Greenbury and Hampel reports, along with recommendations issued by the London Stock Exchange (Keasey, Thompson & Wright, 2005).

2.4.2 Development of Corporate Governance in the US

The concept of corporate governance emerged in the US between 1929 and 1933 in the wake of the great stock market collapse. This collapse was the result of market manipulation, internal trafficking, mismanagement and companies' reckless violation of the rights of shareholders. In response, the US government issued the Securities Act 1933 and the Securities and Exchange Act 1934 (Clarke, 2004). Despite these measures, 2001 saw several companies and banks collapse in the US, including Enron and WorldCom and the smaller Tyco and Aldephia (Holmstrom & Kaplan, 2003). These failures led to further significant reforms in US corporate governance and the tightening of regulation to protect shareholders. The reforms included the Sarbanes-Oxley Act (2002), which is widely considered to be the most comprehensive reform of US corporate law since the 1930s (Litvak, 2007; Solomon, 2013).

2.5 The Development of Corporate Governance in Developing Countries

Concerns about corporate governance in developing countries emerged in the late 1990s when it became apparent that poor CG in countries such as Malaysia, South Korea, Singapore, Indonesia, Taiwan and India had been a major cause of the Asian financial crisis (Kim, 1998). Researchers turning their attention to developing markets concluded that corporate governance has an essential role to play in these markets, as it has the potential to improve them by facilitating companies' access to finance, reducing the cost of capital and enhancing company performance (Claessens & Yurtoglu, 2013). Governance frameworks in developing countries such as Korea have traditionally been insider-dominated and characterized by a lack of separation between ownership and control (Kim, 1991), but Solomon, Solomom & Park, (2002) note that in Korea at least, CG systems are now becoming more open to outsiders. These authors also note the influence the local culture, values and legal framework have on the development of CG. MENA countries share many of the same cultural attributes, and there are broad similarities in terms of regulations and ownership structure. In these countries, the increased focus on corporate governance is the consequence of governmental efforts to develop national markets and attract international investors (CIPE, 2003).

2.6 CG Disclosure and Transparency Requirements

Disclosure and transparency play an important role in reducing agency problems and information asymmetry between managers and owners (Patel, Balic & Bwakira, 2002). In his definition of disclosure as: "The publication by a profit-seeking enterprise of any information relating to its activities with the hope of influencing the judgement and decisions of the users of such information", Wallace (1987, p.133) prioritizes the needs of these owners. Taking a similarly shareholder-oriented view, Abdeen (1989) says that: "Disclosure aims to make sure all material and relevant facts concerning financial position and the results of operations are communicated to users" (p.51), while Hendriksen (1982) defines it as: "The presentation of information necessary for the optimum operation of efficient capital markets" (p.504). Gibbins, Richardson &Waterhouse (1990) describe disclosure as: *"any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or informal channels"* (p.122). Cooke (1992) also highlights that it can consist of *"both voluntary and mandatory items of information"* (p.231). These may be *"provided in the financial statements, notes to the accounts, management's analysis of operations for the current and forthcoming year and any supplementary information"* (ibid).

However, as Hill & Jones (1992) explain, copanies deal with a whole range of stakeholders, all of whom have reason to be interested in the information it provides:

> *"Stockholders provide the firm with capital. In exchange, they expect the firm to maximise the risk-adjusted return on their investment. Creditors provide the firm with finance and in exchange expect their loans to be repaid on schedule. Managers and employees provide the firm with time, skills, and human capital commitments. In exchange, they expect fair income and adequate working conditions. Customers supply the firm with revenues and expect value for money in exchange. Suppliers provide the firm with inputs and seek fair prices and dependable buyers in exchange ... The general public, as tax payers, provide the firm with a national infrastructure. In exchange, they expect corporate citizens who enhance and/or do not damage the quality of life and do not violate the rules of the game established by the public through their legislative agents"* (p.133).

All of these stakeholder groups have a direct interest in knowing what the company is doing. Disclosure and transparency is an important CG mechanism (Bushman, Chen, Engel & Smith, 2004; Hawkamah & IFC, 2008; OECD, 2004) because it ensures that officers and directors are held accountable not just to shareholders but to all these stakeholders.

Recognizing the importance of the concept, the OECD Principles (2004) stipulate that: *"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"* (p.49). Countries around the world have come to the same conclusion and taken steps to improve their CG disclosure requirements. The US, for example, issued new disclosure rules in 2009 in relation to risk management, while the European Commission has changed a number of its CG disclosure requirements. Developing countries have also strengthened their CG disclosure requirements as they have become more involved in the global economy. Disclosure requirements are a key concern within the OECD Principles (2004), the EU Transparency Directive and the Commonwealth Association for Corporate Governance (CACG) Guidelines, and are a core element of national codes around the world, including South Africa's King II Report on Corporate Governance, the UK's Cadbury Report (1992) and Combined Code (2003), and the US's Sarbanes-Oxley Act (2002). In the MENA countries also, disclosure and transparency have been the focus of numerous corporate governance codes and private sector initiatives. In 2003, a regional initiative was launched by the World Bank's Global Corporate Governance Forum (GCGF), the Center for International Private Enterprise (CIPE) and local partners in Egypt, Jordan, Lebanon and Morocco to assess the state of corporate governance in selected MENA countries (Melorose, Perroy & Careas, 2015).

The OECD (2004) asserts that disclosure should include, but not be limited to: material information on the financial and operating results of the company; company objectives; major share ownership and voting rights; remuneration policy for members of the board and key executives; information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board; related party transactions; foreseeable risk factors; and governance structures and policies, especially the content of any corporate governance code or policy and how it is to be implemented. All information should be prepared and disclosed in accordance with international accounting standards and other standards for financial and non-financial disclosure. The OECD's requirements in terms of CG disclosure and transparency are discussed in more detail in section 3.4.3.

2.7 The Importance of CG Disclosure and Transparency

The importance of corporate governance disclosure and transparency has become increasingly obvious since the financial crisis, with numerous studies identifying lack of financial disclosure and inadequate supervision of directors as the main causes of the crash. This has led to more demands for regulation and tighter disclosure requirements, while accounting standards have become more complex in an effort to protect markets. There is now a general view that companies must disclose accurate and timely information to shareholders and the public regarding their financial performance, liabilities, ownership and corporate governance (Fung, 2014) so that investors (and potential investors) can accurately judge the risk and rewards associated with any investment (OECD, 2004). There is a clear relationship between disclosure and CG; information disclosure is both integral to the effective operation of all internal and external governance mechanisms and an indicator of whether these mechanisms are functioning properly (Lu & Chen, 2009). It is not surprising then that Beeks &Brown (2006) found a direct positive correlation between the level of disclosure in companies and the quality of governance. Disclosure benefits not just individual investors but also the market at large; having access to good information enables the market to evaluate a company's governance and the extent to which it reacts to shareholder needs. Not only may this uncover potential risk, but it may also give an indication of the direction of future cash flows (UNCTAD, 2011).

2.8 The Influence of Culture on Corporate Governance

Hofstede (1980) calls culture: *"The collective programming of the mind which distinguishes the members of one group or society from those of another"* (p.25). As these learned values and beliefs shape attitudes and behaviours (Hofstede, 1984), affecting how individuals communicate within and across social systems, culture plays an important role in forming the norms and values of these systems. Understanding the culture is therefore important for understanding changes in the social system (Harrison & McKinnon, 1986).

The notion that people and organisations within a system tend to behave in broadly similar ways is consistent with the institutional theory perspective which posits that behaviour is institutionalized by social values and norms (DiMaggio & Powell, 1983; Friedland & Alford, 1991; Scott, 2008). The impact of the institutional environment on CG disclosure and practice has been demonstrated in several studies. Khadaroo & Shaikh (2007) found that institutional isomorphism has an impact on corporate governance practice, while Deephouse (1996) found a link between institutional isomorphism (structures, strategies and practices) and legitimacy in the banking sector. He found that society and regulators are more accepting of banks that conform to common practice than of banks demonstrating atypical behaviour, and that older or larger banks, which tend to exert greater influence and to be more visible, are held to an even higher standard. Investigating the impact of culture on CG in Saudi Arabia, Bukhari (2014) found that while family and kinship networks have had an adverse impact on the emergence and development of corporate governance (e.g. by allowing abuses of authority and conflicts of interest to go unchecked), the bureaucratic state and religion appear to have positively influenced compliance levels. Finally, Madhani (2015), investigating the influence of the national institutional, legal and regulatory environment on firm-level corporate governance mechanisms, compared the governance and disclosure practices of MNC subsidiaries listed in

India and domestic cross-listed firms listed in the US/Europe. He found the level of disclosure to be significantly higher in the domestic cross-listed firms than in the MNC subsidiaries, which he attributed to the differences in institutional and legal environment.

2.9 Corporate Governance Disclosure in the Banking Sector

A few studies (see appendix A1) have examined corporate governance disclosure in the banking sectors of Indonesia, Nigeria, Japan and Canada, assessing the level of disclosure against local and international codes (Nwakama et al. 2011;Darmadi 2013; Feldioreanu & Seriaa, 2015; Maingot &Zeghal 2008; Thomas & Boolaky 2009). all focus specifically on this aspect of CG. All of the studies draw their data from annual reports, apart from Maingot & Zeghal (2008), who utilize annual reports and websites.

Darmadi (2013) found that large and long-established banks disclose more information than small ones, but that the latter tend to disclose more about their board members. The banks in this study disclosed least about their internal controls and external auditing. Darmadi suggests that the generally low level of disclosure may be attributable to a lack of awareness among bank managers, but Maingot & Zeghal (2008) argue that the choice to disclose and the extent of the disclosure are influenced rather by managers' strategic considerations. Their study highlights the importance of the annual report as a source of CG disclosure and concludes that as small banks tend to copy one another's corporate governance disclosure, they tend to publish almost exactly the same information.

In their Japan-based study, Thomas & Boolaky (2009) found that the extent of CG disclosure in the country's banks is influenced by a range of factors including the number of non-executive directors on the board, the level of cross-ownership, the capital adequacy ratio and auditor quality. They identify non-executive directors as having a more significant impact than either the size of the bank's total assets or external audit firms. Feldioreanu & Seriaa, (2015), meanwhile, observe that culture also has an impact on the level of CG disclosure. Their study also highlights the tendency of more profitable banks to disclose more information than less profitable institutions, though the size of the bank does not appear to have a major influence.

2.10 Corporate Governance Disclosure in MENA Countries

To date, relatively few studies only four (see appendix A2) have focused specifically on CG disclosure among companies in the MENA countries. A more general investigation of CG practice in MENA countries was conducted by the Union of Arab Banks (2007), which surveyed 67 banks across Qatar, Oman, the UAE, Yemen, Jordan and Egypt. Although this is not the prime focus, the study does look at the level of disclosure and transparency in Arab banks, finding it to be satisfactory. It observes that there is general compliance with international standards regarding external auditing, the preparation and dissemination of information, the functions of the internal audit, the regulation and rotation of auditors, board access to external auditors' reports and training programmes, the disclosure of transactions, meetings with ratings analysts and employees' remuneration schemes. However, it notes that there are weaknesses in regard to the disclosure of information concerning shareholder rights, credit risk assessment and the implications of clients' CG practices. This general trend seems to also be reflected in Al-Malkawi, Pillai & Bhatti's (2014) findings. Investigating CG practice across several Gulf countries, these authors found that companies in these countries adhere to 69% of the OECD's (2004) recommendations, with firms listed in the United Arab Emirates stock markets exhibiting the highest level of compliance, followed by those in Oman, Saudi Arabia, Qatar and Kuwait.

Samaha., Dahawy., Hussainey & Stapleton, (2012) are among the few researchers to focus specifically on CG disclosure in a MENA country – in this case, Egypt. They found that although levels of CG are minimal in Egyptian listed companies, there is a high level of disclosure for items that are mandatory under the Egyptian Accounting Standards (EASs). Socio-economic factors seem to be significant in shaping CG disclosure practice in Egypt; the study found that role duality and higher ownership concentration, as measured by block-holder ownership, are both linked to lower levels of CG disclosure, while the proportion of independent directors on the board and firm size are positively correlated with higher levels of disclosure. The study concludes that Egyptian listed companies disclose corporate governance information in order to reduce information asymmetry and agency costs and to improve investor confidence in the reported accounting information. Al-Moataz & Hussainey (2012), meanwhile, used content analysis to investigate the determinants of corporate governance disclosure in Saudi companies, finding that board independence, audit committee size, profitability, liquidity and gearing are the main determinants. In contrast to Samaha et al. (2012), they found no statistically significant association between firm size and corporate governance disclosure.

In their comparative study, Othman &Zeghal (2010) found that the colonial background of the MENA country has an impact on the level of disclosure and transparency found within its companies. They found that countries having historical links with the UK exhibit substantially higher Transparency and Disclosure T&D scores than those from countries having historical links with France. Companies operating in the information technology sector also exhibit higher levels of transparency and disclosure. Their multivariate analysis revealed that the nature of the business culture, company size and the perceived importance of intangibles all affect the level of transparency and disclosure among companies in the MENA region.

2.11 Corporate Governance Disclosure and Practice in Libya

Larbsh (2010) gave an early insight into corporate governance practice, including disclosure and transparency, in Libya, using a mix of qualitative and quantitative methods to investigate CG from the stakeholder perspective. His study provided a preliminary understanding of CG practice in the Libyan context, including the impact of cultural factors. It presents a picture of an under-developed corporate governance framework and a country that is lagging behind its neighbours. Larbsh argues that the lack of CG principles has led to weak accountability and responsibility processes in Libya: a problem that has been exacerbated by the country's opaque economic structure, outdated legal system, cultural and social norms, political interference and a lack of accounting professionalism. The weakness of the education system and low levels of stakeholder activism are also cited as factors affecting the implementation of the corporate governance framework. Among its suggestions for future research, the study points to the need to investigate the obstacles to disclosure and transparency in Libya.

Magrus (2012) subsequently investigated the nature and extent of corporate governance practice in eight listed Libyan companies following the introduction of the LSM's corporate governance code (CGLSM, 2007). Using semi-structured interviews and questionnaires, the study gathered the perceptions of senior managers and employees in finance-related positions, along with those of Libyan academics and auditors. It identified the obstacles blocking the application of the CGLSM and sought the opinions of regulators and officials on how these might be removed. The findings of the study reveal that corporate governance in Libya is still in the early stages of development; it identifies a weak legal environment, lack of knowledge about corporate governance, poor leadership, lack of training among directors and poor awareness among investors. It also highlights the influence of social, cultural and economic factors. The results suggest that urgent action is needed if a robust and effective corporate governance system is to be implemented in Libya. Magrus echoes Larbsh in arguing that further investigation is needed of CG mechanisms, including disclosure and transparency, because of their importance to Libya's economic development.

Turning to the banking sector in particular, Zagoub (2011) found that CG practice and reform in LCBs have primarily been driven by the CBL and banking legislation. Institutional pressures have had more impact on some banks than others, and banks have responded differently to these pressures. Zagoub concludes that the CBL needs to put more pressure on LCBs to improve corporate governance and to offer them greater support. However, Zagoub's study, although useful, has some important limitations. For example, in his suggestions for future research, he acknowledge the urgent need for more research into particular aspects of corporate governance such as disclosure. More importantly, he fails to consider the impact of the CBL's 2010

Corporate Governance Code for Libyan Banks (CGLBS, 2010) and how banks are responding strategically to its requirements, or the extent to which this code is relevant to the Libyan banking sector and environment and whether it was issued in response to local or institutional pressures.

Among the studies focusing specifically on disclosure, Ellabbar (2007) investigated the role of accounting disclosure in creating an efficient capital market in Libya. Ellabar drew on the International Accounting Standards (IAS) and the findings of previous studies to develop a disclosure index, with which he was able to conclude that: *"The average disclosure rate of the top 10 companies is 56% in Libya, and all the Libyan construction companies sampled had a disclosure rate of less than 80%"* (p.149). The study also found that:

> *"The information published by Libyan companies is insufficient for accurate evaluations and not available to all users on time. Most Libyan companies delay the publication of their financial statements, or if they are published, they are not audited. In addition, there are no channels available for issuing this information, such as financial magazines or newspapers"* (p.148).

Osama's (2013) investigation of transparency and disclosure in Libyan companies was comprehensive, encompassing listed and unlisted, and private and publicly owned companies across a range of sectors. He found that although the level of transparency and disclosure had demonstrated a statistically significant increase overall during the review period, it was still low compared to other countries (developed and developing) when judged using Standard and Poor's (S&P) data. He also found significant variations in disclosure levels between different types of company:

> *"Companies listed in the LSM provided more T&D than those not listed, the public sector provided more T&D than the private sector, the banking sector provided more T&D than the insurance sector and companies with audit peer reviews provided more T&D than those without. Whilst small companies provided more T&D than other companies, the variation in levels of T&D for different age groups was unclear"* (p.27).

Only two studies have addressed disclosure practice specifically in the Libyan banking sector. The first of these was conducted by Kribat (2009), who assessed the financial disclosure practices of eight banks as revealed in their annual reports. A disclosure index covering both mandatory and voluntary items was constructed to measure the extent of disclosure over the period 2000-2006, the aim being to examine the relationship between certain firm-specific characteristics (such as bank size, the age of the bank, profitability and ownership structure) and the overall level of financial disclosure. The results indicated that none of the banks in the sample had complied fully even with the mandatory disclosure requirements in any of the sample years.

The second study was conducted by Hawashe (2014). This study picked up where Kribat's left off, investigating the level of voluntary disclosure in the Libyan banking sector over the period 2006-2012. Hawashe also sought to establish whether there was any significant association between seven commercial bank-specific attributes (i.e. age of bank, size of bank, bank liquidity position, profitability, government ownership, foreign ownership and listing status) and the extent of voluntary disclosure over the review period. This study employed a disclosure index made up of 63 information items. Hawashe found that although the extent of voluntary disclosure remained low, it had increased gradually during the period of the study.

2.12 Discussion and Summary

This chapter begins by discussing the debate that surrounds how the concept of corporate governance should be defined. It offers examples of narrow and broad definitions of CG before discussing the recent emergence of a more institution-oriented interpretation of the concept. The development of corporate governance in developed and developing countries is briefly outlined, followed by its particular importance within the banking sector. The chapter then moves on to CG disclosure and transparency. This part of the chapter ends by highlighting the central importance of disclosure and transparency within CG and the impact of culture on CG.

Finally, the chapter reviews the literature addressing CG disclosure in the banking sector in developed and developing countries, including those in the MENA region. The review highlights that such studies are relatively rare, and that most of those that are conducted concentrate on developed countries. Those that are conducted in developing countries tend to focus on the practice of CG in general rather than the disclosure mechanism in particular, even though disclosure requirements feature in most local and international CG codes. Where the focus is disclosure, most seek to describe its extent, rather than to establish any link with specific theories such as institutional theory. The current study seeks to address this literature gap, and to introduce a fresh theoretical perspective, by investigating the influence of institutional factors on CG disclosure and practice in one developing country named Libya (Research question 6&7).

The review identifies that there have been few studies investigating CG in the Libyan banking sector, and that none of these address disclosure in any depth (Research question1&2). This represents an opportunity: to explore the sector in more detail so that it becomes possible firstly, to compare the disclosure performance of LCBs with that of companies in other developing countries (Research question 3) and secondly, to assess whether and how this performance has improved in recent years (Research question 4). Finally, the studies discussed above show that CG practice in Libya is still in its early stages, largely due to the weakness of the CG framework. Collectively, they point to the need for further research, but despite this, there has been no investigation of CG practice since the recent banking and CG reforms and political changes. The study therefore aims to investigate how LCBs are responding to these events in the Libyan context (Research question 5).

Chapter 3 Libyan Context

3.1 Introduction

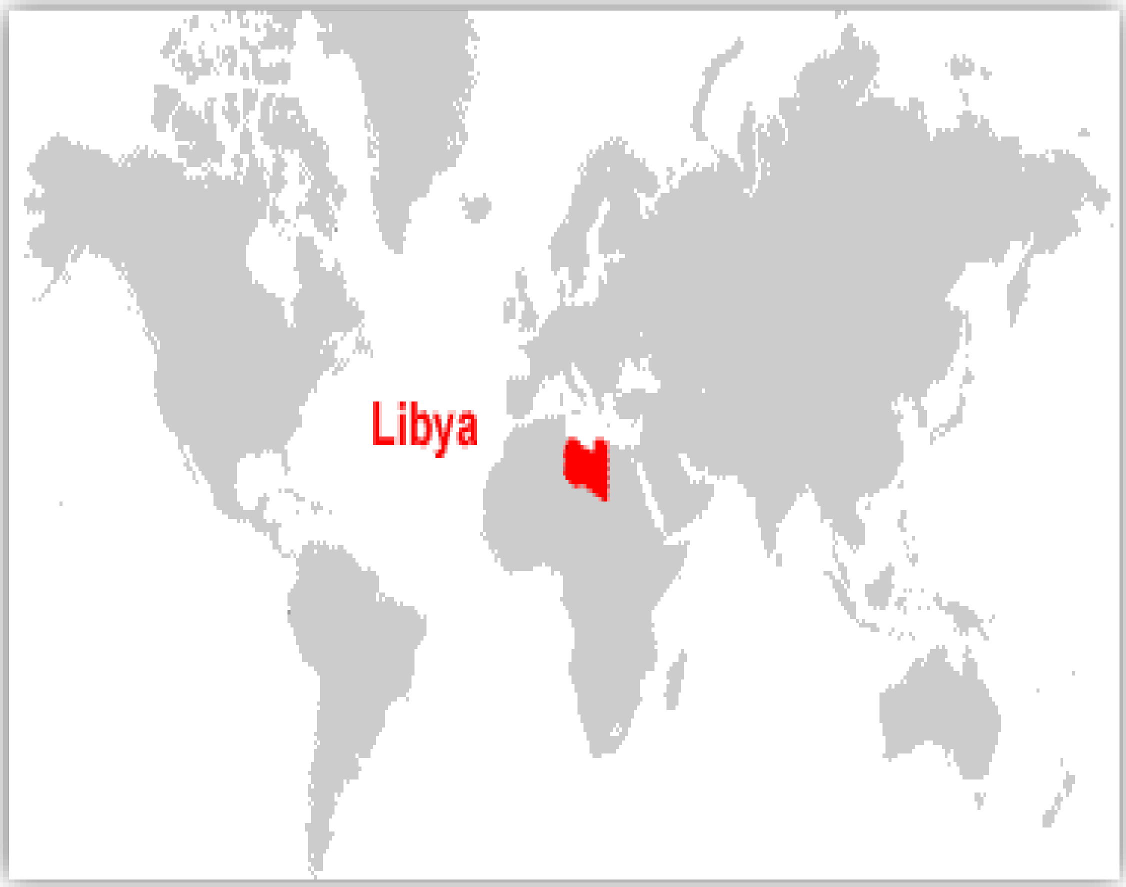
Over recent decades, researchers (e.g. La Porta, Lopez-de-Silanes, Shleifer & Vishny, 1997; La Porta, Lopez-de-Silanes, Shleifer &Vishny, 1998; La Porta, Lopez-de-Silanes & Shleifer,1999; La Porta et al. 2000). have emphasized the need to investigate the nature of corporate governance in emerging economies in order to understand what lies behind their financial instability. Researchers have argued that organisational practice is shaped by the institutional context (Feldman & Rafaeli, 2002; Peng, 2003), but that this context is often unstable in developing countries as a result of inadequate legal and regulatory frameworks (North, 1990; Young, Peng, Ahlstrom, Bruton & Jiang, 2008). Under pressure from international organisations or internal reforms, some have imported Anglo-Saxon or European systems (Young et al. 2008), but the influence of informal institutions such as family and kinship ties, business groups and government connections remains pervasive (Jiang & Peng, 2011; Peng & Heath, 1996). A lack of market institutions such as a product market, takeover market and labour market has also hindered the development of CG in these countries (Groves, Hong, McMillan, & Naughton, 1995).

Previous studies investigating CG in the Arab context have tended to assume that because they share the key cultural attributes of language and religion, these countries are broadly homogeneous. However, this overlooks the fact that Arab countries have different political systems, are located in different continents and are home to a wide variety of ethnic groups (Abubaker, 2007). These differences should be taken into account when considering institutional context. This chapter seeks to give some insight into the institutional context in Libya by giving a broad overview of the country. It briefly describes Libya's main demographic attributes, the development of its political and economic systems, and how it differs from other Arab Spring countries, before discussing the country's banking sector and the legal framework that governs it. The second half of the chapter considers how this legal framework addresses the various aspects of CG, both generally and in the banking sector in particular, and compares it with CG principles in developed countries. This discussion of the institutional environment should equip the reader with a preliminary understanding of the institutional factors shaping CG disclosure and practice in Libya's banking sector.

3.2 General Background

Located on Africa's northern coast, Libya covers a vast area of 1,760,000 square kilometres equal to the combined area of the UK, Germany and France (OBG, 2008). One of the MENA countries, Libya's position between Europe, Asia and Africa (see Figure 3.1) has made it economically valuable, and it has benefited for centuries from the trade routes that cross its borders. Much of the southern part of the country falls within the Sahara Desert. Libya has a population of almost six million (last recorded in 2006). The main language is Arabic, and Islam is the country's only religion. Libya became independent in 1952 after a long period of foreign occupation (1911-1951), but in 1969, Colonel Muammar Gaddafi overthrew the king and took control of the government, holding onto power for 42 years (Ahmad & Gao, 2004).

Figure 3.1 Map of Libya



3.2.1 Political and Economic Context

Libya's economy did not start to develop until 1959 and the discovery of oil (Bait El-Mal, Smith & Taylor, 1973). Between independence in 1952 and the military coup of 1969, the economic system was capitalist, with most commercial enterprises being privately owned. The government implemented a number of measures during this period to strengthen the economy, including enacting import and export legislation to protect local industries and establishing the Industrial and Real Estate Bank of Libya to furnish loans to local entrepreneurs and provide technical and economic services for both public and private sector organisations (Bait El-Mal et al. 1973).

However, with the military coup, things changed significantly. New policies were introduced in 1972, including changes to the administrative and legislative system, and the regime declared itself socialist and intent on devolving power to the people. Gaddafi's new system differed from both capitalism and communism in its rejection of the idea of political parties. Its main principles were set out in The Green Book, written by Gaddafi himself (US Commercial Service, 2008). In 1977, the regime announced further important changes, including the declaration of the people's authority and a change of name from the Libyan Arab Republic to the Socialist People's Libyan Arab Jamahiriya. The country's new constitution was based on the Qur'an, and political power was devolved to the people, to be exercised through the People's Congress, people's committees, syndicates, unions and professional associations.

This period saw the nationalization of foreign companies, the establishment of public-owned companies and restrictions placed on private companies. Eventually, most companies in the manufacturing sector, foreign and domestic retail trade and banking and insurance sectors came to be owned and controlled by the state (Kilani, 1988). However, once state-owned, many became inefficient, to the detriment of the overall economy. The government responded by starting to relax controls in the private sector and in 1987, it launched its liberalization strategy with the aim of converting the economic system from a planned economy to a market economy. An important step encouraging liberalization was the promulgation of Law No.8/1988 permitting the private ownership of retail businesses and small-scale manufacturing companies. This was followed in 1992 by Law No.2 permitting the sale of state property to non-governmental Libyan interests (US Commercial Service, 2008). These laws and policies played an important role in improving the economy and reducing the pressure on the government's general budget resulting from the decline in global oil prices. Another important law was established in 1997; Law No.5/1997 set out the terms upon which foreigners could invest in Libya (US Commercial Service, 2008). Finally, 1999 saw the arrival of Act No.9 allowing so-called free zones. This act also played an important role in encouraging privatization (US Commercial Service, 2008). Throughout this period, the government's chief policy aim was to engineer the transition from a directed economy to a free market by encouraging foreign investment, the development of the capital market and privatization.

By the end of 2010, the whole MENA region was experiencing dramatic changes which were having (and indeed continue to have) major impacts on these countries' politics, economies and cultures. The revolution that began in Tunisia spread to Egypt, Libya, Syria and Yemen, and the period became known as the Arab Spring. The build up to the Libyan revolution began on

15th February 2011 when protesters attacked security officers in Benghazi, demanding the release from custody of one of their members. The protesters were relatives of 1200 detainees who had been killed by the regime in an alleged prison uprising in 1996. From this initial spark, the protest spread to the city of Albida, east of Benghazi, and it was here that the first protesters were killed by the regime. On 17th February, the protests spread to Benghazi. The regime, seeking to crack down on the demonstrators, killed hundreds in four days, but it quickly lost control not just of the cities in the east but also of western cities such as Misrata, Zawiya, Zuara and Alzentan.

On the 2nd March 2011, an interim parliament, the National Transitional Council (NTC), was founded and an interim government was formed. Many countries around the world were quick to recognize the NTC as the representative authority of Libya. On 19th March, Gaddafi's army attacked Benghazi in an attempt to regain control, only to face armed resistance from the revolutionaries and bombing by NATO warplanes. After the attack, the rest of the international community gradually accepted the NTC as the sole legitimate representative of the Libyan people. On 3rd August 2011, the NTC issued the Libyan Constitutional Declaration as an interim measure pending the completion of a permanent constitution. As a result of this interim constitution, a number of existing laws were consolidated and new laws were issued. The 20th October 2011 saw the killing of Gaddafi by the revolutionaries, bringing to an end a war which had lasted for eight months. Three days later, the NTC announced that Libya had been liberated and that it was now the country's sole representative authority. On 7th July 2012, Libyans were able to vote for the first time in 42 years. Two hundred representatives were elected to form a parliament and charged with the task of managing the transition period, building state institutions and drafting a new constitution. On 20th February 2013, Libyans elected a committee of 60 members to draft a permanent constitution (at the time of writing, Libya is still being governed by the terms of the NTC's interim constitution).

3.2.2 Corruption and Instability

According to the Financial Standards Foundation (2010), corruption is a problem in Libya, despite the law against it. The severity of the issue was highlighted in 2009, when Libya was ranked 130th out of 180 countries on Transparency International's corruption perception indicator. Corruption negatively affects all of Libya's business sectors, including banking. Bribery and favouritism are common practice in all sectors, and all businesses, particularly those that are state-owned, struggle with the unfair competition that dominates the local market (GAN, 2016). The origins of this corruption may be traced back to the Gaddafi regime, where it flourished unchecked in the absence of democracy, the rule of law and a free press. This was acknowledged even by Gaddafi's own son, Seif al-Islam, who admitted: *"In all frankness and* *transparency, there is no freedom of the press in Libya; actually there is no press, even, and there is no real 'direct people's democracy' on the ground"* (Committee to Protect Journalists, 2007). Corruption worsened during the revolutionary period when the country's institutional framework was weak and the rule of law was impacted by instability and violence (GAN, 2016). At the time of writing, judicial institutions in Libya remain corrupted, while political factionalism and powerful militias are hampering the government's efforts at law enforcement.

It was expected that the Libyan Constitution Drafting Assembly would have finished the constitution by late March 2016 (Democracy Reporting International, 2016), but as of May 2017, Libya still has no permanent constitution, and the constitutional declaration issued by the NTC in 2011 remains the country's supreme legal code. Libya lacks the comprehensive legal framework it needs to tackle corruption properly, there being no general anti-corruption law. Instead, the authorities must rely on the Libyan Criminal Code and a specialized anti-corruption law. After the revolution, the NTC issued Act No.192/2010, which sets out National Standards of Integrity, but in the absence of an institutional framework capable of enforcing it, the act has made no real impact (GAN, 2016).

3.2.3 Religion

Religion has a fundamental impact in Arab countries, including Libya. It plays a main role in Libyan society, shaping the country's culture (Aghila, 2000) and influencing individuals' behaviour and relationships, not just in the private sphere but also in business. Consequently, the practice of companies and banks is also impacted by religion (Abouzkeh, 2013). All Libyans without exception are Muslims, though the more than one million foreigners living in Libya follow a range of religions including Christianity and Indo-Chinese faiths without facing any constraints (Attir& Al-Azzabi, 2004). Since achieving independence, all of Libya's constitutions have positioned Islam as the country's main religion, though the NTC's interim constitutional declaration (2011), while citing Islamic Sharia as the main source for the country's legislation, also guarantees non-Muslims freedom of religious practice. Legislation is informed by the Qur'an and Sunnah, while religion also impacts government policy (OBG, 2008).

3.2.4 Kinship and Family

Along with religion and language, the attitudes and behaviours of Libyans are also significantly impacted by family (Pratten & Mashat, 2009). The concept of kinship, not just within the extended family but also within the tribe or clan, is the cornerstone of Libyan society and fundamental in shaping not just social but also business life. Individuals are loyal to their kinship ties and their region. Each family, tribe and clan has rules and traditions which have to be respected by members, who can bring honour or dishonour to the name and reputation of the family or clan through their good or bad behaviour (Agnaia, 1997). Within the family, the hierarchical order is structured according to age and generation, with the role of head of the family being held by grandfather, father or eldest son (Ritchie & Khorwatt, 2007).

Within the business environment, it is often these kinship relationships, rather than qualifications or experience, that determine whether individuals are appointed or promoted (Agnaia, 1997). Ritchie & Khorwatt (2007) indicate that this expectation of loyalty poses interesting challenges in terms of the auditors' professional requirement to maintain independence: *"Since the client is highly likely to be from the same socio-cultural group, the pressure on the auditor may be to certify financial statements which do not fully comply with the professional standards"* (p.42). Several studies have explored the impact of family on the development of corporate governance in emerging societies. Bukhari (2014), for example, found that family and kinship institutions appear to have negatively impacted the emergence and development of corporate governance in Saudi Arabia in terms of issues surrounding control, abuse and conflicts of interest, while Filatotchev, Lien & Piesse (2005) found that boards perform better when they are independent of the founding family.

3.2.5 Libya and Arab spring countries

The previous sections discuss a number of cultural characteristics that Libya has in common with its MENA neighbours and that differentiate it from western and developed countries. Despite these cultural similarities, however, the events of the Arab Spring unfolded very differently, and have had very different long-term impacts, in the five MENA countries that experienced them. Libya is one of three states to see a change in leadership, but it is unique in being the only state in which the old regime has not yet been replaced with a new national government. In Tunisia and Egypt, civilian protesters, with the help of the army, were able to force the regime to step down after several days, and the army played a significant role in maintaining security and supervising the transition of power. In Libya, however, it was the killing of protesters by Gaddafi's army (see 3.2.1) that changed a civilian uprising into an armed revolution that lasted for eight months and destabilised the whole country. Unlike Tunisia and Egypt, who have successfully made the transition to a new regime and a new constitution, Libya remains unstable; it still has no permanent constitution, and power has been split between factions, one of which controls the east and the other the west of the country.

Economically, Libya has also been harder hit than the other two countries because of its heavy reliance on a single industry – oil and gas production. A member of the Organisation of Petroleum Exporting Countries (OPEC), Libya possesses the largest oil reserves in the African continent, before the civil war exporting nearly 1.8 million barrels of oil per day as well as significant amounts of natural gas. Energy production accounted for 95 percent of total export earnings within the country, 60 percent of total GDP, and 80 percent of government revenue. However, the civil war and its aftermath have disrupted both the production and exportation of oil and gas, causing major damage to the economy. The political and economic turbulence have badly affected the banking sector, with the CBL being divided between Libya's eastern and western governments, and the commercial banks suffering a systemic liquidity crunch (Chami, Al-Darwish, Cevik, Charap, George, Gracia & Pattanayak, 2012).

3.3 The Libyan Banking Sector

This section discusses the Libyan banking sector (LBS), including its historical development, structure, legal framework and recent reforms. The sector plays an essential role in Libya's economy by providing financial support to businesses and individuals (Elkington, 2004; Moyo & Rohan, 2006; Abouzkeh, 2013), though as Levine (2004) has observed, banks are "more opaque than nonfinancial firms" and can *"readily hide problems by extending loans to clients that cannot service previous debt obligations"* (p.9). The sector's importance is heightened by the fact that it is the only source of such finance – unlike other MENA countries such as Tunisia and Egypt, the stock market does not play a key role in generating funds for investment (Husien & Havard, 1990). Despite its key economic role, however, there are as yet very few studies addressing corporate governance in the LBS.

3.3.1 The History of the Libyan Banking Sector

Libya's first bank was established in 1898, during the Ottoman Empire period. An agricultural bank, it had a branch in each of Libya's two main cities: Tripoli and Benghazi (CBL, 2006). The bank ceased trading in 1911 when the occupying Italian government (1911-1943) allowed Italian banks such as Banco De Roma, Banco De Napoli, Banco De Sicilia and the Bank of Italy to open branches in Libya. Italy had several reasons for establishing these banks; not only did it want to play a greater role in the Libyan economy, but it also wanted to provide financial services to Italian immigrants and the military government (CBL, 2006). Later, during the military administration by the British and French (1943-1951), Barclays opened two branches in Benghazi and Tripoli, alongside the Italian banks, which continued to operate after the end of the Second World War.

In 1951, the United Nations decided to give Libya its independence. Four new banks were established between 1951 and 1969, including Libya's first domestic bank, the Libyan International Bank, established in 1955. This bank had the authority to issue banknotes and coins as well as to supervise and monitor the activities of commercial banks in Libya. In 1963, Law No.4 changed the name of the bank to the Central Bank of Libya and gave it administrative authority over the entire Libyan banking sector. The law also restricted foreign banks to holding a maximum of 49% of the equity of their operations in Libya; as a result, they were obliged to sell the balance of their holdings to the Libyan private sector (CBL, 2006).

As mentioned in section 3.2.1, in 1969, a military coup brought about a significant change in Libyan politics. Motivated by communist ideology, the new military government implemented a policy of nationalization and began gradually buying up the remaining foreign-owned shares in commercial banks. In this way, Barclays Bank, Banco di Roma, Banco di Napoli and the Arab Bank came to be 100% owned by the Libyan government, which reorganized and renamed them. The newly reorganized sector was made up of the CBL plus four commercial banks, three of which were entirely government-owned (Umma Bank, Jumhoriya Bank and the National Commercial Bank) and one of which (the Sahara Bank) was still 49% owned by private investors. The sector also contained three specialized banks (Abouzkeh, 2013; Abdussalam, 1985; Abida, 2011), all of which were government-owned. By 1977, all banks, including private domestic banks, were state-owned. Table 3.1 summarizes the structure of the sector over the period 1969-1993, including the capital structures of the banks, the dates they were established and type of ownership.

Table 3.1 Structure of the banking system 1969-1993

Name of bank	Establishment date	Type of bank	% of shares owned by CBL	% of shares owned by private sector	Former name
Central Bank of Libya	1971	Central	100%	0%	Libyan International Bank
National Commercial Bank	1970	Commercial bank	100%	0%	-Commercial Banking Division of CBL -Istiklal Bank (Bank of Napoli as a foreign bank) -Orouba Bank (a branch of the Arab Bank as a foreign bank)
Umma Bank	1969	Commercial bank	100%	0%	Bank of Rome
Jumhoriya Bank	1969	Commercial bank	100%	0%	Barclays Bank
Sahara Bank	1970	Commercial bank	51%	49%	-Bank of North Africa -Wahda Arabia Bank -African Banking Company -Other small banks
Agricultural Bank	1970	Specialized bank	100%	0%	Libyan National Agricultural Bank
Savings and Real Estate Investment Bank	1981	Specialized bank	100%	0%	-The Industrial and Real Estate Bank of Libya
Development Bank	1972	Specialized bank	100%	0%	

*Source: (Abida, 2011)

3.3.2 Current Structure of the Libyan Banking Sector

The LBS now comprises the Central Bank of Libya, sixteen commercial banks, specialized banks and an offshore bank. A number of foreign banks also have offices in the country (CBL, 2010a).

3.3.2.1 Central Bank of Libya

The Central Bank of Libya represents the executive authority and is at the top of the banking hierarchy. Established in 1955, it started its activities in 1956 with a capital of 500 million Libyan dinars. The Libyan Banking Law (Law No.1/2005) set out the tasks of the bank, which include issuing currency, controlling and organizing credit, supervising and monitoring Libya's banks and formulating fiscal policy. It is responsible for the state's banking, for managing the state's reserves and for maintaining a stable exchange rate (CBL, 2010a).

3.3.2.2 Commercial Banks

Libya's commercial banks are joint-stock companies and include private banks, state banks and those with mixed ownership. A number of foreign banks and financial institutions invest in Libyan commercial banks, though the number of shares they may hold is limited by law. Commercial banks provide a range of banking services, such as taking deposits from savers and investors, opening documentary credits, collecting banking instruments, granting credit facilities, issuing guarantees, and money exchange services. In recent years, they have also begun to offer a range of Islamic financial services (CBL, 2010a).

The CBL's efforts to restructure Libya's banking system are geared towards creating banking institutions that can compete internationally. To this end, it has merged some commercial banks, raised the minimum amount of capital commercial banks are required to hold and diversified bank ownership, even to the point of relinquishing some of its own shares to allow foreign investors to own shares in commercial banks. Table 3.2 summarizes the current ownership structure in Libya's commercial banks.

Table 3.2 Ownership structure in Libya's commercial banks

No	Name of bank	Establishment date	Public	Private	Foreign partner	Total
1	Jumhoriya Bank	1969	90.26%	9.74%	0.00%	100%
2	Sahara Bank	1964	59.00%	22.00%	19.00%	100%
3	National Commercial Bank	1970	85.00%	15.00%	0.00%	100%
4	Wahada Bank	1970	63.00%	19.00%	18.00%	100%
5	North Africa Bank	1997	82.00%	18.00%	0.00%	100%
6	Commerce & Development Bank	1995	17.00%	49.00%	34.00%	100%
7	Al-Waha Bank	2006	100%	0.00%	0.00%	100%
8	Al-Amman Bank	2003	40.00%	60.00%	0.00%	100%
9	United Bank	2007	3.00%	57.00%	40.00%	100%
10	Arab Commercial Bank	2007	0.00%	0.00%	100%	100%
11	Al-Saraya Bank	2007	0.00%	100%	0.00%	100%
12	Al-Ejmaa Alarabi Bank	2004	0.00%	100%	0.00%	100%
13	Mediterranean Bank	2006	0.00%	100%	0.00%	100%
14	Al-Wafa Bank	2004	0.72%	99.28%	0.00%	100%
15	First Gulf Libyan Bank	2008	50.00%	0.00%	50.00%	100%
16	Al-Nuran Bank[1]	2008	50.00%	0.00%	50.00%	100%

Source: CBL (2012)

3.3.3 The Legal Framework for the Libyan Banking Sector

The first legislation governing the banking sector was issued in 1958. This was followed by further legislation in 1963, 1993 and 2005, the last of which was amended in Law No.46/2012. Law No.1/2005 comprises four chapters addressing the nature and functions of the CBL, its role in establishing and supervising banks, the penalties for breaking the law, and articles relating to Islamic banking. The 2012 amendments, which were introduced in response to the significant changes in the Libyan legal framework and Libyan culture as a whole, include a new chapter on Islamic banking and changes relating to corporate governance. For example, while Article 68 of the 2005 law states that commercial banks must be managed by a board of between five and seven members, in the 2012 law, the maximum number is raised to nine. The new law also stipulates that board members should have five years' experience, rather than the previous requirement that they should simply have "sufficient" experience. While the 2005 law requires institutions controlled by the CBL to disclose their most recent financial statement at some point in the year in the national and local press, the new law adds that it should also be disclosed on the institution's website. Article 86 of the 2005 law states that in banks controlled by the CBL, shareholders owning a 25% stake and depositors who have deposits equal to 25% of the bank's total deposits can ask the CBL to inspect and monitor the bank. The new law reduces this to 10%.

[1] Al-Nuran Bank was established in 2008 but did not become operational until 2015.

Since commercial banks are joint-stock companies, they must also comply with the Libyan Commercial Law, most recently updated in 2010. This law covers all aspects of commercial activity in Libya, including corporate governance. However, the main authority in respect of corporate governance in commercial banks is the mandatory Corporate Governance Code for Libyan Banks (CGLBS), issued in 2010 (replacing the voluntary code of 2006). The mechanisms of this code and other related codes and legislation are the focus of section 3.4 of this review.

3.3.4 Reform and Privatization in the Libyan Banking Sector

The government's privatization policy was prompted by reports from a variety of institutions and experts describing widespread stagnation and corruption under the communist economic model. Bengdara (2007) argues that prior to privatization, partial or complete ownership by the CBL adversely affected the performance of commercial banks in several ways:

- The banks were tied up by regulatory restrictions and red tape, with decisions needing to be ratified by several different people.
- The overly bureaucratic environment weakened management performance.
- Employees lacked financial incentives.
- Many branches had been established in regions that didn't warrant them, in order to appease tribal sensitivities. This led to many branches going bankrupt.
- As productivity rates declined, overstaffing increased.
- The banks were obliged to grant loans to companies in the public sector without conducting feasibility studies or obtaining sufficient guarantees (Bengdara, 2007, p2).

In response, the government adopted a series of economic reforms, including privatization. Law No.1/1993 was the first step towards privatizing the banking sector; this law allowed the establishment of local, private banks and permitted foreign banks to open offices and branches in Libya (CBL, 2010b). As a result of this law, a number of commercial banks were established, including the Commerce and Development Bank in 1996, the Mediterranean Bank and the Al-Saraya Bank in 1997, the Al-Ejmaa Alarabi Bank in 2003 and the Al-Wafa Bank in 2004 (CBL, 2006). This was followed by Law No.1/2005, which represented a quantum leap in terms of reform. Not only did Article 72 of the law allow individuals and institutions to buy shares in state-owned banks, but the law also opened the sector up to foreign investors, allowing the CBL to establish banks with foreign capital and permitting foreign banks to buy up to US$15 million worth of shares in domestic banks and to open their own branches in Libya. In 2010, the CBL announced in its annual report that it would issue licences to two foreign banks permitting them to acquire up to 49% ownership of the new banks, giving them full management control. The remaining 51% would be owned by domestic investors. The CBL asserted that it would handle all issues related to the issuance of the two licences and mobilize domestic investors (CBL, 2010a). In the same year, the CBL sold 15% of its shares in the National Commercial Bank on the LSM (ibid).

3.4 Corporate Governance in Libya

Corporate governance in Libya is still in its early stages. Aspects of corporate governance in the banking sector are covered by the Libyan Banking Law (Law No.1/2005) and its 2012 amendments, and by the Libyan Commercial Law of 2010. The first CG code was issued by the CBL in 2006. However, this code was non-mandatory, and Libyan banks generally failed to comply with most of its recommendations. A second corporate governance code was issued by the LSM in 2007, but it too was non-mandatory. This code sought to promote responsible and transparent management behaviour in joint-stock companies listed on the LSM and to bring Libyan CG into line with international best practice (CGLSM, 2007). In 2010, the CBL replaced the 2006 guidelines with a mandatory code. This has six parts: the definition of CG; shareholders’ rights; the board of directors; committees of the board of directors; disclosure; and other requirements (CGLBS, 2010). This section discusses how these various laws and codes deal with the mechanisms of corporate governance. Table 3.3 presents a comparative overview of these codes and laws.

Table 3.3 Comparison of CG initiatives in Libya

	Libyan Banking Law (2005)	Amendments to the Banking Law (2012)	CGLBS (2006)	Libyan Commercial Law (2010)	CGLSM (2007)	CGLBS (2010)
Unitary or dual board of directors	Dual board	No amendments	Dual board	Unitary and dual board	Dual board	Dual board
Separation of Chairperson and CEO	Not combined	No amendments	Not combined	Combined or separate	Not combined	Not combined
Non-executive directors	The majority of board members must be NEDs.	No amendments	No more than one or two executive directors	Executive but can delegate power to committees.	The majority of board members should be NEDs.	The majority of board members must be NEDs.
Independent non-executive directors	Not mentioned	No amendments	No less than two should be independent. Independence should be clearly determined.	Not mentioned	Two or one-third of the board should be independent, whichever is greater. Independence should be clearly determined.	No less than two should be independent. Independence should be clearly determined.
Size of board of directors	7-9 members	9 members at least	Small enough to allow for accountability but big enough to ensure variety.	Not mentioned	3-11	7-9
Role of board of directors	Not mentioned	No amendments	Required to be honest, loyal and committed to the bank.	Board members should carry out their duties carefully, in accordance with the company's articles of association.	The board of directors should carry out its duties responsibly and in good faith, and with seriousness and attention.	The board of directors must carry out its responsibilities in accordance with the power given to the board under the bank statute and the relevant laws and legislation.
Appointment of board of directors	Appointed by the bank's general assembly. The board must select the chairperson from among its members.	Appointed by the bank's general assembly. The board must elect the chairperson and one or more vice-chairperson from among its members.	Not mentioned	Appointed by the general assembly of shareholders.	The general assembly should appoint board members for the period stipulated in the statute, provided this does not exceed three years, and may re-appoint members unless the statute dictates otherwise.	Appointed by the bank's general assembly. The board should select the chairperson from among its members.

Table 3.3 Comparison of CG initiatives in Libya

Compensation of board of directors	By the company's general assembly	No amendments	By the remuneration committee	Determined by the company's articles of association.	Non-cash benefits and/or a percentage of the company profits. Board members may receive two or more forms of compensation.	Non-cash benefits and/or a percentage of the company profits. Board members may receive two or more forms of compensation, as decided by the general assembly and remuneration committee.
Board committees	The bank must outsource the task of mortgage assessment to specialist agencies and set up a compliance unit, to be supervised by the board.	Not mentioned	Recommends audit, remuneration and risk committees.	Stipulates a monitoring committee of three members.	Recommends companies to establish a control committee of not less than three members, to be appointed by the general assembly.	Requires audit, remuneration, risk management and governance committees.
Shareholders' and stakeholders' rights	Basic shareholders' rights	Not mentioned	Not mentioned	Basic shareholders' rights	Extensive details	Extensive details
Disclosure and transparency	Financial information	Not mentioned	Recommends disclosure of financial and regulatory information and executive managers' remuneration.	Requires disclosure of financial information but no mention of CG disclosure.	Recommends policies and procedures of disclosure and supervisory regulations in written form in accordance with rules determined by the market.	Stipulates for shareholders: operational and financial findings; strategic objectives; board and managers' information; CG practice; dealings with related parties; human resources. For stakeholders: financial reports; management information. For CBL: additional CG information. For LSM: disclosure requirements in LSM.

3.4.1 The Board of Directors

3.4.1.1 Type of Board

According to Libyan Commercial Law No.23/2010, shareholders must appoint a board made up of executive and non-executive directors (NEDs) to take overall responsibility for running the company. Although the Commercial Law stipulates that the board should be unitary, it permits the board to delegate some of its powers to an executive committee consisting of one or more board members to act on its behalf. This suggests that the law allows companies to follow either the unitary or the dual board model in practice. Regarding the delegation of authority to executive committees, the CGLSM (2007) cautions that:

> *"The board of directors holds all authority for controlling the company and remains ultimately responsible, even where it has established committees or authorized other entities or individuals to carry out certain tasks. The board must avoid issuing warrants that are general or unspecified in duration"* (p.10).

The 2006 and 2010 CGLBS, the 2005 Banking Law and its 2012 amendment all adopt the dual board model.

(see table 3.3). Libya thus differs from Anglo-Saxon countries such as the UK and the US, which follow unitary board, shareholder-oriented models of CG (Mallin, 2007; Solomon, 2013; Gup, 2007). Instead, it seems more influenced by Germany, Austria, the Netherlands, Denmark and Japan, which follow dual board, stakeholder-oriented models, and by France and Switzerland, which allow both unitary board and dual board models (Maw, Lane of Horse., Craig-Cooper& Alsbury, 1994; Hopt & Leyens, 2004; Gup, 2007).

3.4.1.2 Board Composition

3.4.1.2.1 Separation of Chairperson and CEO

Separation between the chairperson and CEO is required in both CGLBS codes and the Libyan Banking Law. The CGLSM also requires that the board chairman should have no executive function. In contrast, the Libyan Commercial Law of 2010 states that the board can appoint a general manager from among its members or from outside and that it can appoint assistant managers and administrative officers according to the articles of association. In other words, under this law, the roles of chairperson and CEO can be combined. The separation requirement is consistent with codes in developed countries; the UK Corporate Governance Code (2010) (formerly the Combined Code), for example, recommends that the positions and responsibilities of the chairperson and CEO should be separated, while the OECD (2004) advises that separating the two roles enhances corporate accountability:

> *"Separation of the two posts may be regarded as good practice, as it can help to achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management."* (p.63).

3.4.1.2.2 Non-executive Directors

The CGLSM (2007), the Libyan Banking Law (2005) and the CGLBS (2010) all require the majority of board members to be non-executive. The 2006 CGLBS code stipulates no more than one or two executive directors on the board. In contrast, the Libyan Commercial Law (2010) permits the majority of board members to be executives. The general requirement that the majority of board members should be NEDs is consistent with expectations in developed countries; the Basel Committee on Banking Supervision (BCBS) (2006), for instance, explains the importance of NEDs thus:

> *"Independence and objectivity can be enhanced by including qualified nonexecutive directors on the board or by having a supervisory board or board of auditors separate from a management board. This is particularly important in areas where there is a risk that the board of directors would be dominated by senior management or political influences, where there are influences on the board to take action that is not in the bank's best interest (although it may be in the personal interest of insiders or major shareholders), or where there is a potential for conflict of interest in key areas"* (p.7).

3.4.1.2.3 Independent Non-Executive Directors

The Libyan Commercial Law (2010) and the Libyan Banking Law (2005) are both silent in relation to director independence. In contrast, the 2006 and 2010 CGLBS codes both state that no fewer than two of the permanent board members should be independent. The codes identify several factors that may affect board members' independence:

- *Personality clashes between members.*
- *The existence of a supervisory relationship.*
- *The existence of a direct or indirect commercial relationship between a board member and the bank.*
- *Any new relationship that develops as a consequence of board membership* (CGLBS,2010, p.7).

The CGLSM (2007) states that: "*There must be two independent board members, or independents must make up one-third of the members of the board, whichever is greater"* (p.9) and that:

> "*The chairman and members of the board of directors are not allowed to have any direct or indirect interest in the company's business. The chairman and members of the board of directors and managers are not allowed to participate in any action that might bring them into competition with the company"*. (CGLSM,2007, p.9)

The CGLBS and CGLSM codes echo international CG codes in asserting the importance of having independent NEDs on the board. The OECD (2004) explains that this is because

> *"Independent board members can contribute significantly to the decision making of the board. They can bring an objective view to the evaluation of the performance of the board and management. In addition, they can play an important role in areas where the interests of management, the company and its shareholders may diverge such as executive remuneration, succession planning, changes of corporate control, take-over defences, large acquisitions and the audit function. In order for them to play this key role, it is desirable that boards declare who they consider to be independent and the criterion for this judgement."*. (p.64)

Basel Committee on Banking Supervision (2006) emphasises the particular importance of board member independence in banks with the stipulation that

> *" ... banks should have an adequate number and appropriate composition of directors who are capable of exercising judgment independent of the views of management, political interests or inappropriate outside interests"*. (p.7)

3.4.1.3 Board Size

The Libyan Commercial Law (2010) does not specify how many directors are required, but the CGLSM (2007) recommends that the board should have between three and eleven members. The Libyan Banking Law (2005) and CGLBS (2010) require between seven and nine members, while the 2012 amendment raises the size of the board to at least nine members. Libya’s laws and codes thus follow CG codes in developed countries in recommending that boards should not be too large. The UK CG Code (2010), for instance, advises that board size should not be so large as to be unwieldy.

3.4.1.4 Role of Board of Directors

The Libyan Banking Law (2005) does not address the role of the board of directors at all, and the other codes do so only in general terms. Thus, the CGLSM (2007) states that *“The board of directors should carry out its duties responsibly and in good faith, and with seriousness and attention, and its decisions should be based on adequate information from the executive management, or any other reliable source”* (p.6). The Libyan Commercial Law (2010) stipulates that board members should carry out their duties carefully in accordance with the company’s articles of association, while the 2010 CGLBS code says the board must carry out its responsibilities in accordance with the power given to it under the bank statute and the relevant laws and legislation. CG codes in developed countries provide more specific details about the board’s role; according to the UK CG Code (2010), *"The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met"* (p.3).

The OECD's Principles of Corporate Governance (2004) list the responsibilities of the board under six headings: monitoring of management; duty of care and loyalty; ethical standards; key functions; corporate affairs; and access to information.

3.4.1.5 Appointment of the Board of Directors

The Libyan Banking Law (2005) and 2010 CGLBS code require the board of directors to be appointed by the bank's general assembly. The board should then select its chairperson from among its members. Law No.46/2012 adds that the board should also elect one or more vice-chairs. The Libyan Commercial Law (2010) states that if the arrangements for appointing the board are not set out in the company's bylaws, it should be appointed by the general assembly. Directors may serve for three years unless the company articles stipulate otherwise, and the general assembly may dismiss part or all of the board. The CGLSM code (2007) advises that:

"The general assembly should appoint members of the board of directors for the period stipulated in the statute, provided this does not exceed three years, and may reappoint members of the board of directors unless the statute dictates otherwise". (p.14)

Codes in developed countries (e.g. UK Corporate Governance Code, 20 I 0; OECD, 2004; Basel Committee on Banking Supervision,2006) require the appointment process to be overseen by a nomination committee to ensure that a suitable balance of skills and experience is maintained within the company and on the board.

3.4.1.6 Compensation of the Board of Directors

The Libyan Banking Law (2005) says only that board compensation should be determined by the general assembly. In contrast, the Libyan Commercial Law (2010) stipulates that board compensation should be determined in the company's articles of association. The CGLSM (2007) states that:

"The general assembly should determine the level and structure of compensation for board members. This compensation may be paid as a defined remuneration, an allowance for attending meetings, non-cash benefits or a percentage of the company profits. Members may receive two or more of these forms of compensation". (p.12)

The 2006 CGLBS code's recommendation that the board should set up a remuneration committee is retained in the 2010 version of the code this makes the general assembly responsible for determining the financial benefits to be given to board members (including the chairperson), based on the recommendations of the remuneration committee. These financial benefits may take the form of a percentage of the bank profits or other benefits recommended by the committee. International codes such as the UK CG code (2010) stipulate that the remuneration committee should be made up of independent NEDs, and that remuneration should be performance-based. Basel Committee on Banking Supervision (2006)) indicates that

> *"The remuneration committee is responsible for providing oversight of remuneration of senior management and other key personnel and ensuring that compensation is consistent with the bank's culture, objectives, strategy and control environment".* (p.8)

3.4.1.7 Board Committees

The Libyan Banking Law (2005) does not mention audit committees. In regard to risk management, it states that the bank should outsource the task of assessing mortgages to outside specialists, and set up a compliance unit, to be supervised by the board. The 2006 CGLBS code advises boards to delegate authority to audit, remuneration and risk committees to increase board efficiency, while the Libyan Commercial Law (2010) requires general assemblies to appoint a monitoring committee of at least three members, at least one of whom should be university qualified.

The CGLSM (2007) pays significant attention to the audit committee, recommending that:

> *"The board of directors should constitute a committee from non-executive members to be called the audit committee. It should have no fewer than three members, at least one of whom should be competent in finance and accounting. The board of directors should issue rules for the selection of members to the audit committee, their length of tenure and the committee's method of working". (p.10)*

The code sets out the committee's tasks and responsibilities as being:

- To supervise the company's internal audit department and verify its effectiveness in carrying out the tasks delegated to it by the board of directors.
- To examine the internal control system and present a written report detailing its views and recommendations.
- To examine the internal audit reports and ensure that any corrective actions recommended therein are implemented.
- To make recommendations to the board of directors regarding the appointment and dismissal of external auditors and the fees to be paid; to ensure the independence of these auditors.
- To monitor the external auditor, particularly if they take any action outside the scope of the work originally assigned to them.

- To review the audit plan with the external auditor and make comments on it; to review the external auditor's comments on the financial statements and follow-up thereon.
- To review the financial statements before submission to the board of directors and to express an opinion and recommendations in respect thereof.
- To study the company's accounting policies and give opinions and recommendations in respect thereof. (CGLSM,2007, p.10)

The CGLSM (2007) also advises companies to establish a control committee of not less than three members, to be appointed by the general assembly. According to the code, *"The committee should have all the rights and responsibilities set out in the Libyan Commercial Law"*(p.10). Its tasks include: overseeing the management's actions in order to ensure that they are legal; ensuring the validity of company contracts and their legitimacy; reviewing and auditing the company accounts, as prescribed by the law; and ensuring that all accounting procedures are in accordance with legal and regulatory rules. The members of the control committee have the right to inspect the company and its work and to ask managers for information about any of its operations. All of the committee's investigations and inquiries must be documented and stored in a special archive.

Finally, the CGLBS (2010) stipulates that banks must have audit, remuneration, risk management and governance committees. It describes the responsibilities of the audit committee as including: reviewing and auditing bank processes; liaising between directors and external auditors; and submitting a quarterly report about its activities to the board. It can be concluded that most CG codes and laws in Libya require the establishment of board committees, particularly audit committees. This is consistent with CG codes in developed countries (UK CG Code, 2010; OECD, 2004; Basel Committee on Banking Supervision (2006).

3.4.2 Shareholders' and Stakeholders' Rights

The CGLSM (2007) provides extensive details about shareholders' rights, explaining their right to have access to information, their rights in terms of general assembly meetings and their voting and dividend rights. CGLBS (2010), meanwhile, devotes a whole chapter to shareholder rights, covering issues around stock ownership, the rights of shareholders in the general assembly and the rights of minority shareholders. More limited information is given in the Libyan Commercial Law (2010) this covers shareholders' right to force the board to convene a general assembly meeting, their rights at this meeting, their right to deputize someone else to attend in their place, and their rights in the event of conflicts of interest arising between shareholders.

This emphasis on shareholders' rights as a key principle of CG is in line with international codes, which deal at length with the issue. The OECD Principles (2004), for example, assert that

> *"The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises".* (p.46)

3.4.3 Disclosure and Transparency Requirements

This section discusses the requirements set out in the various codes and legislation in respect of disclosure and transparency. As discussed in section in 3.4, commercial banks in the LBS are ruled primarily by the mandatory CGLBS (2010) code, with banks listed in the LSM also being expected to adhere to the voluntary CGLSM (2007) code. Both of these codes contain extensive disclosure and transparency requirements. More limited requirements exist within the Libyan Banking Law (2005) and the Libyan Commercial Law (2010).

3.4.3.1 The Financial and Operating Results of the Company

All of the codes and regulation require banks to disclose their financial information. Article 26 of the Libyan Banking Law (2005) requires banks to prepare and disclose financial statements in line with international standards, while the Libyan Commercial Law (2010) stipulates that the company management (board or managers) must provide the financial results to the external auditor within 60 days of the end of the financial year, and that the external auditor must provide their report to shareholders within 45 days. The CGLSM[2] (2007) requires listed companies to disclose their annual and half-annual financial statements, along with the notes and the external auditor's report, in two daily popular journals one in English and the other in Arabic within a week of adoption by the AGM.

Finally, the CGLBS (2010) requires banks to fully disclose their financial information to stakeholders and shareholders in the AGM. This information should include the income statement, financial position statement, cash flow statement and change in equity statement. Banks are also required to disclose the notes to the financial statement, as stipulated in the IAS, and information on how managers have dealt with these notes. This is consistent with the OECD Principles (2004), which identify the disclosure of financial information as one of the most important T&D requirements. This requires the production and dissemination of audited financial statements showing the financial performance and financial situation of the company (these typically include the balance sheet, the profit and loss statement, the cash flow statement

[2] Only seven out of the sixteen LCBs are listed in the LSM (Jumhoriya Bank, Sahara Bank, National Commercial Bank, Wahada Bank, Commerce & Development Bank, Mediterranean Bank, Al-Saraya Bank).

and accompanying notes). This information is central to CG as it enables stakeholders to monitor the company's performance; as the OECD (2004) puts it: *"Failures of governance can often be linked to the failure to disclose the whole picture"*. (p.49)

3.4.3.2 Bank Objectives and Non-financial Information

As far as non-financial information is concerned, the CGLBS (2010) requires banks to disclose information about their strategic plan and objectives, and how the board proposes to respond to the financial results. They should also set out their policy regarding social issues e.g. any donations and contributions to charities or social enterprises and their ethics charter. This governs how the bank deals with stakeholders and its position on human rights. The OECD Principles (2004) also encourage companies to disclose both their financial and non-financial objectives. This may include revealing details of their policies and performance in the areas of business ethics, the environment and, where relevant, social issues, human rights and other public policy commitments.

3.4.3.3 Major Share Ownership, Including Beneficial Owners, and Voting Rights

The OECD Principles (2004) advise that details about ownership may include an explanation of the structure of the enterprise and shareholders' rights vis-à-vis the rights of other owners. Where the company is part of a group, disclosure may cover how this group is structured and describe intra-group relations. It may also include information about the shareholdings of directors, including non-executives, and beneficial owners Companies listed in the LSM are expected to disclose any changes in the shareholder base where this means there is a new majority shareholder (CGLSM, 2007).The CGLBS (2010), meanwhile, requires banks to disclose information to stakeholders about anyone owning more than 5% of the bank's capital. If another company owns shares in the bank, the bank should also disclose information about this company and how many shares it owns to both shareholders and the general public.

3.4.3.4 Remuneration of Members of the Board and Key Executives

According to the OECD (2004), companies should disclose information about the remuneration of individual board members and key executives. Similarly, the CGLSM (2007) expects listed companies to disclose details about the remuneration of every board member plus the five highest-paid executives. The CGLBS (2010) requires commercial banks only to disclose information about the salaries, benefits and rewards given to board members, though they are also expected to make clear how remuneration is linked to board performance.

3.4.3.5 Information About Board Members

The OECD (2004) advises that information about board members should include their qualifications, their share ownership in the company, their membership of other boards, any other executive positions, and whether they are considered independent members of the board.

The CGLSM (2007, p.5) requires banks to provide a full list of the names and titles/roles of all board members. Where these board members also sit on the boards of other companies, the bank is expected to name these companies. The CGLBS (2010, p.39) goes further, stipulating that the information disclosed should include: personal information about every board member and a summary of their CV showing their experience and qualifications; the proportion of their shares in the bank; their membership of other boards; whether they are considered by the board to be an independent member; and how they were elected. This information should be made available to stakeholders, shareholders and the public.

3.4.3.6 Related Party Transactions

According to the OECD (2004), all material related party transactions and the terms of such transactions should be individually disclosed. The Principles add that: *"In case the jurisdiction does not define materiality, companies should be required to also disclose the policy/criteria adopted for determining material related party transactions"* (p.52). Related parties should, at minimum, include entities that control or are under common control with the company, significant shareholders (including members of their families) and key management personnel

Under the CGLBS (2010), banks must disclose to stakeholders their policies regarding conflicts of interest. They must also reveal the conditions, specifications and value of all related party transactions.

3.4.3.7 Foreseeable Risk Factors

These may include risks that are specific to the industry or the geographical area(s) in which the company operates; risk arising from the company's dependence on certain commodities; financial market risks including interest rate or currency risk; risk related to derivatives and off-balance sheet transactions; risk arising from the routine conduct of business; and environmental risks such as natural disasters. The OECD (2004) insists that disclosure of this information is very important for users and market participants.

The CGLBS (2010) also requires banks to disclose information to stakeholders regarding foreseeable risk factors and how these might be mitigated or avoided. This includes details of the bank's risk policies, the structure of the predicted risks and the bank's procedures for managing them.

3.4.3.8 Issues Regarding Employees and Other Stakeholders

The CGLBS (2010) requires banks to disclose not just their general human resource policy, but also more specific information on matters such as recruitment mechanisms, training programmes, salaries and labour turnover rates.

3.4.3.9 Governance Structures and Policies

According to the OECD (2004), companies should disclose details of their CG practice, particularly the division of authority between shareholders, management and board members. Companies should also ensure that shareholder votes are properly counted and recorded and that the results are announced promptly. Banks listed in the LSM are expected to disclose information demonstrating their compliance with the requirements of the listing list along with the reasons for any non-compliance (CGLSM, 2007). The CGLBS (2010), meanwhile, requires banks to disclose details of their corporate governance structure (including board structure and committees, how these are regulated and how the board assesses CG effectiveness in the bank), their charter of ethics, their organisational structure and main activities. They must also list the institutions with which they are linked, giving details of each institution's location and main activities and the bank's shareholding.

3.4.3.10 Quality of Accounting and Financial and Non-financial Reporting

The OECD (2004) advises that the adoption of high-quality standards increases the reliability and comparability of reports, allowing investors to monitor the company more effectively. Accordingly, the CGLBS (2010) stipulates that the financial statement should comply with international standards of accounting and auditing, and that listed banks should adhere to the disclosure requirements of the LSM.

3.4.3.11 Auditing

The OECD (2004) states that

> *"An annual audit should be conducted by an independent, competent and qualified auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects… The external auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit".* (p.54)

It continues: "*The external auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit"*. ibid

The Libyan Banking Law (2005) stipulates that the accounting reports of state banks must be audited by the Libyan Audit Bureau in accordance with the rules of the CBL and international auditing and accounting standards. The CGLSM (2007) requires listed companies to disclose the results of the annual audit of the efficiency of internal control procedures in the company. Finally, the CGLBS (2010) stipulates that copies of all committee reports, including those of the audit committee, must be submitted to the CBL within five days of being presented to the board.

3.4.3.12 Channels for Disseminating Information

Under the CGLBS (2010), banks must disclose their management and financial information to all stakeholders including depositors, investors and the public. The information should be presented in an annual report and either posted on the bank's website or printed out and left in the reception area of the bank where it can be seen by stakeholders. This is in line with the OECD's (2004) recommendation that *"Channels for disseminating information should provide for equal, timely and cost efficient access to relevant information by users"* (p.56). Acknowledging that investors may need help interpreting this information, the Principles also advise that

> *"The corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies and others, that is relevant to decisions by investors and free from material conflicts of interest that might compromise the integrity of their analysis or advice".* (p.56)

3.5 Summary

This chapter presents a general overview of the Libyan context. It describes Libya's demographic characteristics, including population, language and geography, before discussing its recent political and economic development and the major changes that have taken place (and continue to take place) in the country. The discussion reveals that since the 1960s, Libya's economic progress, which has been almost entirely dependent on its oil industry, has been closely linked to political developments in the country. This progress suffered between 1969 and 1987 under the Gaddafi regime's nationalisation policy, started to show signs of improvement when this policy was replaced by a programme of liberalisation, but is once more suffering under the turbulence that has afflicted the country since the popular revolution of 2011. At the time of writing, the Libyan business environment continues to be negatively impacted by Gaddafi's legacy of corruption, lack of democracy and rule of law, and a restricted press.

The chapter shows that Libya differs from developed countries in being profoundly influenced firstly, by Islam, which has occupied a central position in all of its constitutions and which is, through Islamic Sharia, the main inspiration behind the country's legislation, and secondly, by the importance it attaches to kinship ties. This emphasis on kinship and family/tribal loyalty affects the business environment in numerous ways; for example, unqualified individuals are appointed to positions of importance through nepotism, the independence of auditors and board members is undermined, and the pressure for disclosure is reduced. There are thus several points of difference between Libya and developed countries, but the chapter goes on to show that since the revolution, Libya has also diverged from the other Arab Spring countries in the sense that it is the only one of the five to see the old regime fall and not be replaced by a new national government. The continuing instability and the separation of governance in Libya has affected all sectors, including the banking sector, with the result that the economy has sustained much greater damage than those of Tunisia or Egypt.

The chapter then moves on to Libya’s banking sector, providing a review of the historical development of the sector and a discussion of its current structure, the legal framework governing banks, and the recent reforms. Identifying the key pieces of legislation and codes that address CG in the LBS, the chapter compares these laws and codes in terms of their recommendations/stipulations regarding the board of directors and its committees, shareholder/stakeholder rights and T&D. The discussion shows that despite the unique nature of the Libyan context, Libyan CG seems to have been impacted by and have multiple points of similarity with the codes that have been produced in developed countries and by international bodies such as the OECD.

This chapter introduces the key mechanisms of CG disclosure and practice and the institutions that may be affecting the operation of these mechanisms within the Libyan context. The next chapter discusses the theoretical framework of this study.

Chapter 4 Theoretical Framework

4.1 Introduction

This chapter presents the theoretical framework of this research. It begins by reviewing the main theories that have been used to interpret corporate governance in the literature and explaining why they were unsuitable in this case. It then describes the institutional theory framework used in this research, briefly introducing the different forms of institutional theory that have emerged, some of the key ways in which the theory has been developed by researchers, and its associated concepts. The chapter ends by discussing the main institutions that may shape corporate governance disclosure and practice in Libya.

4.2 Theoretical Perspectives on Corporate Governance

Henderksen (1970) defines theory as: "a coherent set of hypotheticals, conceptual and pragmatic principles forming the general framework of reference for a field of inquiry" (p.1). Such a framework is essential for understanding corporate governance and related issues. Ziolkowski (2005) advises that:

> *"Corporate governance research should be no different from scholarly inquiries in natural science in terms of methodological approach. Such research requires that corporate governance scholars place the subjective process of developing ideas into a logical framework of challenge and questioning through debate and data collection. This is a continuous process starting with conceptual and propositional analysis for defining terms, model building and theory development". (pp.357-358)*

An understanding of the theories that have been employed to investigate corporate governance is therefore a useful place to start. The theories that have dominated CG research are stewardship theory, agency theory, transaction cost theory and stakeholder theory. The following sections discuss these theories in order to provide a better understanding of why they are not suitable for use in this study.

4.2.1 Stewardship Theory

Deriving from the disciplines of psychology and sociology, stewardship theory sees executives as stewards working on behalf of their principals (Davis, Schoorman & Donaldson, 1997; Donaldson & Davis, 1991). Unlike agency theory, which expects agents to behave opportunistically, stewardship theory posits that because they share the same objectives as their principals, they are motivated to protect their interests (Bareney, 1990; Donaldson & Davis, 1991; Donaldson, 1990a; 1990b). Donaldson & Davis (1991) explain that, to the steward, "pro-organisational, collectivistic behaviours have higher utility than individualistic, self-serving behaviours" (p.24). In other words, managers are team players and there is no conflict of interest between them and shareholders. According to Davis et al. (1997), the steward's interests align with those of shareholders because, by protecting the latters' wealth, the steward maximizes his own utility and makes himself indispensable. Daily, Dalton & Canella (2003) suggest that stewards may also be driven by the desire to protect their own professional reputation.

Stakeholder theory's recognition of non-tangible motivations is noted by Agyris (1973), who argues that unlike agency theory, which sees employees in purely economic terms, stewardship theory recognizes the importance of structures that empower managers and offer them maximum autonomy built on trust. This was the vision at the heart of the joint-stock companies which emerged in the mid-ninetieth century. Tricker (1994) explains that: *"Classical corporate governance, derived from the mid-nineteenth concept of the corporation, is rooted in the philosophy that men can be trusted; that directors can be relied on to act in the best interest of the company"* (p.3). However, this might be seen as rather an optimistic view. As Solomon & Matin, (2004) note, in an imaginary world:

> *"...perhaps there would be no conflict of interest, no hard choices, no tragedies, and...people could fulfil both their desires and their responsibilities without adversely affecting anyone else. But that would just be an imaginary world.... One person's gain is often another person's loss. One desire conflicts with another".* (p.70)

The pessimism expressed by Solomon and Matin seems justified when one considers the role executive opportunism has played in major corporate collapses such as those of Enron, WorldCom, HIH insurance, Global Crossing and Tyco International.

In Libya, the LSM's Corporate Governance Code (CGLSM, 2007), the Libyan Banking Law (2005) and the 2010 CG code (CGLBS, 2010) all require the majority of board members to be non-executive, suggesting that Libya's regulators want to improve supervision and monitoring and strengthen management accountability. The emphasis on NEDs seems out of step with stewardship theory's assumption that managers are inherently trustworthy and do not need monitoring, but it may be seen as a response to the particular nature of the Libyan context, in which executives are often appointed because of their family or personal connections to the company rather than their experience and qualifications. Stewardship theory's assumptions about the skill and motivations of managers may therefore be misplaced when it comes to the Libyan banking sector, making it unsuitable as a theoretical basis for this study.

4.2.2 Agency Theory

Agency theory was developed by Jensen and Meckling in 1976. According to Bricker & Chandar (1998), "*Current mainstream accounting research is based extensively on economic models of agency that represent the operating company (firm) manager as 'agent' and the individual investor as 'principal"* (p.478). The relationship between the two (the agency relationship) takes the form of *"a contract under which one or more persons (the principal(s))* *engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent"*. (Jensen & Meckling, 1976, p.308)

The central assumption of agency theory is that people are essentially self-interested and that as a result, whenever they engage in any cooperative action, conflicts of interest will inevitably arise (Agrawal & Knoeber, 1996; Jensen, 1994). Ittonen (2010) explains that this is likely to happen if *"an individual or an organisation (an agent) has multiple interests and of those interests, one could possibly corrupt the motivation for an act in the other"* (p.15). The main problem investigated by agency theory is the conflict of interest that arises between agent (manager) and principal (shareholder); that is, how the agent can be persuaded to act in the best interests of the principal (Sappington, 1991), and how this relationship can be managed so as to achieve the best company performance. Agency problems arise when shareholders put pressure on managers to make decisions in line with their interests. These problems incur agency costs which, according to Jensen & Meckling (1976), may be divided into three categories: monitoring costs (costs incurred by shareholders to ensure that managers' actions are consistent with their interests), bonding costs (spending by managers to demonstrate that they are protecting shareholders' interests) and residual agency costs (incurred when monitoring and bonding costs alone fail to eliminate the conflict of interest and information asymmetry between agents and principals).

Solomon (2013) explains that the concept of corporate governance arose as a result of the agency problems caused by the separation of owners from the decision-making process. Hart (1995) also cites the conflict between owners and managers (or directors) as the main reason why corporate governance is so important in organisations, adding that contracts alone are insufficient to avert agency problems (not all business activities are conducted using a contract, and in any case, writing and enforcing contracts incurs significant agency costs). The agency problem is at the heart of Shleifer & Vishny, (1997) argument that corporate governance is there to protect the interests of owners, and in the Cadbury Report's definition of corporate governance as a set of rules that separate control and ownership. Gillan & Starks, (1998) offer a broader definition of CG, explaining that:

> *"At one level, a firm's governance can be viewed as the set of structures that provides the boundaries for the operation of the enterprise. This entails not only participants, such as workers, managers, and suppliers of capital but also the returns to those participants and the constraints under which they operate"*. (p.382)

Their definition recognizes the multiple relationships that impact on the firm's operations, from its relationships with its employees, investors, creditors, shareholders and other stakeholders to those with regulators and financial markets. Renders & Gaeremynck (2012) also highlight the impact of agency problems within principal-principal relationships; in a study covering listed companies from fourteen European countries over the period 1999-2003, they found that conflict within these relationships adversely affected the quality and effectiveness of CG structures.

A problem with agency theory is that it does not take into account factors such as historical and cultural background or institutional arrangements, all of which may have an impact on CG (Claessens & Laeven, 2006). Germain et al. (2014) criticise agency theory as inadequate for understanding CG in Malaysian firms as there is no relationship between the measures under the monitoring hypothesis and board independence.

Pande & Ansari (2014) indicated that

> *"The most popular theoretical framework, the agency theory, led to the evolution of the Anglo-Saxon model of corporate governance that is used widely to help the board of directors in curbing excessive executive power in the hands of management. However, with the blurring of the roles of the principal and the agent, the currently prevalent governance frameworks, based on this theory, have become self limiting and ineffective. We need new theoretical insights that will take us towards a comprehensive theory of governance"*. (p,56)

The Libyan government has taken a number of steps over recent years to reform corporate governance as part of its plan to promote privatization and encourage foreign investment. However, while significant reforms have already taken place in the LBS, the privatization programme is still in its early stages and state-owned banks still predominate. Since corporate governance codes in developed countries are generally designed with the intention of reducing agency conflicts in environments where ownership is dispersed and separated from control (Jensen & Meckling, 1976), they may not be appropriate for the LBS, where dispersed ownership is not typical. Unlike developed countries, where corporate governance tends to be shaped by formal institutions such as the legal and regulatory framework, corporate governance in developing countries is more likely to be impacted by informal institutions such as kinship, religion, culture and politics. In these countries, legal and regulatory frameworks may be weak, ineffective or absent altogether (Young et al. 2008). A major limitation of agency theory is that it takes no consideration of the role of these informal institutions.

4.2.3 Stakeholder Theory

According to the OECD (2004), *"The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises"* (p.21). Stakeholder theory was developed during the 1970s, but it was not until 1984 that Freeman proposed a general theory of the firm suggesting that corporations should consider themselves accountable to a broad range of stakeholders (Solomon, 2013). Freeman (1984, p. 32) defined stakeholders as those individuals or groups who can affect or are affected by an organisation, but extreme proponents of stakeholder theory suggest that the environment, animal species and future generations should also be considered stakeholders. Donaldson & Preston (1995) take the highly inclusive view that *"Stakeholders are identified through the actual or potential harms and benefits that they experience or anticipate experiencing as a result of the firm's actions or inactions"* (p.85).

According to stakeholder theory, a stakeholder is anyone with an interest in the organisation or who affects or is affected by its actions (Freeman & Vea, 2001). The organisation's obligations, therefore, extend not just to shareholders but also customers, suppliers, employees, investors, lenders, auditors, government bodies and the community at large (Letza, Sun & Kirkbride, 2004). Furthermore, the theory recognises that the actions of the firm may have not just financial but also social, economic, environmental and technological impacts (Clement, 2005; Simmons, 2004). For example, Ayuso et al. (2014) argue that corporations facing crisis should balance their goal of maximising shareholder value against their moral responsibility towards other stakeholders such as employees and suppliers.

As far as CG is concerned, stakeholder theory posits that companies must ensure that their governance meets the needs of all stakeholders (Clement, 2005). Luoma & Goodetein (1999) indicate that some companies seek to do this by inviting customers, suppliers, employees and members of the public to sit on the board. However, very few countries have the legislation in place to make this kind of representation mandatory. The problem with stakeholder theory as a perspective for investigating CG is that it is less developed than other theories; indeed, some have accused it of having little to offer in the way of insight into or suggestions for improving governance. Sternberg (1997), for example, is critical of stakeholder theory's assumption that corporations are equally accountable to all stakeholders. She argues that the theory ignores the primary aim of any business, which is to maximise long-term owner value, and assumes that the only way to achieve legitimacy is to balance the needs of all stakeholders, which is impossible.

4.2.4 Transaction Cost Theory

Williamson (1996) explains that transaction cost theory was developed to facilitate analysis of the *"comparative costs of planning, adapting and monitoring task completion under alternative governance structures"* (p.22). He adds that a transaction occurs "when a good or service is transferred across a technologically separate interface". The theory assumes that companies get larger and more complicated as a result of external price changes which guide the production and the markets coordinate transaction (Solomon, 2013). According to Williamson (1996), transaction costs are influenced by human and environmental factors: human factors include bounded rationality (the assumption that individuals lack the capacity or the resources to consider every state-contingent outcome of the transaction) and opportunism (self-interest as the motivation for work), while environmental factors include uncertainty, small numbers trading and asset specificity.

There are several studies investigating corporate governance from the perspective of transaction cost theory. Dittmar et al. (2003), for example, investigate the causes of transaction costs in countries with extensive shareholder protection, while Mayer & Solomon (2006) examine the impact of contractual hazards and technological capabilities on governance (finding that firms with strong technological capabilities are better able to control transaction costs), and Ezzamel & Willmott (1993) adopt transaction cost theory to investigate CG in the UK's public sector. However, other researchers have criticized transaction cost theory as a perspective for investigating strategic and organisational issues. Ghoshal & Moran (1996), for example, argue that its underlying assumptions make it "dangerous" for executive managers. They also review other studies that criticize this theory (Dore, 1983; Granovetter, 1985; Perrow, 1986; Simon, 1991). Dore (1983) argues that ethnocentric bias undermines the generalizability of transaction cost theory, while Granovetter (1985) asserts that the theory pays too little attention to the contextual grounding of human actions, and Perrow (1986) suggests that it embodies a hidden ideology that distorts more than it illuminates. Williamson (1996) argues that in transaction cost economics, corporate governance is seen as having the twin purposes of protecting shareholders and ensuring that the firm operates efficiently within its political and cultural environment.

To summarize, the key theories employed by previous CG studies are stewardship theory, agency theory, stakeholder theory and transaction cost theory. The first of these is inappropriate for a Libya-based study given the high incidence of nepotism when it comes to executive appointments; the widespread abuse of the appointment process means that many managers are neither qualified nor reliable. The second, agency theory, is also inappropriate for a developing country such as Libya, where the banking sector is characterized by concentrated state ownership and an underdeveloped capital market. What is more, the theory takes no account of the informal institutions that play a prominent role in Libyan CG. Consequently, it is unlikely to clarify the behaviour of Libyan commercial banks in regard to corporate governance disclosure and practice. Stakeholder theory is relatively less developed and therefore unlikely to yield useful insights into how to improve CG performance, while transaction cost theory has been accused of lacking generalizability and giving scant attention to the effect of context. In light of these limitations, the decision was made to adopt institutional theory as the theoretical framework for this research.

4.3 Institutional Theory

The economic theories discussed above were rejected because they were considered insufficient to interpret the development of CG disclosure and practice within the institutional environment (Letza, Kirkbride, Sun & Smallman, 2008). An alternative perspective was therefore needed (Learmount, 2002). In choosing institutional theory as the theoretical lens for the research, the study follows a number of other corporate governance studies (see section 2.8), though it is only the second after (Zagoub, 2011) to adopt this approach in Libya most previous researchers have ignored the institutional environment surrounding LCBs. The theory is applied here to explain how Libya's institutional context has influenced/is influencing corporate governance disclosure and practice in the country's commercial banks.

Variations of institutional theory have been employed by scholars in a range of disciplines, including sociology, politics and economics (DiMaggio & Powell, 1983; Moll, Burns & Major, 2006; Scott, 2001; 2008). These variations, which include old institutional economics (OIE), new institutional economics (NIE) and old and new institutional sociology (NIS) (Burns & Scapens, 2000; Deegan & Unerman, 2006; Moll et al. 2006), are discussed in the following sections.

4.3.1 The Development of Institutional Theory

4.3.1.1 Institutional Theory in Economics

Old institutional economics emerged 100 years ago (Moll et al. 2006) with the arguments that economic practices take place within a social context that is itself shaped by history and culture (Schmoller, 1900), and that institutions are social phenomena that need theoretical explanation. Proponents of OIE criticized classical economic models for ignoring historical change and for their unrealistic assumptions about human behaviour. Veblen (1898) argued that this behaviour is largely governed by convention and habit. Veblen, (1919) defined institutions as "settled habits of thought common to the generality of man" (p.239). Commons (1924), meanwhile, suggested that human behaviour is less suitable as a principle of economic analysis than transactions. He defined a transaction as: *"two or more wills giving, taking, persuading, coercing, defrauding, commanding, obeying, competing, governing, in a world of scarcity, mechanisms and rules of conduct"* (p.7).

4.3.1.2 Institutional Theory in Political Science

Institutional approaches influenced political science through the work of pioneers such as Wilson (1889), Willoughby (1896) and Burgess (1902). Between 1860 and 1925, these and other writers made moral philosophy and law the basis of their institutional analysis (Simon, 1991). Their focus was on the administrative arrangements and legal frameworks which form governance constructions (Scott, 2008). Bill & Hardgrave (1981) show that at the turn of the

20th century, institutional approaches focused on legal systems and formal structures, origins rather than change, historical reform and moral philosophy rather than empirical research. Between 1930 and 1960, however, the old institutional perspective faced increasing criticism from behaviourists keen to recast political science as an empirical as well as theoretical discipline (Scott, 2008). The old institutional approach paid little attention to issues such as the informal distribution of power, political behaviour and attitudes (Hall & Thelen, 2009), but under the influence of behaviourism, increasing consideration was given to topics such as public opinion, voting behaviour, party formation, action as a product of self-interest and allocation of resources (March & Olsen, 1984). As a result of this revolution, a new variant of institutional theory emerged during the 1970s and 1980s, the aim of which was to reconstruct the frameworks that control, empower and constrain political behaviour.

4.3.1.3 Institutional Theory in Sociology

Spencer,(1876, 1896, 1910) developed the concept of the institution with his description of society as an arrangement of "organs" or systems which over time develop into institutional structures. Sumner (1906) built on the work of Spencer by investigating the origin and development of "folkways". He argued that institutions are made up of concepts (which define the function or purpose of the institution) and structures (which put this function into action). Although the evolutionary view of institutions developed by Spencer and Sumner was subsequently rejected by sociologists, the concept had by then become established as a sociological focal point (Scott, 2008).

Scott (2008) suggests that institutional analysis has been most influenced by Marx, Durkheim and Weber. Marx took a materialist view, regarding political and economic structures as the product of human ideas and actions. Durkheim (1893/1949) emphasized the role played by symbolic systems such as belief, knowledge, religion and morality, which he saw as social institutions, while Weber (1978) shed light on the cultural rules that describe social structures and govern social behaviour. According to Weber, the action is a social where the researcher and object of study are characterized by the subjective meaning of events and the action itself is guided and motivated by material conditions and interests. This approach formed the basis of new institutional analysis (Scott, 2008). Parsons (1934/1990) sought to resolve the tension between

the subjective and objective approaches by arguing that normative frameworks emerge and exist independently of social actors (Scott, 2008). He defined institutions as systems that regulate and organize the associations among people. However, Parsons' approach was challenged (Alexander, 1983; Powell & DiMaggio, 1991; Scott, 2008) on the grounds that firstly, it gave more attention to cultural patterns than cognitive dimensions and secondly, his view of culture was limited to value orientations. The criticism left the way open for new institutional theory to find new and better ways to explain the relationship between the normative and the instrumental in social action.

NIS is particularly suitable for the current study because it explains how organisational structures and practices are shaped by institutional pressure. NIS posits that the survival of an organisation depends not just on its achieving production efficiency but also on its conformity to social norms of acceptable practice (DiMaggio & Powell, 1983; Meyer & Rowan, 1977); in other words, on complying (or at least appearing to comply) with these institutional forces.

4.3.1.4 The Differences Between Old and New Institutionalism

According to Powell and DiMaggio (1

991), old and new institutionalism have a number of things in common:

> *"Both the old and new approaches share scepticism toward rational-actor models of organisation, and each views institutionalization as a state-dependent process that makes organisations less instrumentally rational by limiting the options they can pursue. Both emphasize the relationship between organisations and their environments, and both promise to reveal aspects of reality that are inconsistent with organisations' formal account. Each approach stresses the role of culture in shaping organisational reality".* (p.12)

However, there are also some significant differences (ibid):

> *"They identify different sources of constraint, with the older emphasizing the vesting of interests within organisations as a result of political trade-offs and alliances, and the new stressing the relationship between stability and legitimacy and the power of common understandings that are seldom explicitly articulated".* (p.12)

The importance attributed to legitimacy is identified as a main difference between the two variants; in new institutional theory, this is seen as the key to organisational survival (Meyer & Rowan, 1977). Table 4.1 summarizes how old and new institutionalism differ in their assumptions.

Table 4.1 Differences between old and new institutionalism

	Old	***New***
Conflicts of interest	Central	Peripheral
Sources of inertia	Vested interests	Legitimacy imperative
Structural emphasis	Informal structure	Symbolic role of formal structure
Organisation embedded in	Local community	Field, sector, or society
Locus of institutionalisation	Organisation	Field of society
Organisation dynamics	Change	Persistence
Basis of critique of utilitarianism	Theory of interest aggregation	Theory of action
Evidence of critique of Utilitarianism	Unanticipated consequences	Unreflective activity
Key forms of cognition	Values, norms, attitudes	Classifications, routines, scripts, schema
Social psychology	Socialisation theory	Attribution theory
Cognitive basis of order	Commitment	Habit, practical action
Goals	Displaced	Ambiguous
Agenda	Policy relevance	Disciplinary

Source: Powell & DiMaggio (1991, p.12)

The following sections discuss those aspects of institutional theory that are most relevant to this study.

4.3.2 Institutional Isomorphism

DiMaggio & Powell (1983) argue that: *"Institutions become similar over time through the process of institutional isomorphism as organisations adapt to become more similar to those around them. Isomorphism arises through three avenues: coercive, normative, and mimetic"* (p.150). Coercive isomorphism, explain DiMaggio & Powell (1983), *"comes about as the result of external regulatory-type pressures for organisational convergence"* (p.150). These pressures mandate organisations to adopt a set of specific roles. They generally take the form of new codes or laws, followed by monitoring. Organisations violating the laws are punished while those demonstrating compliance are rewarded (DiMaggio & Powell, 1983; Moll et al. 2006; Scott, 1995). A prime example of coercive isomorphism within the Libyan banking sector is the CGLBS (2010), which obliges Libyan commercial banks to apply corporate governance.

Mimetic isomorphism arises when organisations in the same field imitate each other's practice (DiMaggio & Powell, 1983); those facing uncertainties tend to copy other successful organisations in the hope of enjoying similar success (Greenwood & Hinings, 1996; Greenwood, Suddaby & Hinings, 2002). This form of isomorphism is more likely to occur in smaller or less successful organisations and in those with ill-defined goals (DiMaggio & Powell, 1983). Within the LBS, small banks are more likely to be encouraged to practise CG disclosure if they see it being adopted by larger, successful institutions.

Finally, DiMaggio & Powell (1983) explain that normative isomorphism results when organisations feel under pressure to adhere to the standards set by experts and professional bodies at national and international levels. Unlike coercive pressure, there is no legal or regulatory obligation to comply with these norms (Scott, 1995), but the organisation may see it as necessary to maintain legitimacy within the sector.

However, as suggested in section 4.3.1.3, this compliance may not always be genuine; many organisations choose to respond to institutional pressures by decoupling their actual practice from the formal requirements (Moll et al. 2006) This phenomenon has inspired numerous studies within NIS (Fiss & Zajac, 2006; 2004; Wade, Porac & Pollock, 1997; Westphal & Zajac, 1994; 1998; 2001; Zajac & Westphal, 1995). In terms of CG specifically, Krenn (2014) explains that convergence is often merely formal rather than substantive, with some firms that have formally adopted a code of good governance decoupling this policy from their actual practice. He provides a model explaining the circumstances under which firms may pursue a decoupling strategy in response to conflicting pressures in their institutional environment, arguing that this tends to happen when: (a) the firm's compliance costs are relatively high, (b) the cost to the firm of outright and visible non-compliance is relatively high, and (c) outsiders' compliance monitoring costs are relatively high, (Krenn ,2014, p.110). Within the Libyan context, commercial banks tend to decouple their corporate governance from their actual practice and treat CG disclosure as a formality rather than an intrinsically worthwhile task. This is one of the reasons why this study focuses on how LCBs are responding to the mandatory corporate governance code.

4.3.3 The Three Institutional Pillars

Scott (2008) describes institutions as comprising "regulative, normative and cultural-cognitive elements that, together with associated activities and resources provide stability and meaning to social life" (p.48). These three pillars of organisational legitimacy: regulative, normative and cultural-cognitive. Scott gives more attention to the context where the organisation is working rather than creating change and homogenizing companies in specific organisational fields. He provides three pillars which can create the context of the stability of the organisation through its structures and activities. This definition is wide and has a variety of themes which will be discussed in the following sections. These three institutional pillars may be used to explain the institutionalization process.

Table 4.2 The three institutional pillars

	Regulative	***Normative***	***Cultural-Cognitive***
Basis of compliance	Expedience	Social obligation	Taken-for-grantedness Shared understanding
Basis of order	Regulative rules	Binding expectations	Constitutive schema
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules Laws Sanctions	Certification Accreditation	Common beliefs Shared logics of Action Isomorphism
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognizable Culturally supported

Source: Scott (2008, p.51)

4.3.3.1 Regulative Pillar

The regulative pillar has been discussed widely by institutional researchers (Scott, 2008). It contains regulatory processes (rule-setting, monitoring and sanctioning activities) the purpose of which is to shape future behaviour. The legal framework controls companies by force, applying sanctions against those who deviate from the rules (it should be noted that these rules may reflect the interests of those who make them). The sanctions are grounded in instrumental logic, driving companies to behave legitimately in order to avoid penalties (Hoffman, 1999). This may involve them applying new pollution-control technologies to adhere to environmental rules, for example, or hiring accountants to comply with tax law requirements (DiMaggio & Powell, 1983).

In Libya, the CGLBS (2010) requires Libyan commercial banks to follow CG principles; as discussed in section 3.4, the code is one of a number of reforms designed to force banks to follow best CG practice. Scott (2008) explains that each regulative pillar is carried through certain key institutional carriers; in the case of the CGLBS (2010), the code carries procedures for the practice and disclosure of corporate governance, allowing principals to monitor agents and assess their compliance with set legal protocols. The code was designed to improve the level of corporate governance disclosure in the LBS. The current research, therefore, seeks to examine its impact.

4.3.3.2 Normative Pillar

The normative pillar includes two elements: values serve as a measure of existing and ideal practice, while norms provide a guiding principle for how this practice should be achieved (Gibbs, 1965). According to Scott (2008), the normative pillar involves "the creation of expectations that introduce a prescriptive, evaluative, and obligatory dimension into social life" (p.880). Organisations feel obliged to adhere to these expectations, whether they are general societal beliefs or the norms set by trade bodies, to preserve legitimacy (Hoffman, 1999).

In the Libyan context, banks may be influenced by international organisations such as the BCSB, OECD and the Basel Committee to adopt corporate governance guidelines. These organisations expect banks to comply with international corporate governance principles and practices. At the national level, the LSM expects listed banks to comply with its voluntary CG code, while organisations such as the Libyan Accountants and Auditors' Association (LAAA) and the Libyan Audit Bureau expect banks to adhere to both national and international standard requirements.

4.3.3.3 Cultural-cognitive Pillar

The cultural-cognitive pillar refers to the shared beliefs and culture that underlie organisations' mimetic behaviour. These beliefs are usually grounded in an established orthodoxy or commonly accepted understanding of how things are done. As mentioned in section 4.3.2, organisations often respond to uncertainty in the external environment by engaging in mimetic behaviour (DiMaggio & Powell, 1983) that affirms their acceptance of and adherence to this orthodoxy; as Scott (2008) explains: *"mimetic isomorphism is driven by the constitutive schemas or the way things have been done"* (p.51). The cultural-cognitive pillar contains carriers which are the symbolic representation of the internal environment. In the LBS, organisational attributes such as age and ownership structure carry symbolic significance and have an impact on the development of CG disclosure and practice.

4.3.4 Institutional Fields

An institutional field may be defined as: *"those organisations that in the aggregate, constitute a recognised area of institutional life: key suppliers, resources and product consumers, regulatory agencies and other organisations that produce similar services and see themselves involved in a common enterprise"* (DiMaggio & Powell, 1983, p.143). By this definition, the institutional field of the Libyan banking sector includes all commercial banks, regulators and legislators. However, Scott's (1995) suggestion that organisations participate in a system of common meaning as they see themselves as a part of a community implies that the definition may be expanded to encompass all those who share this common meaning system and who interact with each other more than with outside actors.

Analysing the institutional field thus requires the researcher to take into account not only the role played by the main actors but also that played by other stakeholders such as the state, regulators, professional and trade associations and product consumers (DiMaggio & Powell, 1983), all of whom have their own agendas (Everett, 2002). In the case of LCBs, related actors also include foreign investors, though the main actor remains the CBL, which has part-ownership in the majority of commercial banks (see Table 3.2).

4.3.5 The new Institutional Theory, and The Concept of Institutional Logics

A review of the literature suggests that the main focus of institutional theory is how and why organisations in the same field become more or less homogeneous over time (Scott, 2008). Researchers have identified many reasons why organisations change, but a recurring explanation is that they do so in response to changes in the institutional field. Hoffman and Wooten (2008), for example, indicate that the arrival of new competitors within the field increases institutional pressures, forcing organisations to respond, while Greenwood et al. (2002) point to the impact of technological and regulatory changes.

Recent developments in institutional theory include Scott's (2008) broadened view of institutional theory as a discipline or meta-theory dealing with organisations and institutions (i.e. the taken-for-granted ways of organizing), the institutional lifecycle (i.e. the rise and fall of institutions), institutional change and stability (i.e. prevention of change) and organisational resistance to institutions (i.e. symbolic and illegitimate action).

Fiss (2008) points to CG as an example of how institutions impact social phenomena. He notes that while the ideological battle continues over whether shareholders or stakeholders should have primacy, the shareholder-oriented model remains dominant. Fiss (2008) also discusses the resistance of the shareholder value maximisation related to CG despite its diffusion. He highlights the preferences and relative power of companies and their stakeholders, particularly shareholders and directors, as the function of diffusion. He also argues that mimetic isomorphism is not the cause of diffusion as companies adhere to local requirements, though their adaptation may be impacted by cultural, political and technical concerns. Fiss points to decoupling and efforts to change societal expectations as a form of company resistance. He also suggests that there are several interests for shareholder so the corporate objective cannot be the only shareholder-oriented as argued by its supporters. Finally, he suggests that the fact that capitalism takes different forms around the world is related to the variation in CG frameworks.

However, the institutional pressure may transfer globally and lead to diffuse a global conjunction in CG.

Another development is the emergence of the concept of institutional logic. Dunn & Jones (2010) define institutional logics as *"cultural beliefs and rules that shape the cognitions and behaviours of actors"* (p.114). They are "*socially shared, deeply held assumptions and values that form a framework for reasoning, provide criteria for legitimacy, and help organize time and space"* ibid. Institutional logics help make social reality clear and guide individuals' actions (Friedland & Alford, 1991; Thornton & Ocasio, 1999), but as socially-constructed sets of ideas, they may contain inconsistencies or uncertainties (van Gestel & Hillebrand, 2011). From organisational subsystems to world-systems, institutional logics exist at multiple levels, often in competition (Friedland & Alford, 1991). This competition and uncertainty can leave the way open for certain organisational actors to impose on others ideas or practices that serve their own interests (Seo & Creed, 2002; Suddaby & Greenwood, 2005), giving them the power to play a central role in organisational change (Thornton & Ocasio, 2008; Suddaby & Greenwood, 2005).

There have been numerous changes in the LBS – both regulatory and otherwise – since 2005, including the issuing of the Libyan Banking Law in 2005, the voluntary CGLBS in 2006, the establishment of the LSM in 2007, the entry of foreign banks and the issuing of the mandatory CGLBS in 2010 and the seismic cultural and political shifts since the revolution of 2011. All of these changes may have affected the development of corporate governance and disclosure in Libya and helped make it different from CG in other developing and developed countries. The CBL's role as a majority shareowner in a number of LCBs (see Table 3.2) means it should have a major influence on CG disclosure in the sector, but this is offset by a weak monitoring environment. Libya's shift from socialism to capitalism, and the accompanying change in social and political culture, have also had an impact, with reforms to liberalize the economy creating an institutional logic which must now compete with the logic that prevailed under the former regime. Institutional pressure is thus relatively weak (see Zagoub, 2011), leaving many organisations free to decouple their activities from the legal requirements of the CGLBS (2010).

4.3.6 Institutions

Scholars have defined the concept of the institution from different perspectives, depending on their approach to institutional theory. Stinchcombe (1968), for example, defines it from the power perspective, describing an institution as *"a structure in which powerful people are committed to some value or interest"* (p.107). Jepperson (1991), meanwhile, focuses on the exercise of power, describing institutions as patterns of social practice in which *"departures from the pattern are counteracted in a regulated fashion, by repetitively activated, socially constructed, controls – that is by some set of rewards and sanctions"* (p.145). In focusing on the acquisition and exercise of power, both definitions echo the main concern of corporate governance. Other researchers define the concept from the perspective of inter-personal relationships. Thus, Barley & Tolbert (1997) define institutions as *"shared rules and typifications that identify categories of social actors and their appropriate activities or relationships"* (p.96). Burns & Scapens (2000) extend this definition, describing institutions as *"the shared, taken-for-granted assumptions which identify categories of human actors and their appropriate activities and relationships"* (p.8). Other scholars define institutions from an even wider perspective; Huntington (1968), for example, describes them as governance structures made up of cultural elements (e.g. rules, norms, values, roles, systems, behaviours and formal and informal procedures) that form and define the relationships between individuals within the institution and between the institution and the prevailing political, economic and social systems. Adopting a similarly broad view, Khadaroo & Shaikh (2007) assert that an institution may be made up of a variety of organisations connected by a shared aim, such as achieving CG best practice.

The literature highlights the key role played by institutions such as the bureaucratic state, religion, the market, the law, politics, and kinship and family. Particular attention is therefore paid in the study to the impact of these institutions on the development of corporate governance disclosure and practice in LCBs.

4.3.6.1 The Bureaucratic State

Watson (2007) emphasizes that all organisations are subject to the authority of the bureaucratic state, or as Weber (1978) puts it, legitimized power plays a central role in organisational practice. Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, (2011) identify two ways of state logic: *"Relative tolerance is shown towards political representation and plurality of expression and the extent to which state powers and authority are centrally concentrated or devolved to sub-national levels"* (p.573). Regarding to the state logic, democratic participation is the basis of legitimacy, the bureaucratic domination is the basis of authority, the social and economic is the basis of identity and the source of strategy is to improve the community and make it better (Thornton, Ocasio & Lounsbury, 2012). The bureaucratization process varies from one society to another, with variation in bureaucracy appearing clearly when organisations are rationalized or modernized (Watson & Korczynski, 2011). The bureaucratic state can have a supportive or discouraging impact on organisational practice. Bourdieu & Farage (1994) explains that there are some issues as educational failure, poverty and immigration are lacking the states through societies. He also states that: *"State bureaucracies and their representatives are great producers of 'social problems' [and] social science does little more than ratify whenever it takes them over as 'sociological' problems"* (p.2).

There is little in the literature regarding the impact of the bureaucratic state on the emergence and development of corporate governance. Che & Qian (1998) argue that as local regulatory authorities derive their power from the state, they have the potential to play a key role in improving society. In terms of corporate governance, this means on the one hand supporting companies by offering training and consultation, and on the other enforcing the rules and applying penalties where necessary. However, as Becht, Bolton & Roell (2003) observe, the rules imposed by these authorities may be inadequate or inconsistently enforced.

As the main regulatory body in the Libyan banking sector, the CBL has been tasked with implementing corporate governance in Libyan commercial banks. To this end, it has issued the CGLBS (2010), which requires banks to disclose not just their financial information but also information about their organisational structure, CG practice and structure and ethical standards. However, to the best of the researcher's knowledge, there has been no investigation of the CBL's role in supporting and enforcing the implementation of this code; Zagoub (2011) makes a start by identifying coercive institutional pressure from the CBL as the biggest determinant of LCBs' CG practice, but he points to the need for further research into the varying levels of compliance demonstrated by both listed and unlisted banks.

4.3.6.2 Religion

Religion plays a central role in many people's worldview as a source of explanation and even prediction (Davie, 2006). According to Asad (2009), *"There cannot be a universal definition of religion, not only because its constituent elements and relationships are historically specific, but because that definition is itself the historical product of discursive processes"* (p.29). However, Friedland & Alford (1991) argue that at the heart of all major religions is the search for transcendental truth; this forms the core of their institutional logic, informing their norms and values to varying degrees. To those impacted by religion, faith and sacredness are sources of legitimacy, religious scholars are sources of authority and God is the source of identity (Thornton et al. 2012). From the sociological perspective, religion is widely perceived as the main component of an integrative value system (Parsons, 1991). The literature suggests that religion impacts on corporate governance in some societies; Abu-tapanjeh (2009), for example, indicates that religious teachings encouraging adherence to principles such as justice, honesty and public spiritedness also play an important part in protecting shareholders and promoting good CG practice. Indeed, Abu-tapanjeh argues that an ethical/moral structure is essential in any governance system as without it, the system will fail. Rizk (2008) also points to the key role religion plays in encouraging ethical behaviour. In the Libyan context, the dominant religion is Islam. Since it plays an important role in Libyan society (see section 3.2.3), the study investigates its impact on the development of CG disclosure and practice.

4.3.6.3 Kinship and Family

Radcliffe-Brown (1941) defines the institution of kinship as *"a system of dyadic relations between person and person in a community, the behaviour of any two persons in any of these relations being regulated in some way, and to a greater or less extent, by social usage"* (p.2). The kinship institution has been widely discussed in the literature, which sees it as playing an important social role. Young &Wilmott (2013) state that: *"Kinship remains an important force in most people's lives, and is in particular still overwhelmingly the main source of informal care and support"* (p.xxiii). From the corporate governance perspective, the literature notes an impact on CG, particularly in developing countries (Young et al. 2008). This impact manifests in a number of ways, such as reduced board independence, an increase in corruption and a culture of secrecy. The first of these is highlighted by Bukhari (2014), who, in his investigation of the impact of a range of institutions on CG in Saudi Arabian listed companies, found that kinship ties undermine the independence of board members. The effect of this loss of independence is illustrated by Filatotchev et al. (2005); when they investigated the impact on board performance of ownership structure and board characteristics in listed, family-owned companies in developing countries, they found that boards dominated by family members tended to perform worse.

Kinship's effect on company openness has also been demonstrated by researchers, with Qu and Leung (2006) finding that Chinese society's clan-oriented culture deters Chinese listed companies from providing comprehensive CG information, and Arafa (2012) linking the culture of secrecy among family-owned Egyptian companies to their lack of online disclosure. The increased incidence of corruption has been illustrated by Dela Rama (2012), who found that in the Philippines, where family-owned business groups dominate, corruption has had a significant impact on the development of CG. As section 3.2.4 reveals, the extended family is the cornerstone of Libyan society, shaping the structure of contemporary life. It is therefore a key area of focus within this investigation.

4.3.6.4 The Market

Different theoretical schools have discussed the market institution from a variety of perspectives. To neo-classical economists, the market institution is the backbone of the economy (Chang, 2002), while the state serves as an alternative non-market institution (Aoki, 1996). The market plays a central role in developed societies such as the US and UK as it creates stability and provides a social explanation for competition (Fligstein, 1996; Fligstein & Mara-Drita, 1996). In these societies, the market institution dominates because it is effective. However, it may be less effective in developing economies, which tend to be less well regulated (La Porta et al. 2000). Thornton et al. (2012) argue that market logic is grounded in self-interest and mainly concerned with economic value and profit-seeking; actors aim to improve market position by making cost efficiencies and/or increasing revenue. Since markets in developing countries tend to be weak, they are less effective at modifying this behaviour and driving organisations to implement CG (Lin, 2001). Allen (2005) goes further, citing China as an example of a developing country where the market has had virtually no impact on corporate governance. This study seeks to investigate the extent to which the market is impacting the development of CG in Libya.

4.3.6.5 Political Institution

March & Olsen (1989) define the political institution as:

> *"…collections of interrelated rules and routines that define appropriate actions in terms of relations between roles and situations. The process involves determining what the situation is, what role is being fulfilled, and what the obligation of that role in that situation is".* (p.21)

The political institution encompasses the legal system, legislature, political parties, bureaucracies and mass media that collectively create the rules and govern the ownership and practice of political rights and resources (March & Olsen, 1996). Watts (1977) sees the political process as essentially a competition in which each participant is seeking to maximize their own interests. If this is true, the agency relationship may be seen on one level as reflective of the political process.

Few studies have investigated the impact of the political institution on corporate governance, and most of these were conducted in developed countries, but in one of these studies, Roe (2003) concludes that: *"Politics can press managers to stabilise employment, to forego some profit-maximising risks with the firm, and to use up capital in place rather than to downsize when markets are no longer aligned with the firm's production capabilities"* (p.iii). Watts (1977) argues that political parties can play an essential role in demanding and regulating financial disclosure from corporations, and points out that issuing disclosure-related regulations is one way governments have historically responded to political crises. The UK government responded to the South Sea Bubble crisis by issuing the Parliament Act of 1720 forbidding the establishment of joint-stock companies, while the US government's Securities Acts of 1933 and 1934 were a response to the US stock market crash in 1929. Political parties can also choose to respond (or not) to the actions of lobbyists.

In the Libyan context, the former regime's political ideology played the main role in shaping the national economy. The study aims to investigate the impact the recent change in ideology and other political factors have had on the development of CG disclosure and practice in LCBs.

4.3.6.6 The Law

The literature discusses the legal institution from two main perspectives: the law as an exploration of power, or as the source of, or need for, power (La Torre, 2010). Weinberger (1991) builds on the institutional theory of law, observing that norms exist as “thought objects” and belong to the “institutional facts” of our social existence. A growing body of literature is addressing the impact of the legal institution on the development of corporate governance. According to Milhaupt (1996), the law plays an important role in shaping corporate governance in developed countries, setting out the basic principle of corporate governance, describing the rights of actors and setting the limits for private ordering. Shleifer &Vishny (1997) point particularly to the institution’s role in protecting investors and shareholders, while Cioffi (2000) adds that company law, financial market regulation and labour law all have an impact on companies’ CG. But while this may be the case in developed countries, in developing countries, the legal environment often seems inconsistent with the development of corporate governance. Young et al. (2008) indicate that although many developing countries have adopted the Anglo-American system of CG, many elements of the legal institution, such as disclosure parameters, accounting requirements and securities trading boundaries, are inadequate or absent altogether. In these circumstances, it is highly likely that corporate governance will be driven by other institutions such as kinship ties, government connections and business groups (Yeung, 2006).

4.4 Summary

The first part of this chapter describes and evaluates the theories commonly used by researchers to investigate corporate governance and disclosure. It starts with stewardship theory, which sees executives as stewards who are motivated to work in the best interests of shareholders (Davis et al. 1997; Donaldson & Davis, 1991). Critics of this theory point to the role played by executive opportunism in numerous corporate collapses. In contrast to the optimistic view taken by stewardship theory, agency theory sees people as essentially self-interested; it posits that as a result, any cooperative action is likely to produce conflicts of interest (Jensen, 1994; Agrawal & Knoeber, 1996). Although useful, agency theory does not consider the impact of historical and cultural background or institutional arrangements on the agent-principal relationship. Stakeholder theory offers a broader perspective, focusing not just on shareholders but also customers, suppliers, employees, government, auditors and the wider community (Letza, Sun & Kirkbride, 2004), but it has been criticized as insufficiently developed for investigating corporate governance (Sternberg, 1997). Transaction cost theory, which assumes that companies get larger and more complex as a result of the price changes outside companies which guide the production and the markets coordinate transaction (Solomon, 2013), has also been criticized – for lacking generalizability and paying too little attention to context.

The second half of the chapter discusses the institutional theory framework adopted in this research study. It explains that institutional theory has given rise to several variations, including old institutional economics (OIE), new institutional economics (NIE) and new institutional sociology (NIS) (Burns & Scapens, 2000; Deegan & Unerman, 2006; Moll et al. 2006). The chapter discusses the concept of institutional isomorphism introduced by DiMaggio &Powell (1983) and Scott's (2008) three institutional pillars. before going on to discuss the concepts of institutional fields and institutional logic. Finally, it introduces those key institutions (the bureaucratic state, religion, kinship, the market, politics and the law) that have been identified in the literature as having an impact on CG. It is the aim of this study to explore the impact these institutions are having on the development of CG disclosure and practice in Libya's banking sector, which differs from those of developed countries in a number of ways. To this end, it investigates how key actors in the sector perceive normative, coercive and mimic pressures to be influencing the development of CG disclosure and practice, how they see banks responding to these pressures, and whether they observe any decoupling from actual practice.Frome the perspective of the key actors of CG disclosure and practice and other stakeholder groups, the study explore the key institutions such as (the bureaucratic state, religion, kinship, the market, politics and the law) and their impact on the CG disclosure and practice in LCBs where the context is different to those developed countries.

This chapter having outlined the theoretical framework of the study, the next chapter presents the methodology that was employed to carry out this investigation.

Chapter 5 Methodology and Methods

5.1 Introduction

The previous chapters discussed the literature relating to corporate governance disclosure and practice and institutional theory, paying particular attention to those institutions that are materially impacting the development of corporate governance in the Libyan context. The aim of this study is to investigate the development of CG disclosure and practice in LCBs and how these institutions are shaping this development. This chapter discusses the methodologies and methods that were employed to achieve this aim and explains why they were selected. It considers the research philosophy, research approach and research strategy, before describing in detail how the data were collected and analysed.

5.2 Research Philosophy

The research philosophy is the central consideration within the research design as it guides the researcher's assumptions about how knowledge is developed (Saunders, 2011) and helps him or her create knowledge, especially if they are new to research (Malmi, 2010). The research philosophy represents a set of ontological, epistemological and methodological assumptions, as well as assumptions about human nature and the nature of society, which the researcher makes either implicitly or explicitly before embarking on their study (Burrell & Morgan, 1979; Chua, 1986; Laughlin & Richard, 1995). This set of assumptions informs the research design and influences the choice of method (Creswell, 2009).

5.2.1 Ontological Assumptions

Walliman (2006) defines ontology as: *"a theory of social entities that is concerned with what there exists to be investigated"* (p.15). Since ontological assumptions address the nature of reality, what it is and how it is perceived (Hopper & Powell, 1985; Collis & Hussey, 2003; Hallebone & Priest, 2009), they determine how the researcher sees the world and how he chooses his research object (Saunders, Lewise & Thornhill, 2016). There are two ontological paradigms: objective (realist) and subjective (constructionist) (Burrell & Morgan, 1979). It is essential that the researcher decides whether the world is objective and external, or socially constructed and only understood by examining the perceptions of human actors. The realist ontological paradigm posits that reality exists as an external phenomenon, independent of the cognition of any individual (Hallebone & Priest, 2009), while the constructionist paradigm assumes that reality is the subjective product of an individual's knowledge and experience (Hopper & Powell, 1985; Hallebone & Priest, 2009).

5.2.2 Epistemological Assumptions

Epistemological assumptions consider the question of what constitutes acceptable knowledge: how is knowledge about a particular view of reality generated, represented, understood and used? (Hallebone & Priest, 2009; Saunders, 2011). Crotty (2005) defines epistemology as: *"a way of understanding and explaining how we know what we know"* (p.8). Epistemological assumptions also consider the relationship between the researcher and the research subject (Bryman & Bell, 2003; Collis & Hussey, 2013; Guba & Lincoln, 1994); that is, the extent to which the researcher himself has an impact on the research process in terms of methodology, data analysis and the interpretation of results (Hallebone & Priest, 2009). The researcher's epistemological assumptions are particularly relevant in business and management research, where it is understood and accepted that knowledge can come in many forms, from numerical or visual data to narrative accounts. With such a wide range of methods to choose from – more than is available in many other disciplines (Saunders et al. 2016) it is important that the business researcher chooses wisely.

The literature identifies a number of epistemological stances, including objectivism, positivism, constructionism, subjectivism and critical realism (Bryman & Bell, 2003; Crotty, 2005). According to Collis & Hussey (2003), the two main traditional research philosophies are positivism and phenomenologicalism (or interpretivism). Denscombe (2007) defines positivism as: *"an approach to social research which seeks to apply the natural science model of research to investigations of the social world"* (p.332), while Allan (1991) defines the phenomenological paradigm as: *"a fact or occurrence that appears or is perceived, especially one the cause of which is in question"* (p.893). Collis and Hussey's (2003) list of the main features of the two philosophical paradigms is presented in Table 5.1.

Table 5.1 Key features of the two main philosophical paradigms

Positivistic paradigm	Phenomenological paradigm
Tends to produce quantitative data	Tends to produce qualitative data
Uses large samples	Uses small samples
Concerned with hypothesis	Concerned with generating theories
Data is highly specific and precise	Data is rich and subjective
The location is artificial	The location is natural
Reliability is high	Reliability is low
Validity is low	Validity is high
Generalizes from sample to population	Generalizes from one setting to another

Source: Collis & Hussey (2003, p.5)

There is no direct observation or single truth in interpretivism. Ontologically, it sees reality as subjective and socially constructed (Ryan, Scapens & Theobold, 2002); the researcher's job is to clarify this subjective reality and provide interpretative explanations (Burrell & Morgan, 1979; Chua, 1986). Epistemologically, it assumes that knowledge is gained only by understanding the perspectives of social actors; interpretive methodology therefore focuses on uncovering the meanings these actors attach to the symbols and structures that surround them (Alvesson & Deetz, 2000).

5.2.3 Critical Realism

In addition to the above two common positions, there is a third position which is neither positivist nor constructionist. This position, known as critical realism, is relatively new in organisational and management studies (Bhaskar, 1989). According to Bhaskar (1975), critical realism *"regards the objects of knowledge as the structures and mechanisms that generate phenomena; and the knowledge as produced in the social activity of science"* (p.25). It prioritizes ontology over epistemology in its assumption that the world should guide the way knowledge is obtained. Highly flexible, it has a place in both the natural and social sciences (Pratt, 2011, p.16).

Ontologically speaking, critical realism, like positivism, sees reality as external and capable of investigation (Fleetwood, 2005), but unlike positivism, which assumes that this reality can be accurately perceived through our senses (Saunders et al. 2016), critical realism posits that the world is not explicitly available through observation. It posits that what we perceive as empirical sensation is in fact a manifestation of reality rather than actual reality in support of their argument, critical realists point out how often our senses deceive us. According to this perspective, the process of understanding the world has two stages: the initial experience of events and sensations, followed by the mental processing that goes on sometime after the experience, when we reason backwards from our experiences to the underlying reality that might have caused them (Reed, 2005).

Bhaskar (1989) argues that understanding the social structures that give rise to phenomena will make it easier to understand what is going on in the social world; accordingly, critical realistic research seeks to explain events by looking at these social structures. This examination often takes the form of in-depth historical analysis (Reed, 2005). Epistemologically speaking, critical realists tend to take a relativist view (Reed, 2005); they recognize that knowledge is historically situated (i.e. it is a product of its time) and that facts are social constructions (Bhaskar, 1989). For the researcher, this means that causality cannot be expressed solely in quantitative terms, and that it may be necessary to employ both quantitative and qualitative methods (Reed, 2005). The assumption that our knowledge of reality is a result of social conditioning also means that the researcher must be aware of the ways in which their own socio-cultural background and experiences might influence their research.

The current research adopts the critical realism paradigm to investigate corporate governance disclosure and practice from the perspective of institutional theory. In the first stage, it seeks to establish a holistic picture of current reality in the LBS by revealing how commercial banks are responding to national and international disclosure requirements in their annual reports and websites. In the second stage, it gathers the perceptions of key actors to investigate in depth the underlying causes and mechanisms shaping this behaviour. The first stage employs quantitative analysis to explore CG disclosure patterns among Libyan banks and compare these to patterns in other countries, while the second employs qualitative semi-structured interviews. The study does not aim to investigate causal relationships between the constituent elements of the social world, nor does it attempt to predict what happens in the social world or to establish law-like generalizations. Rather, it is interpretive in nature, seeking to explain the social nature of accounting practice (Hopper & Powell, 1985).

5.3 Research Approach

There are two main methodological approaches: the empirical inductive approach and the deductive approach. The empirical inductive approach typically involves an empirical investigation of current practice and attempts to generalize from the findings. In contrast, the deductive approach is not dependent on existing practice but seeks to answer an identified problem by testing a theory (Elliot & Elliot, 2011). Collis & Hussey (2003) define deductive research as a study *"in which a conceptual and theoretical structure is developed and then tested by empirical observation; thus, particular instances are deducted from general inferences"* (p.15). In other words, the deductive method involves moving from the general to the specific (Collis & Hussey, 2009). An inductive study, on the other hand, is one in which theory is *"developed from the observation of empirical reality; thus general inferences are induced from particular instances, which is the reverse of the deductive method since it involves moving from individual observation to statements of general patterns or laws"* (Collis & Hussey, 2003,p.15). Since this study seeks to base its interpretation of CG disclosure and the institutional factors affecting its development on its observations of current "empirical reality" in LCBs, the inductive approach seems most appropriate.

In the first stage of the study, this reality was investigated by employing a disclosure index and unweighted scoring to measure the extent of LCBs' disclosure in annual reports and websites. As the aim at this point was only to establish an initial picture of the extent of and variation within CG disclosure in LCBs, and how it compares with disclosure in other developing countries, the data were subjected to only basic statistical analysis. By reviewing annual reports and websites published over several years it was possible to see whether there had been any improvement in CG disclosure and to capture inferences about the institutional factors shaping this development, such as the coercive pressure created by the issue of the CGLBS in 2010. There was no objective measurement or statistical analysis at this stage of the study. In the second stage, interviews were conducted with various stakeholder groups to investigate their perspectives regarding CG disclosure and practice and the effect of institutional factors. The inductive approach was most appropriate for this stage as the aim was to inquire into the meanings that these individuals attached to events in the LBS. Cavana, Delahaye & Sekaran (2001) describe induction as *"a process by which we observe certain phenomena and arrive at certain conclusions"* (p.36). In this case, the process yielded the data needed to answer the research questions.

5.4 Research Strategy

This research adopts a mixed methods research strategy. Johnson, Onwuegbuzie & Turner (2007) define mixed methods research as:

> *"…an intellectual and practical synthesis based on qualitative and quantitative research; it is the third methodological or research paradigm (along with qualitative and quantitative research). It recognizes the importance of traditional quantitative and qualitative research but also offers a powerful third paradigm choice that often will provide the most informative, complete, balanced, and useful research results" (p.129).*

The mixed methods approach is recommended by numerous researchers. Creswell & Clark (2011), for example, argue that it allows the researcher to offset the weaknesses of one research method with the strengths of another; that it yields more accurate results; and that it allows the researcher to answer questions which cannot be answered using only one research method. Table 5.2 summarizes the reasons for utilizing a mixed methods research strategy, as set out by the researcher is able to compare data taken from different sources (in this study, annual reports, websites and interviews) to corroborate their findings. Table 5.2 summarises the reasons for utilising a mixed methods research strategy, as set out by Bryman.

Table 5.2 Reasons for using a mixed methods research design

Reason	Explanation
Triangulation	Allows use of two or more independent sources of data or data collection methods to corroborate research findings
Facilitation	Allows use of one data collection method or research strategy to support another data collection method or research strategy (e.g. qualitative/quantitative providing hypotheses, aiding measurement, quantitative/qualitative participant or case selection)
Complementarity	Allows different aspects of an investigation to be dovetailed (e.g. qualitative plus a quantitative questionnaire to fill in gaps; quantitative plus qualitative interviews for meaning)
Generality	Allows use of independent data source to contextualize the main study, or use of quantitative analysis to provide a sense of relative importance (e.g. qualitative plus quantitative to set the case in a broader context; qualitative plus quantitative analysis to provide a sense of relative importance)
Aids interpretation	Allows use of qualitative data to help explain relationships between quantitative variables
Study of different aspects	Allows use of quantitative to look at macro aspects and qualitative to look at micro aspects
Solving a puzzle	Allows use of an alternative data collection method when the initial method produces unexplainable results or insufficient data

Source: adapted from Bryman (2006, cited in Saunders, 2011, p.154)

The literature reveals that there are two schools of thought regarding the mixed methods approach. On the one hand, proponents of the incompatibility thesis argue that as qualitative methods are based on inductive logic and quantitative methods are based on hypothetic-deductive logic, the two approaches are fundamentally incompatible. Scott & Briggs (2009) for example, argue that mixing methodologies should be discouraged because if the researcher seeks to *"blend paradigms with incommensurable epistemic and ontological foundations"* (p.230), the argument will become unclear though Sale, Lohfeld &Brazil (2002) argue that if the study is conducted for complementary purposes, the mixed methods strategy can be applied). On the other hand, pragmatists encourage the mixed methods strategy because it can yield a more comprehensive view of the phenomenon under investigation (Brannen, 2005). This study follows the pragmatic view in assuming that a mixed methods approach is more likely to yield answers to the research questions, though it acknowledges the challenge involved in integrating the findings from these different methods.

Grafton, Lillis & Mahama (2011) highlight that: *"Conceptual integration seems important in establishing a coherent foundation from which to exploit multiple perspectives"* (p.7). The research strategy adopted in this study was sequential, with the qualitative stage being used to cover elements which could not be covered in the quantitative stage. The strategy thus demonstrates the truth of Grafton et al. (2011) view that mixed methods designs can *"enhance* *both theory testing and theory building through extension, convergence, and contradiction of findings"* (p.12). It exploits the benefits of the mixed methods approach and its potential to yield rich data by combining quantitative and qualitative methods that supplement and complement each other.

The research questions were developed to address the research problem, which is the exploration of the current status of CG disclosure and practice in LCBs from an institutional theory perspective, giving consideration to the socio-political and economic context of Libya. CG, particularly disclosure in the banking sector, has been neglected in the MENA countries, and no studies have focused on CG in the LBS since the banking reforms or the popular revolution. Accordingly, research questions 1, 2, 3, 4 and 5 were formulated to investigate the extent of LCBs' adherence to international CG disclosure requirements, how LCBs differ from banks in other developing countries, and how disclosure has improved in recent years. Research questions 6 and 7 (investigating which institutions may be influencing CG development in LCBs and how) were formulated because traditional economic theories such as agency theory, stakeholder theory, stewardship theory and transaction cost theory pay insufficient attention to context. Neo-institutional theory, already widely applied in the context of developed countries, has equal potential to add to our understanding of the impact of institutionalisation on CG disclosure and practice in Libya.

5.5 Data Collection

Using a variety of methods to collect different types of data will improve the accuracy of judgments and research results (Ghauri, Grønhaug & Kristianslund, 1995). Data were collected from a range of sources including commercial banks' annual reports and websites, and via semi-structured interviews with social actors involved in corporate governance disclosure and practice. These interviewees included inside stakeholders (directors with responsibility for preparing annual reports, executives and board members) and outside stakeholders (regulators, auditors and investment managers).

5.5.1 The Use of Annual Reports as a Source of Data

Annual reports are widely used by researchers as a source of data about corporate governance disclosure (e.g. Darmadi, 2013; Feldioreanu & Seriaa, 2015; Hossain & Hammami, 2009; Maingot & Zeghal, 2008; Thomas & Boolaky, 2009). Although not the only way for a company to demonstrate accountability, "*they are the only form that is institutionalized and provided on a regular basis year after year"* (Buhr, 1998, p.169). Annual reports are one of the preferred ways for companies to communicate with stakeholders (Gallhofer & Haslam, 1997), and the main tool for communicating financial and non-financial information in a comprehensive way (Darmadi, 2013). From the company's point of view, the annual report is also an effective way of managing external impressions of the organisation and maintaining credibility (Neu, Warsame & Pedwell, 1998). From the researcher's point of view, it may be the most readily accessible source of data (Unerman, 2000). The disadvantages of this particular form of paper-based disclosure include lack of comparability, infrequent dissemination, high cost, limited diffusion and out of date information. These deficiencies can limit the usefulness of the annual report to user groups, including researchers (Debreceny, Gray & Rahman, 2003).

5.5.2 The Use of Internet Websites as a Source of Data

Internet technology offers a speedier, wider-reaching and lower cost option than traditional hard copy reporting (Joshi & Al-Modhahki, 2003; Saleh Al Arussi, Selamat & Hanefah, 2009; Wallman, 1995). It also makes corporate disclosure information more accessible, allowing even large quantities of data to be communicated to anyone with internet access, at any time and in a flexible format. As a result, paper-based reporting has declined and internet-based reporting has become more prevalent (Nordberg, 1999; Romain, 2000). However, internet-based reporting is not without limitations; the reliability, comparability, integrity and credibility of the reported information can all be adversely affected by information overload, internet-based fraud, information boundaries and poor website design (Henchiri, 2011; Jones & Xiao, 2004; Joshi & Al-Modhahki, 2003; Lodhia, Allam & Lymer, 2004).

In order to offset the drawbacks and reap the benefits of both hard copy and digital formats, the study draws on both sources. Annual reports were collected as hard copies where available, while digital versions were downloaded from banks' websites. Additional data were gathered by following the links in these websites, and from older versions retrieved via the Internet Archive's Wayback Machine website[3].

5.5.3 The Use of Interviews as a Source of Data

In the second stage of the research, data were collected by means of interviews with key social actors in the LBS. Rubin & Rubin (2005) define qualitative interviews as: *"conversations in which a researcher gently guides a conversational partner in an extended discussion"* (p.5), while Patton (1990) asserts that the underlying assumption in this technique is that: *"the perspective of others is meaningful, knowable, and able to be made explicit"* (p.278). There are two main types of interview: semi-structured and unstructured (Arksey & Knight, 1999 ; Easterby-Smith, Thorpe & Lowe, 2002; Patton, 2002; Robson, 2002; Bryman, 2004). Robson (2002) defines the semi-structured interview as:

> *"…predetermined questions, but the order can be modified based upon the interviewer's perception of what seems most appropriate. Question-wording can be changed and*

[3] This provides an archival history for websites, allowing users to see how any given site has changed over time. For more detail visit https://archive.org/web/

> *explanations given; particular questions which seem inappropriate with a particular interviewee can be omitted, or additional ones included"*. (p.270)

The researcher prepares questions or themes for discussion in advance, but may choose to omit some questions in some interviews if he or she feels they are unnecessary. The order in which they are asked may also vary, depending on the flow of the conversation. Finally, follow-up questions may be asked to explore an answer in more detail (Saunders, 2011). This flexibility means that the semi-structured interview is generally regarded as a particularly suitable data collection tool where complex issues are being investigated (Myers, 2013). In contrast to the pre-prepared question frame of the semi-structured interview, unstructured interviews are entirely open-ended (Rubin & Rubin, 2005). They also differ in their primary concern; while unstructured interviews aim to elicit understandings or meanings, semi-structured interviews focus on explaining particular events or processes (Rubin & Rubin, 2005).

Since this research is exploratory in nature, semi-structured interviews were considered more suitable. The semi-structured interview is the most common option in business research because it enables interviewees to express their personal views and perceptions in their own words, while at the same time allowing the researcher to respond to their concerns and to seek further elaboration of key points where necessary (Wilson, 2010; Denscombe, 2007; Coll & Chapman, 2000). The interviews, which were conducted face-to-face, enabled the researcher to go deeper and uncover information that could not be obtained from the annual reports and websites.

5.5.3.1 Interview structure development of the questions

The set of questions presented in Table 5.4 was utilised as a guide during the interviews. The interview questions were drawn from several sources, including the literature review, the researcher's own experience, and discussion with co-workers, fellow students, tutors and research participants (Saunders, 2011). In this study the literature review, the key topics within the chosen theoretical lens of neo-institutional theory, and the initial analysis of annual reports and websites were the bases that informed the development of the research questions. Table 5.3 shows the linkage between the research questions and the interview questions. The first part of the interview schedule sought to elicit general information about the interviewee and their background, while the second part addressed research questions 5 (question group B and C), 6 and 7 (question groups B, C, D and E).

Table 5.3 the linkage between research questions and interview questions

Research Questions	***Interview Questions***
5-How do the key social actors perceive the development of CG disclosure and practice in LCBs?	Part B and C
6- What are the institutions that may be influencing this development in LCBs?	Part B, C, D and E
7-How do the key social actors think these institutions are impacting the development of CG disclosure and practice in LCBs?	Part B, C, D and E

Table 5.4 Interview Questions

No.	Part B: The emergence and development of cooperate governance practice in Libya in general and LCBs in particular
1	What do you know about corporate governance?
2	Why is corporate governance important?
3	Can you tell me about the practice of corporate governance in Libya in general and in the banking sector in particular?
4	When was corporate governance first applied in the Libyan business environment and in particular by Libyan banks?
5	Why, in your view, has the Libyan banking sector adopted corporate governance?
6	What changes have occurred in corporate governance practice in Libya in the last few years?
7	Why have these changes occurred?
8	Was there any resistance to change from the banks?
Part C: Corporate governance disclosure	
9	What is your relationship with the preparation of the annual reports and the website?
10	What standards do you use when you prepare the annual reports or disclose information on the website?
11	What do you know about the corporate governance codes issued by the CBL and LSM?
12	To what extent do you consider the disclosure requirements in these codes when you prepare the annual reports and disclose information on the website?
13	Is there any pressure from any side to disclose corporate governance information?
14	Why is information about ownership structure and exercise of control rights important? How would you assess LCBs' disclosure practice in regard to this information? Give reasons for your view.
15	Why is information about financial transparency important? How would you assess LCBs' disclosure practice in regard to this information? Give reasons for your view.
16	Why is information about auditing important? How would you assess LCBs' disclosure practice in regard to this information? Give reasons for your view.
17	Why is information about board and management structure and process important? How would you assess LCBs' disclosure practice in regard to this information? Give reasons for your view.
18	Why is information about corporate responsibility and compliance important? How would you assess LCBs' disclosure practice in regard to this information? Give reasons for your view.
19	Why is there a lack of corporate governance disclosure in LCBs compared to companies in developed and other developing countries?
Part D: Institutional factors	
20	Do you think all banks should disclose and practise corporate governance in a similar way? Why?
21	What sort of relationship do banks have with the CBL, LSM and LAAA?
22	What is the impact of these organisations on corporate governance disclosure and practice in Libya?
23	What role does Libyan society play in developing corporate governance disclosure and practice?
24	To what extent are corporate governance codes consistent with Libyan laws?
25	Are there any political factors that have an impact on corporate governance disclosure and practice? If so, how?
26	Do you think religion has an impact on corporate governance disclosure and practice? If so, how?
Part E: Other information	
27	Is there anything you would like to add that you feel is important for this research but we have not talked about?

5.5.3.2 Ethical Issues

Over the years, a large number of ethical codes have been issued and ethics committees established as a result of the increasing concern about ethical issues in research (Flick, 2009). There is particular concern about ethical issues in qualitative research, where the researcher has sole control over how information is gathered, recorded, interpreted and reported (Easterby-Smith et al. 2002). Codes now include that issued by the British Psychological Society (BPS)[4], the British Sociological Association's (BSA) Statement of Ethical Practice[5], the American Sociological Association's (ASA) Code of Ethics[6], the Social Research Association's (SRA) Ethical Guidelines[7] and the German Sociological Association's (GSA) Code of Ethics[8]. These codes set out the ethical rules that researchers should consider when conducting their research. Murphy &Dingwall (2001, p.339) identify the four main ethical rules as:

- Non-maleficence - researchers should avoid harming participants.
- Beneficence - research on human subjects should produce some positive and identifiable benefit rather than simply be carried out for its own sake.
- Autonomy or self-determination - research participants' values and decisions should be respected.
- Justice - all people should be treated equally.

In the context of these interviews, this meant avoiding invading participants' privacy or deceiving them about the research's aims (non-maleficence); offering a summary of the research and explanation of key terms prior to the interview to ensure the interviewee was familiar with the research objectives and comfortable participating in the research (beneficence); assuring participants that all information provided would be considered confidential and used only for academic purposes, and that they could withdraw from the study at any time (autonomy); and respecting their rights and treating everyone equally (justice).

5.6 Population and Sample (Justification and Difficulties)

Careful consideration of the sample was important if the study was to answer the research questions and meet the research objectives. It is sometimes possible to collect data from an entire study population, but restrictions in terms of time, money and access often make this impossible. In these circumstances, it is necessary to employ sampling to ensure that sufficient relevant data is collected (Saunders, 2011).

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[4] www.bps.org.uk/the-society/ethics-rules
[5] www.britsoc.co.uk
[6] www.asanet.org/members/ecoderev.html
[7] www. The-sra.org.uk/Ethicals.htm
[8] www.soziologie.de/index_english.htm

5.6.1 Selecting Samples of Annual Reports and Websites

In the first, quantitative, stage, data were gathered from the entire population of Libyan commercial banks. Table 3.2 lists these LCBs and shows their shareholder structure. To answer research question 1, data were gathered from all sixteen commercial banks. This data were drawn from the most recent available (at the time of analysis)[9] annual report and website for each bank (see Table 5.5). To answer research question 2, the data for the ten[10] best banks was compared with the equivalent data from companies in other developing countries.

Table 5.5 Most recent available annual report and website for each LCB

No	Name of bank	Annual report	Website
1	Jumhoriya Bank	2011	2017
2	Sahara Bank	2010	2017
3	National Commercial Bank	2010	2017
4	Wahada Bank	2010	2017
5	North Africa Bank	2008	2017
6	Commerce & Development Bank	2011	2017
7	Al-Waha Bank	2012	-
8	Al-Amman Bank	2008	2017
9	United Bank	2013	2017
10	Arab Commercial Bank	2008	-
11	Al-Saraya Bank	2013	2017
12	Al-Ejmaa Alarabi Bank	2008	2017
13	Mediterranean Bank	2010	-
14	Al-Wafa Bank	2008	2017
15	First Gulf Libyan Bank	2013	2017
16	Al-Nuran Bank	-	2017

Annual reports were either collected directly (as hard copies) from each bank or downloaded from their website. Table 5.5 shows that most banks have not issued an annual report since 2011. This reflects the unstable situation facing Libya in general and the banking sector in particular during and since the 2011 revolution. Most of the banks' annual reports refer to these difficulties; the Commerce and Development Bank states in its 2011 annual report that:

> *"The war imposed by the former regime on its people upon the uprising of the glorious 17th February Revolution, and the use of its war machine to suppress the uprising, had a tremendous impact on the economic sector in general, and banking in particular, due to sanctions imposed by the UN Security Council freezing Libyan assets abroad, the interruption of work in banks and the restriction of banking transactions, mostly to cash withdrawals, as a consequence of the reluctance of citizens to deposit their money in banks. All these circumstances had a significant impact on operations in the banking*

[9] The analysis was conducted in 2015, but the websites were revisited several times, the last visit being in 2017.

[10] Based on the amount of disclosure provided; i.e the ten highest-performing when measured against the disclosure index

sector in general and on the Bank of Commerce and Development in particular". (Commerce & Development Bank Annual Report 2011, p.11)

To answer research question 3, data retrieved via the Internet Archive's Wayback Machine website, together with previous annual reports, were used to examine how CG disclosure has improved in each bank over the last ten years. As Table 5.5 indicates, three of the sixteen banks had no website as of 2017. Two had only one annual report available. Consequently, these five banks were excluded from the sample. Table 5.6 shows the range of reports and websites that were available for the remaining eleven LCBs.

Table 5.6 Range of annual reports and websites available for sample LCBs

Name of bank	Annual reports	Websites
Bank (A) Jumhoriya Bank	2007-2011	2012-2017
Bank (B) Wahada Bank	2007-2010	2012-2017
Bank (C) Sahara Bank	2007-2010	2016-2017
Bank (D) National Commercial Bank	2007-2010	2014-2017
Bank (E) United Bank	2007-2013	2013-2017
Bank (F) Commerce & Development Bank	2007-2011	2010-2016
Bank (G) First Gulf Libyan Bank	2008-2013	2009-2010-2013-2017
Bank (H) Al-Saraya Bank	2007-2013	2015-2017
Bank (I) North Africa Bank	2007-2008	2013-2017
Bank (J) Al-Amman Bank	2007-2008	2013-2017
Bank (K) Al-Nuran Bank	-	2016-2017

The table shows that the most recent annual reports were published by United Bank, First Gulf Libyan Bank and Al-Saraya Bank in 2013. It was explained to the researcher in the interview stage that as these banks are relatively small and have foreign partners, they may face fewer difficulties in getting the annual report adopted than the bigger banks, whose widely dispersed board members and shareholders may struggle to attend meetings because of the poor security situation. Websites were more current, though in the case of First Gulf Libyan Bank, there were no pages for 2011, 2012, 2014, 2015 or 2016. This may have been due to technical problems with the Wayback Machine website, or First Gulf Libyan may have failed to update the site or chosen to deny access; the site explains that *"Pages may not be archived due to robot exclusions and some sites are excluded by direct site owner request"*[11]. Appendix B lists the websites that were captured by the Wayback Machine website for each bank.

[11] https://archive.org/about/faqs.php#The_Wayback_Machine

5.6.2 Selecting Sample Interviewees

The semi-structured, face-to-face interviews were conducted by the researcher with individuals who are directly or indirectly concerned with the preparation of information in LCBs and with corporate governance matters in general. These included directors with responsibility for preparing annual reports and websites, executive managers, board members, regulators from the CBL and LSM, auditors and institutional investors. The internal stakeholder groups were selected on the grounds that they have more experience of dealing with the issues surrounding reporting and CG practice than other directors or employees in LCBs. Since the CBL is the nation's main supervisory and regulatory entity and the key government instrument for maintaining stability within the financial market, it was considered important to explore CBL officers' perceptions about Libyan banks' CG disclosure and practice. Regulators from the LSM were included in the sample because seven out of the sixteen LCBs are listed in the LSM. Finally, institutional investors were included as they are the main information users. Twenty-six interviews were conducted with individuals occupying a range of roles. Nine held senior accounting positions and were directly responsible for preparing annual reports (Group P), three were board members (Group BM), four were executive managers (Group EM), five held senior positions within the CBL and LSM (Group R), three were external auditors (Group EA) and two were managers for institutional investors (Group Iv). Table 5.7 shows each respondent's position, qualification, academic background and experience. The respondents were all graduates, with three holding a Ph.D., eight holding a master's degree and fifteen holding a bachelor's degree. These degrees were in a range of subjects: eleven in accounting, two in economics, six in banking/finance, six in management and one in law. At the time of the interviews, four of the sample had more than five years' experience of working in the LBS, three had more than ten years' experience, seven had more than fifteen years' experience, six had more than twenty years' experience, and six had more than thirty years' experience.

Table 5.7 General information about the interviewees

Code	Position	Qualification	Academic background	Experience
Preparation of annual reports (P)				
P1	Chief of accounting management	MA	Accounting	more than 15 years
P2	Chief of financial control management	BA	Accounting	more than 5 years
P3	Chief of accounting management	MA	Banking & finance	more than 10 years
P4	Chief of organisation and management	PhD	Organisation & management	more than 15 years
P5	Chief of accounting management	MA	Banking & finance	more than 10years
P6	Chief of accounting management	BA	Accounting	more than 15 years
P7	Chief of accounting management	BA	Accounting	more than 5 years
P8	Chief of accounting management	BA	Accounting	more than 30 years
P9	Chief of organisation and management	BA	Banking & finance	more than 15 years
Board members (BM)				
BM1	Board member	BA	Management	more than 20 years
BM2	Board member	BA	Law	more than 20years
BM3	Board member	BA	Banking & finance	more than 15 years
Executive managers				
EM1	Chief of internal auditing	BA	Management	more than 30 years
EM2	Assistant director of compliance management	BA	Management	more than 20years
EM3	Chief of credit management	MA	Management	more than 30 years
EM4	Chief of credit management	BA	Economics	more than 20 years
Regulators				
R1	Economic adviser and former head of operating administration (CBL)	PhD	Economics	more than 30 years
R2	Chairman of analysis department (CBL)	MA	Banking & finance	more than 20 years
R3	Chairman of compliance department (CBL)	BA	Accounting	more than 15 years
R4	Chairman of listed and disclosure department (LSM)	MA	Accounting	more than 5 years
R5	Director of control management (LSM)	BA	Accounting	more than 5 years
External auditors				
EA1	External auditor	PhD	Accounting	more than 30 years
EA2	External auditor	BA	Accounting	more than 30 years
EA3	External auditor and chairman of LAAA	MA	Accounting	more than 20 years
Investors				
Iv1	Institutional investors	BA	Banking & finance	more than 10 years
Iv2	Institutional investors	MA	Management	more than 15 years

5.6.3 Interview process

Interviews may be conducted face-to-face, by telephone, by e-mail or by video-conferencing, and they may be conducted on a one-to-one basis or with a group (Saunders, 2011). All interviews in this study were conducted on a one-to-one basis and face-to-face. Telephone interviews were impractical because of the high cost involved and Libya’s poor telecommunications structure. Technological issues also made e-mail interviews and video-conferencing impossible. Careful consideration was given to the choice of venue as this can affect the quality of the gathered data; it was necessary to find a location that was convenient for the interviewee, that was quiet enough to allow a high-quality recording, and where the interview would not be disturbed (Saunders, 2011). Eighteen of the interviews were conducted in Tripoli and eight in Benghazi during July & August, 2015. They were conducted at a time convenient to the interviewee, mostly in a quiet place in their office. Two were conducted at cafes (see Table 5.8). Each interview lasted about 40-60 minutes; this ensured the conversation could be comprehensive, but was not so long that the interviewee would lose interest.

The use of a tape recorder in interviews allows the researcher to concentrate solely on the conversation and ensures accurate data (Arksey & Knight, 1999; Patton, 1990). On the other hand, taking additional notes may be a prudent back-up in case the audio-recording does not work, and serves to emphasise to the interviewee that what he or she is saying is important (Saunders, 2011). Accordingly, the interviews were all recorded, but additional notes were also made, with the respondents' permission. All the recordings were subsequently transcribed for the purpose of analysis

Table 5.8 Interview venue, location and process

code	Position	Organisation	Venue	Location	process	length
P1	Chief of accounting management	Bank	work	Tripoli	Voice	47 min
P2	Chief of financial control management	Bank	work	Tripoli	Voice	59 min
P3	Chief of accounting management	Bank	work	Benghazi	Voice	60 min
P4	Chief of organisation and management	Bank	work	Tripoli	Voice	70 min
P5	Chief of accounting management	Bank	Work	Tripoli	Voice	51 min
P6	Chief of accounting management	Bank	Work	Tripoli	Voice	73 min
P7	Chief of accounting management	Bank	cafe	Benghazi	Voice	40 min
P8	Chief of accounting management	Bank	Work	Tripoli	Voice	40 min
P9	Chief of organisation and management	Bank	work	Benghazi	Voice	50 min
BM1	Board member	Bank	work	Benghazi	Voice	51 min
BM2	Board member	Bank	work	Tripoli	Voice	51 min
BM3	Board member	Bank	work	Tripoli	Voice	56 min
EM1	Chief of internal auditing	Bank	work	Benghazi	Voice	44 min
EM2	Assistant director of compliance management	Bank	work	Benghazi	Voice	43 min
EM3	Chief of credit management	Bank	work	Benghazi	Voice	42 min
EM4	Chief of credit management	Bank	work	Benghazi	Voice	51 min
R1	Economic adviser and former head of operating administration (CBL)	CBL	work	Tripoli	Voice	63 min
R2	Chairman of analysis department (CBL)	CBL	work	Tripoli	Voice	39 min
R3	Chairman of compliance department (CBL)	CBL	work	Tripoli	Voice	40 min
R4	Chairman of listed and disclosure department (LSM)	LSM	coffee	Tripoli	Voice	41 min
R5	Director of control management (LSM)	LSM	work	Tripoli	Voice	61 min
EA1	External auditor	Privet Audit company	work	Tripoli	Voice	63 min
EA2	External auditor	Privet Audit company	work	Tripoli	Voice	58 min
EA3	External auditor and chairman of LAAA	LAAA	work	Tripoli	Voice	50 min
Iv1	Institutional investors	Libyan insurance company	work	Tripoli	Voice	55 min
Iv2	Institutional investors	Social security fund investment	work	Tripoli	Voice	38 min

5.7 Data Analysis

Analysis of the data is necessary if the researcher is to be able to draw inferences and conclusions to answer the research questions (Tashakkori & Teddlie, 1998). This section discusses the steps taken in this study to analyse the data gathered from the annual reports, websites and semi-structured interviews.

5.7.1 Analysis of Data from Annual Reports and Websites

The data gathered from the annual reports and websites were analysed to answer research questions 1, 2, 3 and 4. The literature identifies two methods for measuring disclosure: content analysis of various kinds of communications; and the application of a disclosure index to record the appearance of specific, pre-determined information items (Beattie, McInnes & Fearnley, 2004; Dragomir, 2010; Hassan & Marston, 2010). The overlap between the two methods is noted by Beattie et al. (2004), who explain that "*Disclosure index studies are based on the general principles of content (or thematic) analysis –a well-established method in the social sciences*" (p.214), and by Yekini (2011), who describes how he used content analysis *"to identify what companies disclosed in their annual reports and used this to create a disclosure index for each of our sample companies"* (p.124). Dragomir (2010) describes this kind of study as an example of content analysis "*which involves classifying text units into categories"* (p. 368).

Disclosure indices are widely used in accounting disclosure in general and CG disclosure in particular (Samaha et al. 2012; Darmadi, 2013; Nwakama,et al. 2011; Maingot & Zeghal, 2008; Thomas & Boolaky, 2009; Oliveira et al. 2014). They can be applied to annual reports and websites produced by profit and non-profit companies alike in a range of sectors (Hassan & Marston, 2010) to measure different aspects of disclosure, such as the level of voluntary disclosure or the level of compliance with mandatory requirements (Marston & Shrives, 1991). In this study, using a disclosure index allowed the researcher to assess LCBs' level of compliance with national and international disclosure requirements and to compare this with the level achieved in other developing countries. When the text of the annual reports and websites was subjected to content analysis in order to assess the development of CG disclosure since the reforms and cultural changes, this analysis was based on the index categories.

Lehman & Yusoff,(2006) highlight the importance of the chosen index having *"breadth (number of different topics)…depth (specificity of information provided)" and avoiding "elements of subjectivity"* (p.10). In this study, the extent of CG disclosure was measured against a CG checklist developed by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) at the direction of UNCTAD. The ISAR checklist (ISAR, 2006), which has become the benchmark for good practice, was used to arrive at a CG disclosure score for each bank in the sample. The ISAR benchmark contains 52 items in total, grouped into five broad categories or subject areas of CG disclosure. These categories are: ownership structure and exercise of control rights (9); financial transparency (8); auditing (9); board and management structure and process (19); and corporate responsibility and compliance (7). Table 5.9 shows the CG disclosure items in each category.

Table 5.9 ISAR corporate governance disclosure index

Ownership structure and exercise of control rights
Changes in shareholdings *
Control and corresponding equity stake
Control rights
Ownership structure *
Process for holding annual general meetings
Availability and accessibility of meeting agenda
Control structure
Rules and procedures governing the acquisition of corporate control in capital markets
Anti-takeover measures
Financial transparency
Financial and operating results *
Board's responsibilities regarding financial communications
Company objectives *
Nature, type and elements of related party transactions*
The decision-making process for approving transactions with related parties
Rules and procedures governing extraordinary transactions
Critical accounting estimates
Impact of alternative accounting decisions
Auditing
Process for appointment of external auditors
Internal control systems
Process for interaction with external auditors
Process for appointment of internal auditors/Scope of work and responsibilities
Process for interaction with internal auditors
Board confidence in independence and integrity of external auditors
Auditors' involvement in non-audit work and the fees paid to auditors
Duration of current auditors
Rotation of audit partners
Board and management structure and process
Composition of board of directors (executives and non-executives) *
Governance structures, such as committees and other mechanisms to prevent conflicts of interest *
Role and functions of the board of directors *
Determination and composition of directors' remuneration*
Material interests of members of the board and management *
Composition and function of governance committee structures *
Qualifications and biographical information on board members*
"Checks and balances" mechanisms
Duration of directors' contracts

Independence of the board of directors*
Risk management objectives, system and activities *
Existence of plan of succession
Number of outside board and management position directorships held by directors *
Existence of procedure(s) for addressing conflicts of interest among board members
Types and duties of outside board and management positions*
Professional development and training activities
Availability and use of advisorship facility during reporting
Performance evaluation process
Compensation policy for senior executives departing the firm as a result of a merger or acquisition
Corporate responsibility and compliance
Mechanisms protecting the rights of other stakeholders in business
Policy and performance in connection with environmental and social responsibility *
A code of ethics for the board and waivers to the ethics code
A code of ethics for all company employees
The role of employees in corporate governance
Impact of environmental and social responsibility policies on the firm's sustainability
Policy on "whistleblower" protection for all employees

Source: ISAR (2011)

When selecting an index, it is important to consider its validity and reliability. According to Bryman & Cramer (2001), *"The question of validity draws attention to how far a measure really measures the concept that it purports to measure" (*p.66). There are several ways to assess an index's validity as an instrument to measure disclosure. One way is to ask respondents themselves to judge its usefulness; if they see it as having the potential to return a relevant and truthful measurement, it may be said to have face validity (Shannon & Davenport, 2001). The concept of reliability refers to the stability and accuracy of this measurement. The ISAR guidance is based on the consensus of the ISAR expert group. It makes recommendations with respect to what enterprises should disclose regarding their governance practices and helps countries to structure their CG reporting requirements. It is consistent with the OECD's CG Principles and other important codes and best practices and includes fifteen items that are already mandated by Libyan law and the CGLBS (2010). Over the years, it has been used to evaluate the disclosure of more than 500 enterprises and the disclosure requirements of more than 45 countries, thus facilitating direct comparison between the results in this study and those identified in other countries (research question 3). The literature review showed that the UNCTAD ISAR benchmark has not yet been employed in Libya, but the suitability of the index was confirmed by sending it to two respondents for their assessment. It was accepted without comment.

Measuring the extent of CG disclosure in annual reports and websites involved scoring each bank in the sample on each of the 52 disclosure items for each year. Previous disclosure studies have generally employed either weighted or unweighted scoring (Marston & Shrives, 1991). This study uses the unweighted scoring approach firstly, because it is less subjective than the weighted scoring approach, and secondly, because it has been the preferred option in previous studies using the ISAR benchmark index. Unweighted scoring is dichotomous, with one point being given if an item is disclosed in the annual report or website and zero being awarded if it is not disclosed. This absent/present strategy has been criticised as inadequate to capture the volume of disclosure of each item – that is, how many times it appears – but as Beattie & Thomson (2007) explain *"recording the presence or absence of each item against a predetermined check list does enable the range (i.e. variety) of disclosure to be compared across reporting entities"* (p.140). In this study, it was considered sufficient to serve the aim of comparing disclosure in LCBs with that in other developing countries.

The use of content analysis to focus on the content of the disclosure is less common in CG disclosure studies (Christopher & Hassan, 2005; Crombie, 2011) than the quantitative method (i.e. counting the appearance of each disclosure item without analysing the text) (Samaha et al., 2012; Darmadi, 2013; Nwakama et al .2011; Maingot & Zeghal, 2008; Thomas & Boolaky, 2009; Oliveira et al. 2014). This method involves weighting each category or sub-category by using the coding of text in the annual reports or other information sources and then recoding/coding these texts. Words, paragraphs, pages or sentences are classified into categories and sub-categories based on the coding selections to identify the number or percentage in each category. However, this approach has been criticised as time-consuming and unreliable because *"companies can influence the disclosure scores by adapting their writing style"* (Der-Kruk, 2009, p.14). Bos &Tarnai (1999) argue that

> *"Pure quantification offers no guarantee for the validity and reliability of the results......If analyses were limited to the manifest content, this limitation would prevent them from being extended so that one could draw inferences about the latent content hidden between the lines, the motives of those who produced the texts, or the effect of texts on the reader".* (p. 662)

However, the disclosure index uses the *"examine[s] the text on the presence of these items"* (Der-Kruk, 2009 p.31) can overcome this limitation. The use of the content analysis and disclosure index as part of content analysis has other limitations, one of which is the emphasis it places on the quantity rather than the quality of disclosure (Beattie et al. 2004, p. 213). The coding process may also be affected by researcher subjectivity (Gray, Kouhy & Lavers, 1995; Milne & Adler, 1999; Guthrie & Abeysekera, 2006; Yekini, 2011). Der-Kruk (2009, p.30) also suggests that *"subjectivity arises when the disclosure index approach is used"*, but Abouzkeh (2013, p.156) notes that *"preparing decision rules in advance can help to reduce some possible* *subjectivity".* Other criticisms of disclosure indices are that they give attention to only *"particular issues or pre-selected index items"* (Beattie et al. 2004, p. 213).

Since this research aims to explore the nature of CG disclosure over the period of reform and cultural change in Libya, both the presence and absence of CG disclosure and the content of this disclosure were analysed. However, the coding and counting of sentences or words was rejected as unlikely to achieve the research purpose, which is to identify the institutional factors shaping the development of CG disclosure and practice in this context. First, the ISAR index was used to measure the number of items disclosed by LCBs in their annual reports and websites, giving an insight into how CG disclosure in these banks differs from disclosure in companies in other developing countries. Second, using the CG disclosure categories and items in the ISAR index as a framework, text from the banks' annual reports and websites was subjected to content analysis. The particular focus here was on disclosure areas that are textual (rather than numeric) in nature and that may be impacted by institutional factors. By examining reports and websites published over several years it was possible to identify any overall improvement in CG disclosure (research question 4).

5.7.2 Analysis of Data from the Semi-Structured Interviews

The semi-structured interviews were designed to answer research questions 4 and 5. This section discusses the construction of the interview questions and the thematic analysis of the resulting data.

5.7.2.1 Interview Structure – Development of the Questions

The interview questions drew on the findings from the literature review regarding CG disclosure and practice and institutional theory. These questions (see Appendix C) were designed to guide the discussion while still allowing respondents room to make their own observations and describe their own experiences (Patton, 2002). The questions were grouped into three broad themes. The first group of questions addressed the emergence and development of CG in Libya, both in general and specifically in the LBS (investigating the extent to which the participants were familiar with and understood the concept of corporate governance, the level of importance they attributed to it, and their understanding of how CG has developed in Libya and how it is currently being implemented); the second group focused specifically on CG disclosure (investigating their personal involvement in disclosure-related practice, their knowledge of governance codes and standards, and their views on the importance of disclosure and why LCBs perform poorly in this regard compared to banks in other countries); and the third investigated the institutional factors that the participants perceived as having an impact on banks' CG disclosure and practice. The final question was an invitation to participants to discuss any issue that they felt was important that had not already been highlighted.

5.7.2.3 Thematic Analysis

The interview data were subjected to thematic analysis in order to investigate key social actors' perceptions around the development of CG disclosure and practice and the impact of institutional factors (research question 6 and 7). The findings of this analysis in turn give greater insight into research question 4 (whether this practice has improved). Braun & Clarke (2006) define thematic analysis as: *"a method for identifying, analysing, and reporting patterns (themes) within data"* (p.6). Boyatzis (1998) explains that this kind of analysis is widely used to analyse qualitative data. Highly flexible, it is well suited to the critical realism paradigm (Pratt, 2011; Braun & Clarke, 2006).

As indicated in section (5.5.4) a list of themes was prepared as a guideline in advance of the interviews. The impact of these themes was investigated by means of both specific and more general questions. Additional themes also emerged during the discussions as certain topics were mentioned by multiple interviewees.

Although all interviewees were asked about the same topics, there was some flexibility in the questioning, with stakeholder groups being encouraged to spend longer on the topics with which they were most familiar. For example, interviewees from Group P were asked for more detail about CG disclosure and why their banks disclose (or not) as they are directly involved in preparing this information for annual reports and websites. Similarly, board members and executive managers were asked in more detail about CG practice as they are more familiar than others with this practice. Banks exhibiting good CG disclosure and practice were asked more questions about why they have such good practice, what they disclose and why.

Gillham (2000) indicates that *"there are two essential strands to the analysis…identifying those key, substantive points… putting them into categories"* (p.59). The first stage was to transcribe the 26 interviews (which were conducted in Arabic) and translate the data into English. The themes emerged from the answers and observations provided by the interviewees, in addition to the research questions, the literature and the theoretical framework. The transcriptions/written statements were reviewed several times and initial ideas highlighted, and interesting pieces of data coded and categorised under the themes.

5.7.3 Linking the Qualitative and Quantitative Results

Whether qualitative and quantitative methods are employed concurrently or sequentially, the main aim is to broaden knowledge about the topic. However, another possible aim is to: *"mutually validate the findings of both approaches"* (Flick, 2009,p.25). The two sets of results may a) converge, mutually confirm and support the same conclusions, or b) give insights into complementary aspects of the topic, allowing a comprehensive view of the phenomenon. On the other hand, they may be c) divergent or even mutually contradictory (Flick, 2009; Kelle & Erzberger, 2004). In scenarios b) and c), theoretical interpretation or explanation will be required (Flick, 2009).

In this study, the quantitative and qualitative results complete each other; while the quantitative results answer the research questions related to the level of CG disclosure in LCBs and how this compares with disclosure in other developing countries, the qualitative results provide evidence of the development of corporate governance practice in LCBs and the impact of institutional factors. These qualitative results enrich the research findings by yielding information that cannot be gathered by quantitative means.

5.8 Summary

This chapter presents the methodology and methods that were employed in this research. It starts by discussing the concepts of ontology and epistemology before briefly comparing the positivist and interpretivist paradigms and introducing critical realism, the philosophical position chosen for this study. It justifies the choice of critical realism, explaining that the aim is not to investigate causal relationships, make predictions or establish law-like generalizations, but to contribute to institutional theory by providing evidence from an institutional context very different from those seen in developed and even other developing countries. The chapter then discusses the research approach, explaining that the inductive approach seems most appropriate for a study seeking to compare LCBs' corporate governance disclosure with that in other countries and to explore the effect of institutional factors.

The section on research strategy explains that the study is pragmatic in its assumption that the use of mixed methods is more likely to yield answers to the research questions than employing a single method. These data collection methods are then introduced and their relationship to the research questions explained; the chapter describes how data were retrieved by reviewing companies' annual reports and websites over several years (addressing RQ1, 2 and 3), and by interviewing key social actors (addressing RQ4 and 5). Turning to the analysis stage, it explains that the information in the reports and websites was first measured quantitatively against the ISAR benchmark disclosure index, before being subjected to textual analysis. The qualitative information from the semi-structured interviews was subjected to thematic analysis. Finally, it explains how the qualitative and quantitative results were combined, concluding that the two sets of results complete each other. These results are presented in the following two chapters.

Chapter 6 Analysis of Annual Reports and Websites

6.1 Introduction

This chapter presents and analyses the data that were gathered from the annual reports and websites published by the sixteen commercial banks in the research sample. It seeks to answer the first four research questions:

1- To what extent do LCBs adhere to the international requirements regarding CG disclosure in their annual reports and websites?

2- Is there any significant variation in CG disclosure between LCBs?

3- How do LCBs differ from companies in other developing countries in terms of their CG disclosure?

4- How have LCBs improved their CG disclosure over recent years in their annual reports and websites?

The chapter comprises four sections: the first (6.2) presents and analyses the descriptive information and statistics relating to CG disclosure for the sample as a whole (sixteen banks). The second section (6.3) considers how CG disclosure varies between the banks. The third section (6.4) compares the CG disclosure performance of LCBs with that of companies in other developing countries. Finally, the fourth section (6.5) traces the development of CG disclosure in eleven of the sixteen commercial banks, as revealed in their annual reports and websites over the last ten years.

6.2 Descriptive Analysis of the Overall Total Extent of CG Disclosure

This section provides a descriptive analysis of the banks' CG disclosure practice, as revealed in their annual reports and websites (see Table 5.5 for the recent years covered by these annual reports and websites). It is divided into two sub-sections: section 6.2.1 discusses the overall extent of CG disclosure across the sixteen banks; section 6.2.2 presents the descriptive statistics for CG disclosure by information category.

6.2.1 Overall Extent of CG Disclosure Across the Sixteen Banks

CG disclosure practice in the sample banks was measured using UNCTAD's ISAR international benchmark. This comprises a list of 52 specific CG disclosure items, grouped into five categories. Table 6.1 presents an overview of the number of banks in the sample publishing information on each of the ISAR CG disclosure items. The table shows that the highest level of disclosure was in the area of financial transparency, with an average of 5.25 banks disclosing information on one or more items in this group. The lowest level of disclosure (average 0) was found in the auditing group of items. None of the items was disclosed by all sixteen banks, and only one (financial and operating results) was disclosed by fifteen. Seven disclosure items were disclosed by eight or more banks. Among these seven items, two were in the ownership structure and exercise of control rights group, three were in the financial transparency group, one was in the board and management structure and process group and one was in the corporate responsibility and compliance group.

Fourteen out of the 52 items in the ISAR benchmark were disclosed by at least one bank in the sample, while the other 38 items did not feature at all in the banks' reporting. These 38 include five items that are legally required: the nature, type and elements of related party transactions; material interests of members of the board and management; a code of ethics for all company employees; the role and functions of the board of directors; and the independence of the board of directors.

Table 6.1 Compliance with the ISAR benchmark across the sample as a whole

Ownership structure and exercise of control rights	**Number of banks disclosing item (n = 16)**
Changes in shareholdings *	8
Control and corresponding equity stake	0
Control rights	0
Ownership structure *	12
Process for holding annual general meetings	1
Availability and accessibility of meeting agenda	0
Control structure	0
Rules and procedures governing the acquisition of corporate control in capital markets	0
Anti-takeover measures	0
Average	**2.33**
Financial transparency	
Financial and operating results *	15
Board's responsibilities regarding financial communications	1
Company objectives *	14
Nature, type and elements of related party transactions*	0
The decision-making process for approving transactions with related parties	0
Rules and procedures governing extraordinary transactions	0
Critical accounting estimates	12
Impact of alternative accounting decisions	0
Average	**5.25**
Auditing	
Process for appointment of external auditors	0
Internal control systems	0
Process for interaction with external auditors	0
Process for appointment of internal auditors/Scope of work and responsibilities	0
Process for interaction with internal auditors	0

Board confidence in independence and integrity of external auditors	0
Auditors' involvement in non-audit work and the fees paid to auditors	0
Duration of current auditors	0
Rotation of audit partners	0
Average	**0**
Board and management structure and process	
Composition of board of directors (executives and non-executives) *	1
Governance structures, such as committees and other mechanisms to prevent conflicts of interest *	8
Role and functions of the board of directors *	0
Determination and composition of directors' remuneration*	1
Material interests of members of the board and management *	0
Composition and function of governance committee structures *	0
Qualifications and biographical information on board members*	3
"Checks and balances" mechanisms	0
Duration of directors' contracts	0
Independence of the board of directors*	0
Risk management objectives, system and activities *	5
Existence of plan of succession	0
Number of outside board and management position directorships held by directors *	0
Existence of procedure(s) for addressing conflicts of interest among board members	0
Types and duties of outside board and management positions*	0
Professional development and training activities	0
Availability and use of advisorship facility during reporting	0
Performance evaluation process	0
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	0
Average	**0.94**
Corporate responsibility and compliance	
Mechanisms protecting the rights of other stakeholders in business	1
Policy and performance in connection with environmental and social responsibility *	11
A code of ethics for the board and waivers to the ethics code	0
A code of ethics for all company employees	0
The role of employees in corporate governance	0
Impact of environmental and social responsibility policies on the firm's sustainability	0
Policy on "whistleblower" protection for all employees	0
Average	**1.71**

*** Legal requirement**

6.2.3 Descriptive Statistics for CG Disclosure by Information Category

Having reviewed the results for the sample as a whole in the previous section, this section breaks down the findings and presents them by information category.

6.2.3.1 Ownership Structure and Exercise of Control Rights

The disclosure of information about ownership structure is essential if banks are to encourage investment. According to UNCTAD (2006):

> *"The beneficiary ownership structure of an enterprise is of great importance in an investment decision, especially with regard to the equitable treatment of shareholders. In order to make an informed decision about the company, investors need access to information regarding its ownership structure".* (p.8)

The ownership structure and exercise of control rights category in the ISAR benchmark contains nine items. Companies aiming for good CG disclosure practice should disclose information for all these items, but as Figure 6.1 shows, only three of the nine items were disclosed by the sample banks in their reports or websites. The majority (twelve) of the banks disclosed information about the ownership structure, half (eight) disclosed information about changes in shareholding, and just one disclosed information about the process for holding annual general meetings. The level of disclosure within the first two items varied, with some providing brief information about shareholder structure and others disclosing more details (examples and analysis for the different banks are provided in section 6.5).

Only one bank disclosed information about the process for holding annual general meetings and no bank disclosed information regarding the availability or accessibility of meeting agenda. The procedures and rules for AGMs are explained in detail in Libyan law, but some banks also set out their own AGM bylaws in their annual report or on their website[12].

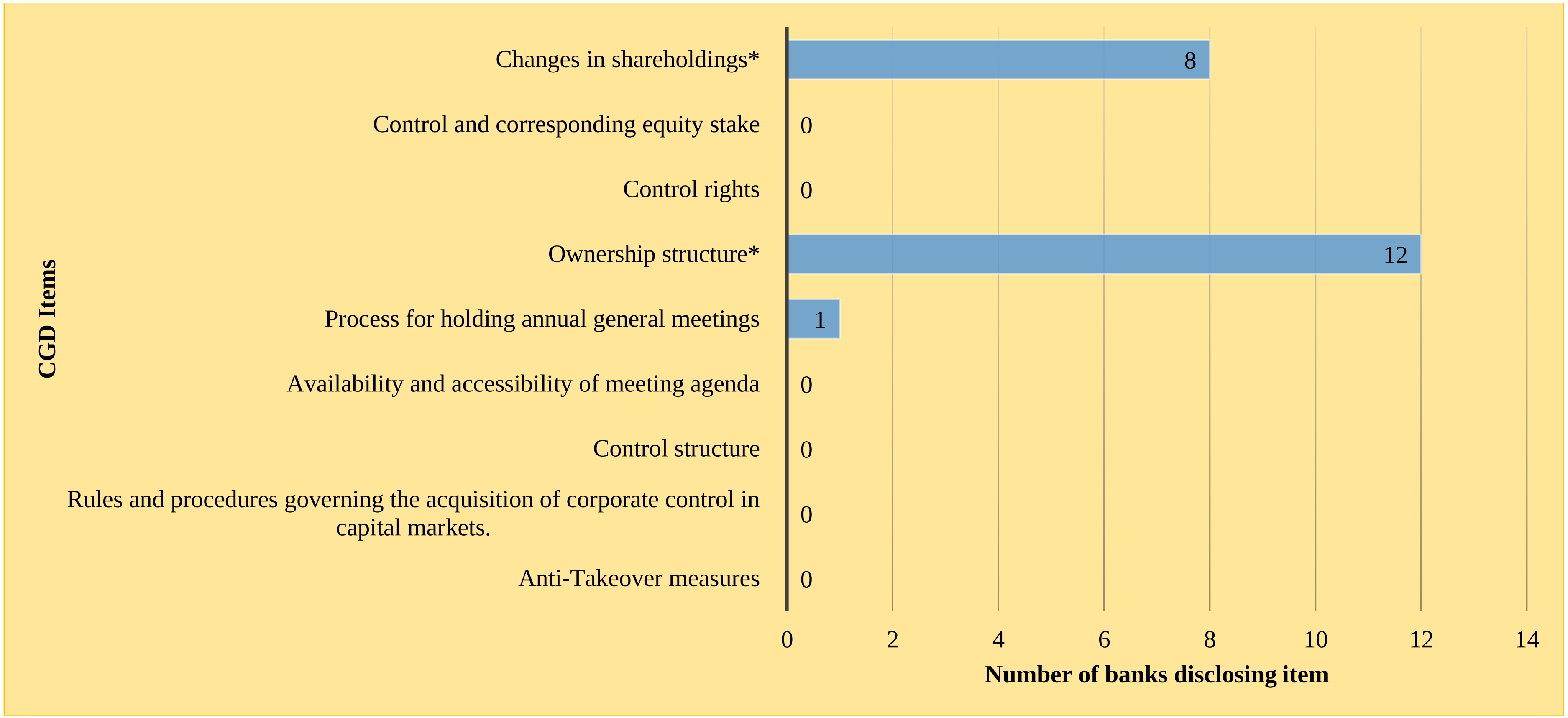
In relation to the item on takeovers, both the Commerce and Development Bank and Wahada Bank offer assurance on their respective websites that all shareholders have equal rights. However, this cannot really be considered an example of CG disclosure since in both cases, the text is only explaining in general terms what should happen, rather than giving details of actual practice. Stakeholders are more interested in actual practice as this information serves to reassure them that the bank is complying with the relevant laws.

Under the CGLBS (2010) and the CGLSM (2007), banks are required to disclose details of ownership structure and any change therein, but the findings indicate that LCBs do not generally publish information about shareholders, and especially not information related to control and takeovers, in their annual reports. However, this kind of information is widely explained in Libyan law, and some banks also set out their own bylaws on their website. This

[12]Three out of sixteen banks disclosed their bylaws on their website: Wahada Bank, Commerce & Development Bank and Al-Ejmaa Alarabi Bank. United Bank discloses any changes to its bylaws in the general meeting.

may explain the non-disclosure of this information in annual reports; the key actors may assume that as this information is already available, there is no need to disclose it again. Another possible explanation is the lack of any real coercive pressure from the CBL, among others, which is itself attributable to a lack of awareness among regulators. The attitude of key actors towards the disclosure of information about ownership is investigated in detail in section 7.2.2.1.

Figure 6.1 Ownership structure and exercise of control rights



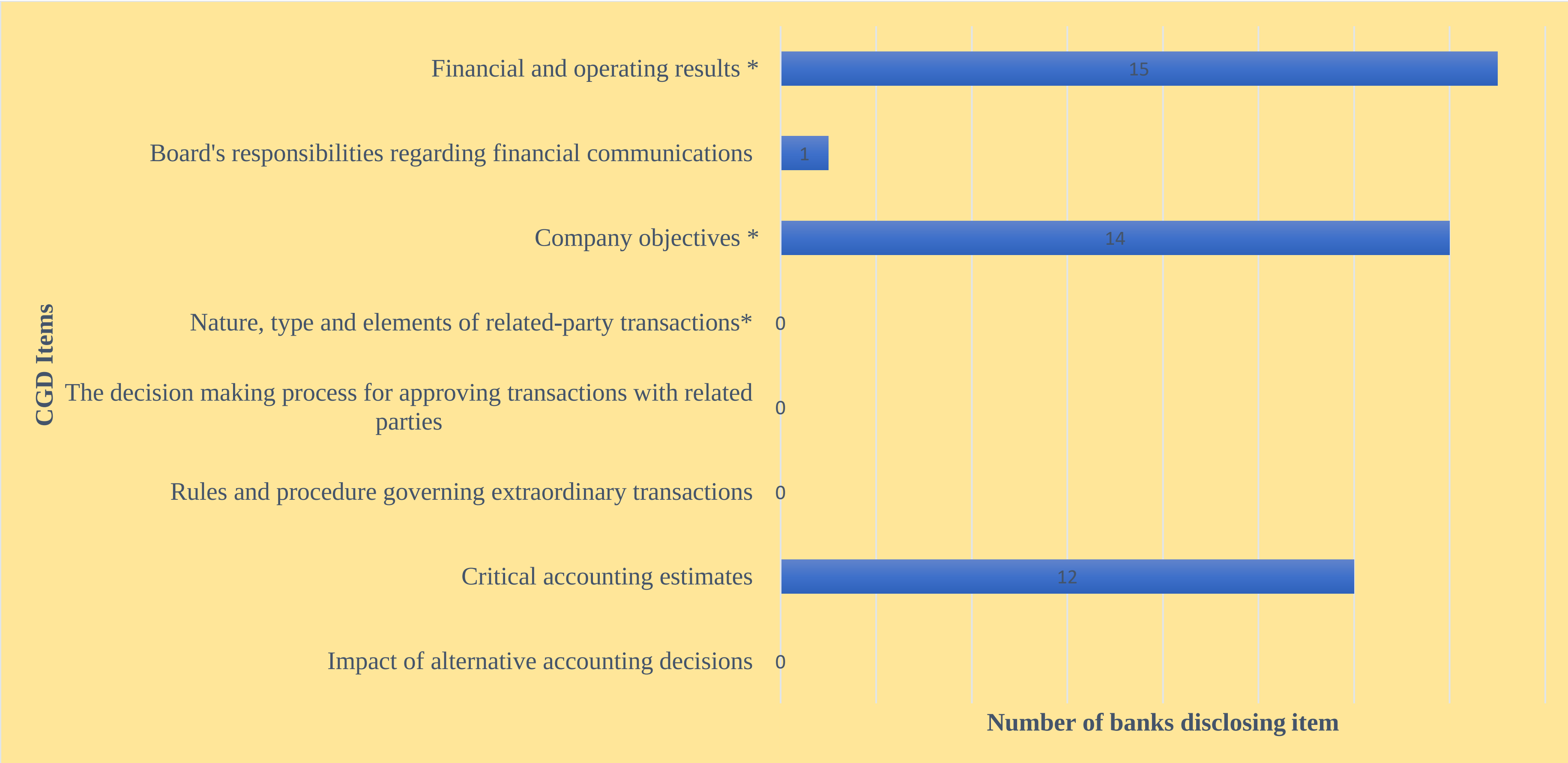
6.2.3.2 Financial Transparency

Figure 6.2 shows the range of disclosure items in this category and the number of banks proffering information for each item. Only one item (financial and operating results) was disclosed by fifteen banks. Most banks included the four main financial documents (income statement, balance sheet, cash flow and audit report) in their annual report, with the majority also providing additional financial information such as the CEO's statement, details of significant accounting policies and shareholders' equity statement. Some of the banks also disclosed this information on their website.

Twelve of the commercial banks provided numeric information about the critical accounting estimates, while fourteen disclosed information about their company's objectives. Only one bank disclosed information about the board's responsibilities regarding financial communications. None disclosed information about the impact of alternative accounting decisions, the nature, type and elements of related party transactions, the decision-making process for approving transactions with related parties or the rules and procedures governing extraordinary transactions.

From the above analysis it can be observed that Libya's commercial banks pay much greater attention to the disclosure of financial information than they do to the disclosure of non-financial information. One possible explanation for this result is that those preparing annual reports regard non-financial information as less important, particularly as financial information is the only kind requested by stakeholders. Furthermore, although the disclosure of both financial and non-financial items is mandatory under Libyan commercial law and the CGLBS (2010), the CBL shows little inclination to force banks to disclose the latter. Another possible factor behind the non-disclosure of non-financial items may be the lack of knowledge exhibited both by some of those who prepare annual reports and other key governance actors in the LBS. Some of these actors do not see the CGLBS (2010) as a law and consequently, they do not give it the same attention they give to the Libyan Banking Law (2005) or the Libyan Commercial Law (2010). This result is consistent with the findings of Larbsh (2010) and Zagoub (2011), both of whom conclude that CG is still a relatively new concept in Libya and that there is still a widespread lack of knowledge about corporate governance.

Figure 6.2 Financial transparency



6.2.3.3 Auditing

The reporting of auditing-related issues is essential for stakeholders. UNCTAD (2006) asserts that it is the board's responsibility to report on the independence, competency and integrity of external auditors, and on the process for appointing and interacting with them. It states that:

> *"The board should disclose that it has confidence that the external auditors are independent and their competency and integrity have not been compromised in any way. The process for the appointment of and interaction with external auditors should be disclosed".* (p.25)

In relation to internal auditing, UNCTAD (2006) states:

> *"Enterprises should disclose the scope of work and responsibilities of the internal audit function and the highest level of the leadership of the enterprise to which the internal audit function reports. Enterprises with no internal audit function should disclose the reasons for its absence".* (p.26)

The ISAR benchmark contains nine items in the auditing category: process for the appointment of and process for interacting with external auditors, process for the appointment of and process for interacting with internal auditors, internal control systems, auditors' involvement in non-audit work and the fees paid to auditors, rotation of audit partners, duration of current auditors, and board confidence in the independence and integrity of external auditors. However, application of the benchmark revealed that none of the banks in the sample disclosed any information about auditing either in their annual reports or their websites. The only auditing-related information disclosed by the majority of Libyan banks is the external auditors' report, which forms part of the annual report.

The procedures for auditing are set out in detail in both the Libyan Banking Law (2005) and the CGLBS (2010). The CGLBS (2010), for example, stipulates that:

> *"The bank must ensure that the external auditor audits the internal auditing system for the reports and financial disclosure; it must ensure that the external auditor is aware of the importance of their task and that this is done professionally. If possible, it should determine the scope of the auditing operation. All external and internal auditing tasks are the responsibility of the audit committee.*
>
> *The audit committee is responsible for appointing and dismissing external auditors, assessing the auditing operation, meeting with auditors and discussing their report with them, giving permission for any additional work the auditors consider necessary and protecting their independence".* (p.29)

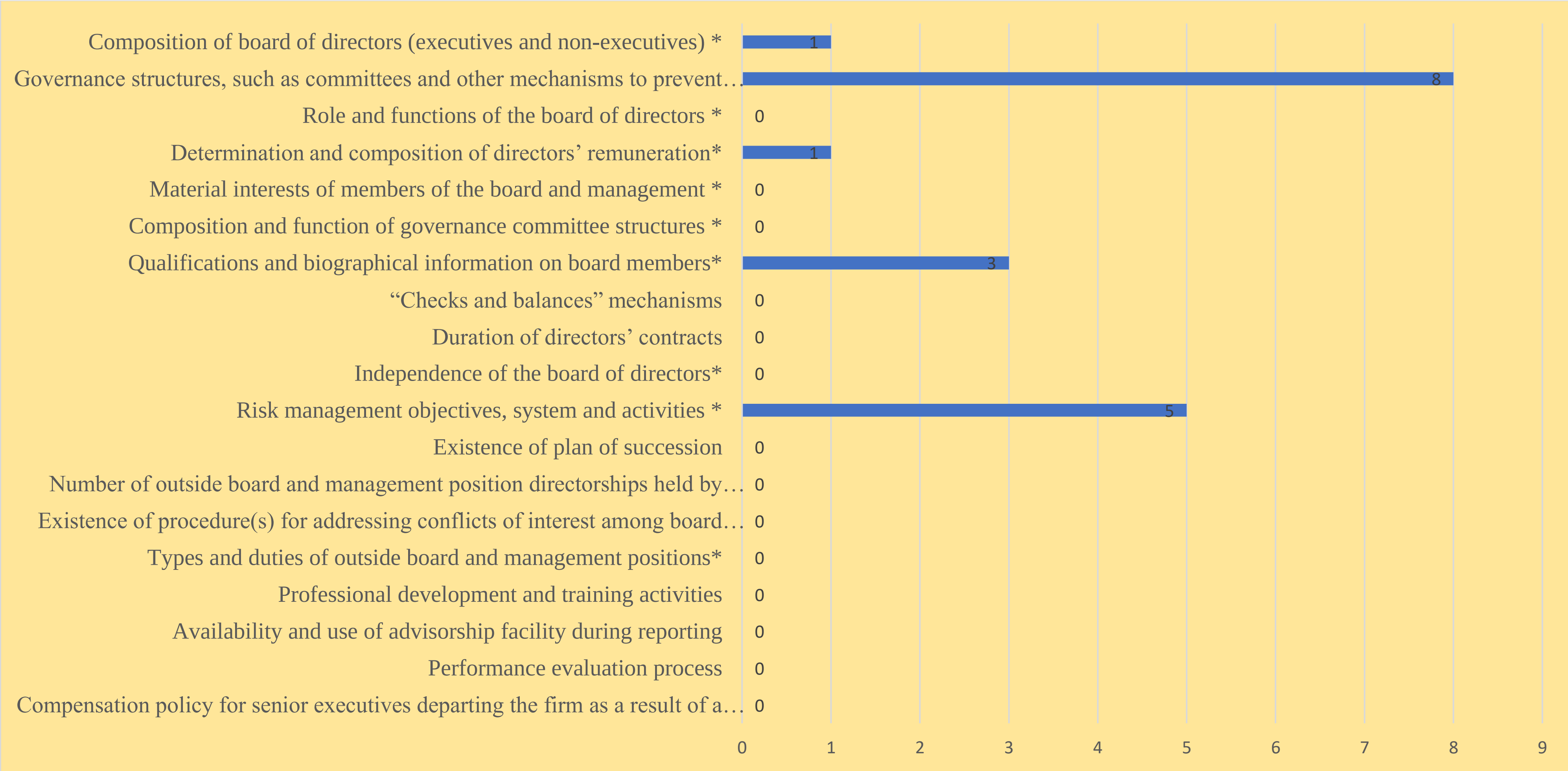
However, there is no explicit provision within the Libyan Banking Law (2005) requiring banks to disclose information about auditing issues, and the CGLBS (2010) requires only that banks provide a copy of all committee reports including those produced by the audit committee to the CBL. This cannot be considered true CG disclosure as these reports are not made available to the public. The lack of disclosure requirements may be contributing significantly to the low level of auditing related disclosure among commercial banks in Libya.

6.2.3.4 Board and Management Structure and Process

Figure 6.3 shows that eight banks disclosed information about the governance structures, such as committees and other mechanisms, that they have put in place to prevent conflicts of interest. Three banks out of sixteen disclosed information about the qualifications and biographical information of board members, while five disclosed details of their risk management objectives, system and activities. Two items the composition of the board of directors (executives and non-executives) and the determination and composition of directors' remuneration – were disclosed by just one bank each. None of the banks in the sample disclosed anything regarding the number of outside board and management positions held by directors, the role and function of the board, the duration of directors' contracts, succession plans, board independence or the existence of procedure(s) for addressing conflicts of interest among board members.

Overall, it can be concluded that although most of the items in this category are required under the CGLBS (2010), LCBs are poor at disclosing information about their boards and managers. There are several possible reasons for this, such as the lack of enforcement by the CBL and the recent change in culture. This change in culture, along with the instability that has afflicted Libya since 2011, may have had a negative impact upon the sector's attempts to improve disclosure and the preparation of annual reports. The perceived influence of these and other factors was explored further in the interviews (see section 7.2.2.4).

Figure 6.3 Board and management structure and process



6.2.3.5 Corporate Responsibility and Compliance

The concept of corporate responsibility is new in Libya and as a result, most LCBs do not disclose information about it. The banks in the sample disclosed information for just two items in this category: just one bank gave information about its mechanisms for protecting the rights of other stakeholders, while eleven supplied details of their performance in terms of environmental and social responsibility (see Figure 6.4). In most cases, this took the form of a description of their contributions to the community and economy and their treatment of employees, but in no case was there any information about environmental issues. Nor did any bank disclose any information regarding ethics codes (whether for company employees or board members), the role of employees in CG, the impact of environmental and social responsibility policies on the firm's sustainability, or its policy on "whistleblower" protection for all employees.

Figure 6.4 Corporate responsibility and compliance

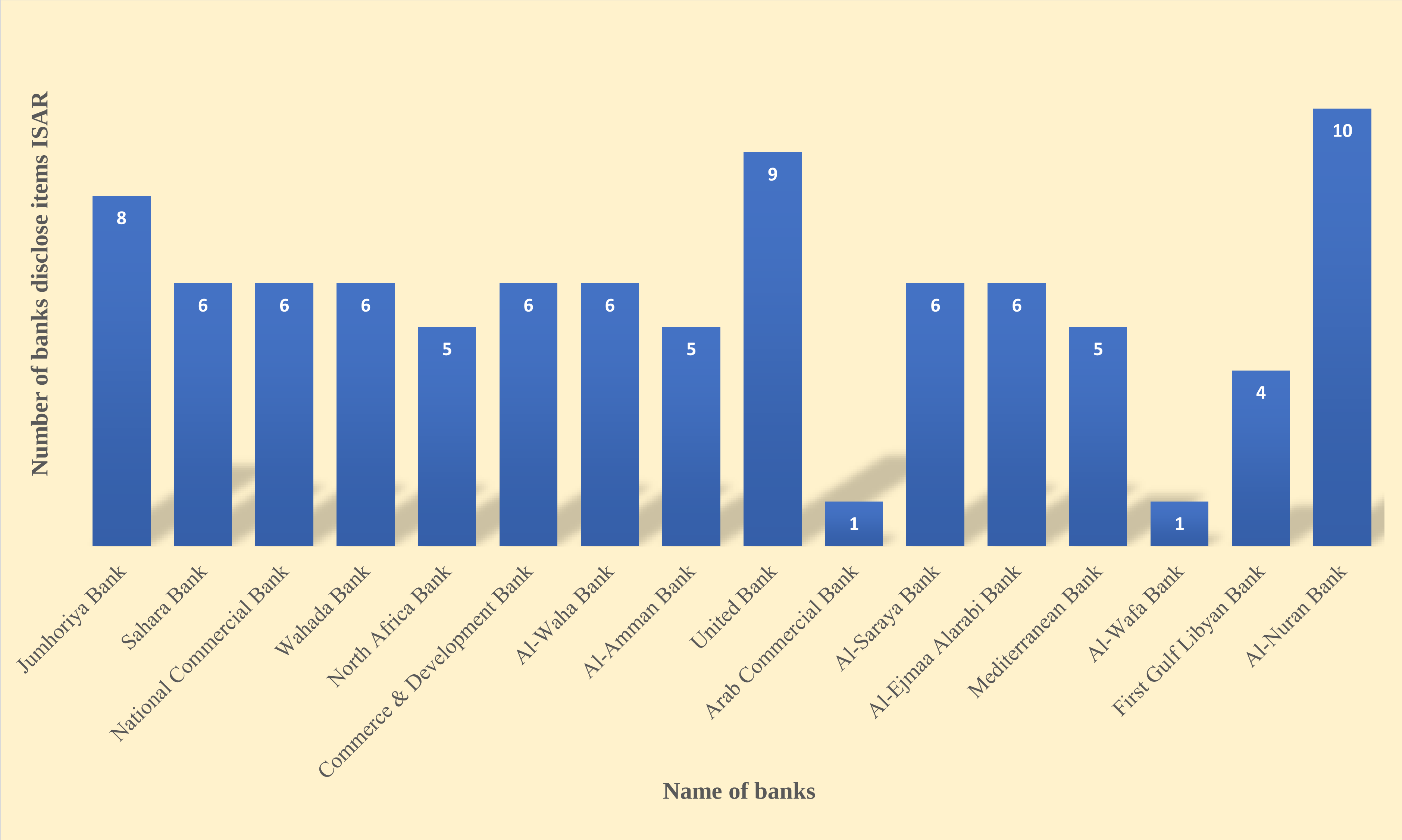
This application of the ISAR benchmark gives an initial picture of CG disclosure practice in Libya's commercial banks, including some of the factors that may be shaping this practice. Overall, the findings suggest low rates of CG disclosure among the sixteen banks in the sample, with a few notable exceptions for some items. Generally speaking, practice among commercial banks remains unsatisfactory, despite the fact that the CGLBS has been mandatory since 2010. There are several possible reasons for this, the main one being that the concept of CG is still relatively new in the LBS and has yet to fully gain traction with many of the key actors in the sector. However, those efforts that have been made to improve CG practice in general, and CG disclosure in particular, have also been impeded by the dramatic changes in culture which have unfolded in the years since the 2011 revolution. It is also possible that the individuals tasked with preparing information for stakeholders, as well as board members and executives, are unaware of the disclosure requirements. If so, this raises questions about the CBL's effectiveness both in educating those in the sector about these requirements, and in enforcing the CGLBS (2010). Another possible explanation for the generally low level of CG disclosure is that many key actors seem to believe that disclosing CG information (e.g. about board size and composition etc) is redundant as much of it is already set out in banking and commercial law. This logic, if exist seems misguided as users need details about the actual procedures and processes of a bank, rather than a general statement of what should happen. On the other hand, it may be that the reason banks prioritize the disclosure of financial information is because neither inside nor outside stakeholders have so far exhibited much interest in non-financial corporate governance disclosure. These questions were investigated in further detail in the interviews with key stakeholders and CG actors in the LBS, the findings from which are reported in Chapter 7.

6.3 Variation in CG Disclosure Among LCBs

As illustrated in Table 3.2, LCBs vary in terms of their shareholder structure, with some being privately owned, others state-owned and the rest under mixed Libyan and foreign ownership. They also differ in size, according to the capital bank proportion of acquisitions. Banks with a large proportion of acquisitions include Jumhoriya Bank (43.7%), National Commercial Bank (18.9%), Sahara Bank (14.6%) and Al-Waha Bank (13.8%), while the rest their proportion of acquisitions are between 1% and 4% out of total capital banking sector (CBL, 2011). The banks vary in age, from nine to 55 years old (the oldest being Jumhoriya Bank, National Commercial Bank, Sahara Bank and Al-Waha Bank) and are a mixture of listed and unlisted. Those currently listed in the LSM are Al-Saraya Bank, Jumhoriya Bank, National Commercial Bank, Sahara Bank, Wahada Bank, Commerce and Development Bank and the Mediterranean Bank. Finally, it has been suggested that Libya’s commercial banks also differ in terms of their CG practice, ranging from generally weak (the majority) to satisfactory (Zagoub, 2011).

Figure 6.5 shows the variation in CG disclosure levels among LCBs, as measured by applying the ISAR benchmark to their most recent annual report and/or website. Interestingly, the figure reveals that the highest level of CG disclosure was achieved by two small and new banks (United Bank and Al-Nuran Bank), one of which disclosed information for ten out of the 52 ISAR disclosure items and the other of which disclosed information for nine. This result appears to contradict Darmadi’s (2013) finding that large and old banks disclose more information than small ones, but it is in line with Feldioreanu & Seria’s (2015) conclusion that bank size does not appear to influence the value achieved on the CG disclosure index. The lowest level of disclosure was recorded by the Arab Commercial Bank and Al Wafa Bank, each of which provided information for only one item. Three banks disclosed information for five items out of 52, while seven banks disclosed information for six items. The remaining two banks disclosed information for eight and four items. The findings thus indicate a generally low level of CG disclosure among LCBs, with no significant variation.

Figure 6.5 Variation in CG disclosure among Libyan commercial banks



6.4 Comparison of CG Disclosure in LCBs with that in Companies in Other Developing Countries

This section aims to compare the level of CG disclosure in Libya with that found in companies in other developing countries (research question 3). This was done by comparing the data gathered in the present study with data from UNCTAD's 2011 survey of disclosure practices in 22 other developing countries. As UNCTAD's data focus on the practices of the ten largest enterprises in each country, they were compared with the data from the ten best-performing LCBs, as measured against the ISAR benchmark (see Table 6.2). To facilitate the comparison, total average scores were calculated for the LCBs and for the remaining 22 countries. The LCB scores were calculated using the data from the annual reports and websites, while those for the other developing countries were calculated from the data published by the UN (ISAR, 2011) (see Appendix C). The results indicate that in each of the five disclosure categories, Libya scored lowest among the 23 countries, with LCBs disclosing information on an average of 1.9 items in the ownership structure and exercise of control rights category, 3.1 items in the financial transparency category, 0 items in the auditing category, 1.1 items in the corporate responsibility and compliance category, and 1.8 items in the board and management structure and process category.

Figure 6.6 shows that the majority of companies in UNCTAD's survey disclosed between 35 and 45 items, with only six countries disclosing fewer than 35 items. On average, the companies in UNCTAD's sample disclosed about 35 items or two-thirds of the ISAR benchmark. This contrasts strongly with the picture in the LBS, where none of the commercial banks disclosed more than eleven items. This suggests that on average, Libya has the lowest level of CG disclosure among the developing countries; interestingly, it is behind other countries with similar economic and social cultures, such as Egypt and Morocco.

There are a number of possible reasons for this, including a weak and in places outdated legal and regulatory framework, an opaque economic structure, poor accounting, auditing and financial reporting standards, political interference, social and cultural factors and low levels of stakeholder activism. The novelty of CG in Libya means that the country's CG framework is still under-developed compared to those of its neighbours (Larbsh, 2010), with the result that accountability and responsibility processes remain weak. However, the tertiary education system is ill-equipped to improve general understanding of CG in Libya because of poor-quality teaching, lack of curricula, lack of infrastructure and structural problems within the sector (Porter &Yergin, 2006).

Table 6.2 Total average CG disclosure by LCBs compared to other developing countries

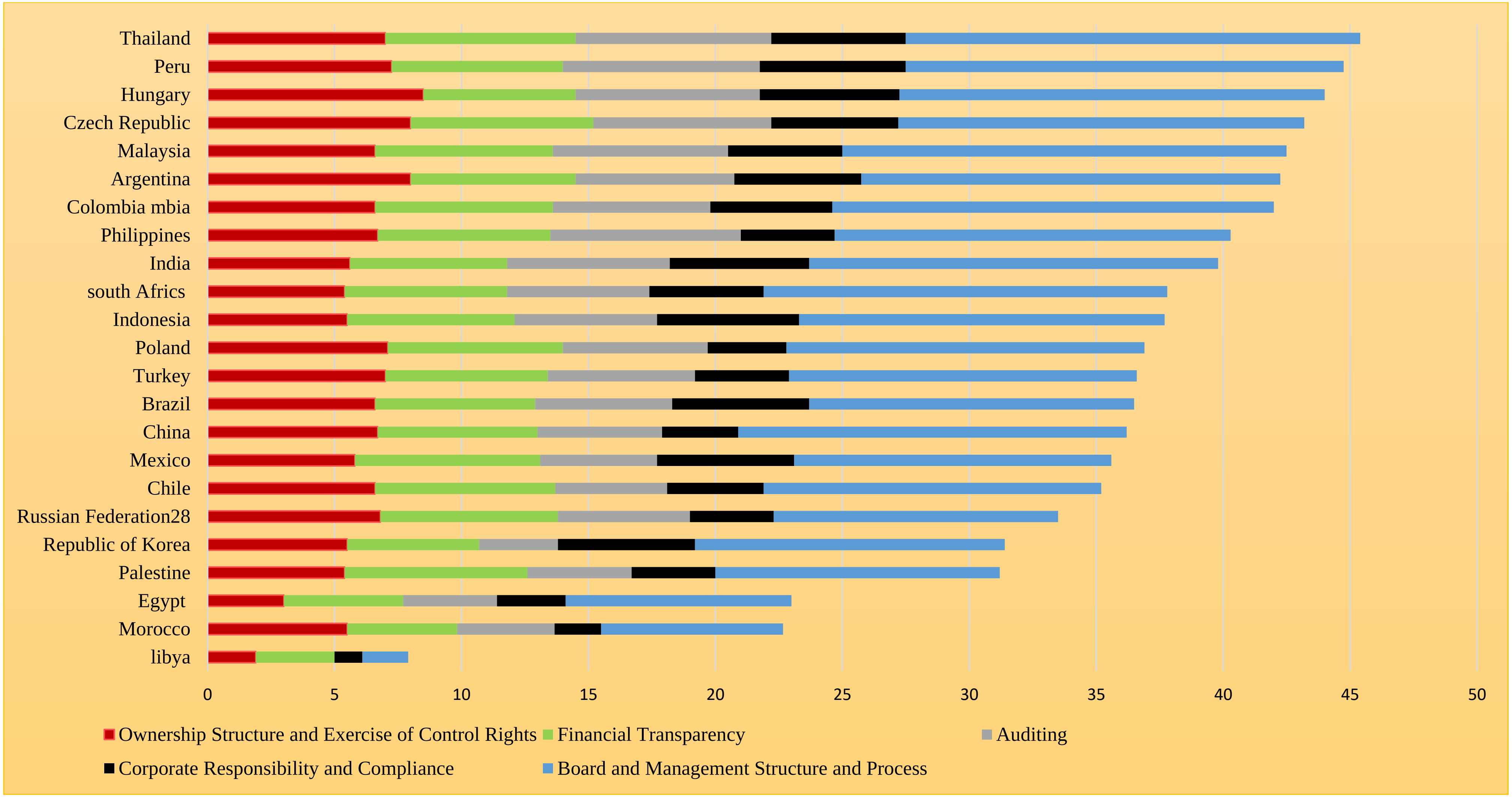
	Ownership Structure and Exercise of Control Rights	Financial Transparency	Auditing	Corporate Responsibility and Compliance	Board and Management Structure and Process	Total Average
Thailand	**7**	**7.5**	**7.7**	**5.3**	**17.9**	**9.08**
Peru	**7.25**	**6.75**	**7.75**	**5.75**	**17.25**	**8.95**
Hungary	**8.5**	**6**	**7.25**	**5.5**	**16.75**	**8.8**
Czech Republic	**8**	**7.2**	**7**	**5**	**16**	**8.64**
Malaysia	**6.6**	**7**	**6.9**	**4.5**	**17.5**	**8.5**
Argentina	**8**	**6.5**	**6.25**	**5**	**16.5**	**8.45**
Colombia	**6.6**	**7**	**6.2**	**4.8**	**17.4**	**8.4**
Philippines	**6.7**	**6.8**	**7.5**	**3.7**	**15.6**	**8.06**
India	**5.6**	**6.2**	**6.4**	**5.5**	**16.1**	**7.96**
south Africa	**5.4**	**6.4**	**5.6**	**4.5**	**15.9**	**7.56**
Indonesia	**5.5**	**6.6**	**5.6**	**5.6**	**14.4**	**7.54**
Poland	**7.1**	**6.9**	**5.7**	**3.1**	**14.1**	**7.38**
Turkey	**7**	**6.4**	**5.8**	**3.7**	**13.7**	**7.32**
Brazil	**6.6**	**6.3**	**5.4**	**5.4**	**12.8**	**7.3**
China	**6.7**	**6.3**	**4.9**	**3**	**15.3**	**7.24**
Mexico	**5.8**	**7.3**	**4.6**	**5.4**	**12.5**	**7.12**
Chile	**6.6**	**7.1**	**4.4**	**3.8**	**13.3**	**7.04**
Russian	**6.8**	**7**	**5.2**	**3.3**	**11.2**	**6.7**
Korea	**5.5**	**5.2**	**3.1**	**5.4**	**12.2**	**6.28**
Palestine	**5.4**	**7.2**	**4.1**	**3.3**	**11.2**	**6.24**
Egypt	**3**	**4.7**	**3.7**	**2.7**	**8.9**	**4.6**
Morocco	**5.5**	**4.3**	**3.8**	**1.8**	**7.1**	**4.53**
Libya	**1.9**	**3.1**	**0**	**1.1**	**1.8**	**1.58**

Magrus (2012) also highlights the adverse impact of poor leadership, lack of training among directors and weak awareness among investors. Zagoub (2011) indicates that CG practice and reform in LCBs have primarily been driven by the CBL and Libyan banking legislation, and that these institutional pressures have had more impact in some banks than in others. His study concludes that the CBL needs to put more pressure on LCBs to improve CG, and to offer greater support.

In terms of disclosure specifically, Ellabbar (2007) attributes the poor performance of Libyan companies to cultural influences. He notes the widespread tendency among Libyan companies to delay publishing financial statements, or to publish without auditing, and the lack of channels (such as financial magazines) for making information readily available to users. Kribat (2009) seems to support Ellabbar's conclusion with his finding that Libyan banks failed to comply fully with mandatory disclosure requirements in any of the years covered in his study (2000-2006).

The picture is not entirely dark, however; recent studies have noted some signs of improvement in disclosure practice among Libyan companies. Hawashe (2014), for example, found that although the extent of voluntary disclosure is still low, it increased gradually during the period of his study, while Osama (2013) identifies a statistically significant increase in the level of disclosure and transparency in the years following the establishment of the LSM. Like Hawashe, however, Osama qualifies his findings, cautioning that levels of T&D remain lower in Libya than in other countries, and that the degree of T&D varies significantly from company to company.

Figure 6.6 Comparison of Libyan commercial bank disclosure practice with that in other developing countries.



6.5 The Development of CG Disclosure in LCBs

The previous sections investigate CG disclosure practice across the sample of LCBs as a whole, identifying general trends and comparing the performance of the top ten banks with that of companies in other developing countries. The analysis in these sections is based on the CG disclosure that these banks chose to disclose (or not to disclose) in their most recent annual report or on their current website. In this section, the focus turns to individual banks. It aims to explore and evaluate the development of CG disclosure in eleven of Libya's sixteen commercial banks and thereby build up a picture of development across the sector as a whole by examining textual examples of disclosure published by these banks over several years. The analysis also involves looking for signs of the impact of institutional factors.

6.5.1 Jumhoriya Bank

Jumhoriya Bank, which is 90% state-owned, was established in 1970. The largest bank in Libya, it has the highest assets, revenues and deposits and the most branches (150) of any bank in the LBS. Annual reports were available for this bank for the period 2007-2011, and with the help of the Internet Archive's Wayback Machine (see section 5.6.1) it was possible to visit web pages published between 2012 and 2017.

The review of these annual reports and websites (see Table 6.3) revealed that each year between 2012 and 2017, Jumhoriya Bank's website disclosed information for two items in the ownership structure and exercise of control rights category; these were details of shareholder structure and changes in shareholdings. Information about shareholder structure was disclosed in the form of a table giving the names of shareholders, the number of shares and ratio of participation. The 2016 website also mentions the policy of privatisation adopted by the CBL. Explaining how the bank had decided to respond to this policy, the website states:

> *"In line with the plan adopted by the CBL to reconstruct the Libyan banking sector and to reinforce the sector generally to enable it to face any crisis, and in order to keep pace with international developments in the banking industry, Decision No. 26/2008 has been issued to put up one million Libyan dinars of Jumhoriya Bank's capital for general subscription by public and private companies and individuals".* (Jumhoriya Bank website, 2016)

Table 6.3 The development of CG disclosure in Jumhoriya Bank

	Annual reports					Websites					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Ownership Structure and Exercise of Control Rights						2	2	2	2	2	2
Financial Transparency	2	2	3	3	3						
Auditing	1	1									
Board and Management Structure and Process				2	2						
Corporate Responsibility and Compliance	1	1	1	1	1						
Total	**4**	**4**	**4**	**6**	**6**	**2**	**2**	**2**	**2**	**2**	**2**

The disclosure shows the impact of the government's privatisation and political/economic openness programme and suggests that in this bank, the CBL plays the key role in shaping policy.

Under the category of financial transparency, Jumhoriya Bank, like the other commercial banks in the LBS, disclosed information on its financial and operating results in its annual reports between 2007 and 2011. It was also one of twelve banks to disclose information about its critical accounting estimates, revealing how it calculates its provisions for public and doubtful debts. Table 6.3 indicates that from 2009 onwards, it began to disclose on a third item in this group: the company's objectives. According to the bank's 2011 annual report,

> *The bank's management discloses all future development plans. In addition, it provides information to the LSM about any changes in the board and management.* (Jumhoriya Bank Annual Report 2011, p. 10)

This disclosure shows the importance of the LSM as the main information user; the bank was aiming to send a message that it is transparent with the LSM and that full information is available about any changes in CG.

The bank's disclosure elsewhere highlights the effect political change has had on its strategic objectives. According to its 2011 annual report,

> *The bank's strategy at the beginning of 2011 was to continue with the 2008-2012 strategic plan. However, the 17th February revolution forced the executive management to adopt an emergency plan to protect depositors and owners' money. This became the main goal for that period of time, along with achieving a minimum profit to cover expenses.* (Jumhoriya Bank Annual Report 2011, p. 8)

The revolution and the ensuing political turbulence seem to have created uncertainty for banks, making it much more difficult for them to formulate long-term strategic plans and forcing them to fall back on emergency planning.

In the auditing category, the bank disclosed information only about its internal control systems, and then only in its annual reports for 2007 and 2008. Disclosure on items in the board and management structure and process group began in 2010, continuing into 2011. It disclosed on two items in this group; the first of these was governance structures such as committees and other mechanisms that it has put in place to prevent conflicts of interest. The bank began providing information about board meetings in 2010 with the brief announcement that

> *The board held eleven meetings in 2010. Discussions covered development and credit activities, and 124 decisions were taken.* (Jumhoriya Bank Annual Report 2010, p. 4)

In 2011, the entry was less specific, although this is perhaps understandable given the circumstances. The annual report for that year explained that

> *In 2011, the CBL established an interim board to work for six months. This had several meetings which impacted positively on the bank's performance during that period of time.* (Jumhoria Bank Annual Report 2011, p. 4)

The fact that the bank began reporting about CG issues in 2010 may be attributable to the launch of the mandatory CG code in that year. This code obliged banks to reconstruct their boards to meet the CG requirements, but the changes to the board (i.e. its wholesale replacement by the CBL) described in the 2011 annual report were triggered by the bigger political changes that followed the February revolution. This revolution brought with it a new ideology, and many board members and executives who were reluctant to let go of the old socialist attitudes were replaced. In the same year, the bank began to disclose information about its compliance with CG principles:

> *The bank's management is committed to applying the rules of corporate governance, and to maintaining a high degree of transparency and disclosure towards Libyan society, shareholders, customers and employees.* (Jumhoria Bank Annual Report 2011, p. 8)

The bank's promise demonstrates a stakeholder-oriented approach towards CG disclosure that extends beyond shareholders alone.

The second item in this category for which the bank disclosed information was its risk management objectives, system and activities. The 2009 annual report states that

- *After merging the two banks, the credit risk sector has been reconstructed to support the bank and confirm the integrity of the credit portfolio.*
- *The bank capital has been increased to withstand any financial risks. The capital has been increased to a million dinars, supporting the bank's ability to carry out its work and guaranteeing the safety of stakeholders, particularly depositors.*
- *During 2008, for the first time, marketing's credit and the granting of a credit department have been separated, and new policies have been adopted which take into account the separation between their duties.*
- *A new executive unit has been established for risk management to confirm the integrity of credit decisions and whether they are in line with the bank's credit*

> *policies and Libyan Central Bank regulations.* (Jumhorya Bank Annual Report 2009, p. 38)

In the category of corporate responsibility and compliance, Jumhoriya Bank, like most banks in the sample, disclosed information for only one item: policy and performance in connection with environmental and social responsibility. This disclosure took the form of a general statement about the bank's intentions towards its customers, employees and the community at large. Thus, the 2010 annual report claims that

> *The bank contributes to the Libyan economy. It has branches and agencies across much of the country and is able to help small and medium enterprises in different areas, including remote areas, by providing them with the financing they need.* (Jumhorya Bank Annual Report 2010, p. 4)

To sum up, despite the evidence of a slight improvement in disclosure, Jumhoriya Bank's performance in this area remains very weak. Over the last ten years, the bank has demonstrated a tendency to comply only with the minimum requirements; it only began reporting on CG when the CGLBS became mandatory in 2010, and its annual reports and web pages have been limited to mandatory items. What CG disclosure it does offer is stakeholder-oriented and relates to bank objectives, changes in shareholdings, ownership structure and the governance structures it has put in place to prevent conflicts of interest. As a state-owned bank which has just recently started to sell its shares in the LSM, the main forces shaping its CG disclosure and practice are the CBL and the LSM. The programme of economic openness adopted by the previous regime appears to have had a positive impact on the bank, but this impact has been undermined to some extent by the dramatic political changes since 2011.

6.5.2 Wahada Bank

The second-largest bank in Libya, the majority state-owned Wahada Bank was established in 1970 with the merger of four banks (the African Arab Bank Company, the Bank of North Africa, Al-Kafela Bank and the Commercial Bank) (Wahada Bank Annual Report 2010). In 2008, the bank joined with the Foreign Bank, acquiring 19% of its shares. The review of the bank's web pages (2012-2017) and annual reports (2007-2010) revealed how its CG disclosure has developed over the last ten years (see Table 6.4).

Table 6.4 The development of CG disclosure in Wahada Bank

	Annual reports				Websites					
	2007	2008	2009	2010	2012	2013	2014	2015	2016	2017
Ownership Structure and Exercise of Control Rights					1	1	1	1	1	1
Financial Transparency	2	3	3	3						
Auditing										
Board and Management Structure and Process				1						
Corporate Responsibility and Compliance	1	1	1	1	1	1	1	1	1	1
Total	**3**	**4**	**4**	**5**	**2**	**2**	**2**	**2**	**2**	**2**

Wahada Bank has only disclosed information about its ownership structure and exercise of control rights since 2012. This has been limited to one item (ownership structure), with the disclosure appearing on the bank's website:

> *Wahada Bank is a Libyan shareholding company, established under Law 153 of 22/12/1970. Paid capital is (432) million LYD. The Social Economic Development Fund owns 54.1% of the stock, the private sector owns 26.9%, the Arab Bank [strategic partner] owns 19%.* (Wahada Bank website, 2016)

In the financial transparency category, Wahada Bank disclosed information in its annual reports only on its financial and operating results and its company objectives. These objectives were first set out in 2008 and remained unchanged in 2009 and 2010. These objectives were/are:

- *To be a pioneer in the provision of outstanding banking services;*
- *To manage the bank's funds effectively;*
- *To expand employees' abilities to work in different banking fields;*
- *To achieve a good score on the bank performance indicator;*
- *To increase the efficiency of banking operations;*
- *To apply the International Accounting Standards in banking management activities;*
- *To increase customer confidence by improving our services;*
- *To enhance employees' skills.* (Wahada Bank Annual Report 2008, p. 10)

The list of objectives shows the competitive tendency of the bank. This competitiveness is a necessary response to the stock market and the government's openness programme, which has allowed the entry into the LBS of new private and foreign banks. The announcement that the bank was aiming to implement the International Accounting Standards suggests a desire to work towards best practice.

No information was disclosed in either the reports or websites under the auditing category, and there was disclosure for just one item in the board and management structure and process category. This was in the 2010 annual report, when the bank disclosed information about the three main types of risk it faced in that year:

- *Credit risks*

  As a result of the closure of the credit department and branch managers allowing loans and failing to monitor troubled debts, repayments and investment opportunities have been missed.

- *Liquidity risks*

  Owing to the CBL's lack of a liquidity management policy, the bank has faced liquidity risks which have left it unable to meet its obligations in the short term.

- *Reputation risks*

  The bank has faced a reputation risk as a result of inadequate computer systems negatively impacting on the bank's customer service. (Wahada Bank Annual Report 2010, p. 11)

The bank was thus facing difficulties even before the revolution.

Table 6.4 shows that the bank also disclosed information for only one item under the corporate responsibility and compliance category during the research period. This was its policy and performance in connection with environmental and social responsibility, which was disclosed in its annual report between 2007 and 2010 and on its website from 2012 onward. Like the previous bank, Wahada Bank offers a general statement about the bank's intentions towards its customers, employees and the wider community. In its website, it proclaims its intention to support the national economy thus:

> *Wahada Bank's strategic vision is to draw on its history, reputation and efficiency to help the national economy to meet the global economic challenges* (Wahada Bank website, 2016)

Overall, the review revealed no significant improvement in Wahada Bank's CG disclosure in its annual reports over the period 2007-2010. Furthermore, despite its stated ambition to work towards best practice, examination of the bank's web pages over the period 2012-2017 showed that no real progress has been made since the revolution either.

6.5.3 Sahara Bank

With a network of 48 branches covering all the main regions of the country, Sahara Bank is one of Libya's largest public banks (Sahara Bank website, 2016). The bank is a mixed ownership bank; it was created in 1964, but in 2007, it became the first financial institution in Libya to enter into a strategic partnership with a foreign bank – the BNP Paribas Group. Annual reports for Sahara Bank were available for 2007-2010, while websites were available for 2016 and 2017 (see Table 6.5).

Table 6.5 The development of CG disclosure in Sahara Bank

	Annual reports				Websites	
	2007	2008	2009	2010	2016	2017
Ownership Structure and Exercise of Control Rights	2	2	2	2		
Financial Transparency	3	3	3	3	1	1
Auditing						
Board and Management Structure and Process	1					
Corporate Responsibility and Compliance	1	1	1	1		
Total	**7**	**6**	**6**	**6**	**1**	**1**

As indicated in Table 6.5, Sahara Bank disclosed information for two items under the ownership structure and exercise of control rights category in its annual reports for 2007-2010. These two items were ownership structure and changes in shareholdings. The bank presented its merger with BNP Paribas as a golden opportunity for expanding its services:

> *The merger with our new foreign partner (BNP PARIBAS) will add value to our banking service as this bank has many branches (85) around the world.* (Sahara Bank Annual Report 2008, p. 4)

And in 2010 the bank declared that

> *At the end of the financial year 2010, the General Assembly of the Bank approved the increase of the Bank's capital through the distribution of bonus shares to the shareholders by 50% of the shares. This procedure was implemented at the beginning of the financial year 2011. However, the second phase, an increase of 368 million dinars to the capital of the Bank through the IPO has stopped as result of revolution in the country.* (Sahara Bank Annual Report 2010, p. 1)

Like the previous banks, Sahara Bank discloses its objectives, which seem to be both economic and social. According to its website:

> *We aim to be one of the national economic pillars and a key player in economic development, and to enhance banking credibility.* (Sahara Bank website, 2016)

The commitment to economic development was also emphasised back in 2010:

> *Our Mission is to achieve excellence in our products and business dealings and to be a supporter and partner for development projects and construction.* (Sahara Bank Annual Report 2010, p. 4)

These examples of disclosure suggest that this bank’s strategy for remaining competitive is to focus on the quality of its banking services.

Table 6.5 indicates that between 2007 and 2017, there was just one example of disclosure in the board and management structure and process category. This was in the 2007 annual report and was related to governance structures for preventing conflicts of interest. The report simply states:

> *The board was reconstructed after the entry of the foreign bank as a strategic partner on 19/9/2007.* (Sahara Bank Annual Report 2007, p. 1)

This brief example highlights the importance of the foreign partner as the motivation behind the reconstruction. From the few examples of disclosure that were available, it is evident that Sahara Bank is poor at disclosing CG information, but that the foreign partner plays an essential role in the bank’s activities, including its CG.

Finally, in terms of corporate responsibility and compliance, Sahara Bank also disclosed information for only one item: policy and performance in connection with environmental and social responsibility. In its annual reports between 2007 and 2010, it gave general information regarding employees and other social contributions. In 2008, this took the form of a discussion of the importance of its staff training programme:

> *There is no doubt that several factors contributed to the success of the bank in the light of the development witnessed in terms of infrastructure and training of the bank's existing staff to cope with the world around us…540 employees have been trained (an average of two training courses for each employee*). (Sahara Bank Annual Report 2008, pp. 5-6)

6.5.4 National Commercial Bank

The National Commercial Bank was established in 1970 as a state-owned bank, but in 2010 it issued 15% of its shares for trading in the LSM. Annual reports were available for the bank for 2007-2010, while web pages were available for 2014-2017. Table 6.6 shows that like the previous banks, the National Commercial Bank disclosed information on only a few items during the research period. These items were: ownership structure, company objectives, governance structures, such as committees and other mechanisms to prevent conflicts of interest, risk management objectives, system and activities, and policy and performance in connection with environmental and social responsibility. In relation to ownership structure, the bank’s 2016 website states that

> *The Central Bank of Libya is the key shareholder in the National Commercial Bank. The transactions of the National Commercial Bank are conducted in accordance with the CBL’s monetary, credit and financial policies, with the exchange and interest rates it sets out, and in compliance with all applicable laws and regulations.* (National Commercial Bank website, 2016)

The CBL is thus confirmed as the main owner of the bank and the controller of all its policies. Through the CBL, the state shapes the CG in this bank. The bank reveals its objective as being

> *….to realise the highest possible standards in the services and products that we offer so that the National Commercial Bank becomes the benchmark by which the banking sector measures its performance.* (National Commercial Bank website, 2016)

Table 6.6 The development of CG disclosure in National Commercial Bank

	Annual reports				Websites			
	2007	2008	2009	2010	2014	2015	2016	2017
Ownership Structure and Exercise of Control Rights					1	1	1	1
Financial Transparency	2	2	2	3	1	1	1	1
Auditing								
Board and Management Structure and Process		1			1	1	1	1
Corporate Responsibility and Compliance					1	1	1	1
Total	**2**	**3**	**2**	**3**	**4**	**4**	**4**	**4**

The scale of the bank's ambition is expressed in its mission statement in its 2010 annual report:

> *The National Commercial Bank aims to make a name for itself on the local, regional and international stages by offering high-value products and services to its clients and shareholders.*
>
> *We also strive here at the National Commercial Bank to make a difference in everything we do: to be the leads in the local market, and to provide high-quality services based on the needs of customers and the market.* (National Commercial Bank Annual Report 2010, p.2)

Like Sahara Bank, the National Commercial Bank sees its offer of high-quality banking services as its best way of remaining competitive. However, the disclosure shows that this bank also wants to play a role in improving the local economy. Demonstrating that its objectives are stakeholder-oriented, in 2010 it declared that

> *We seek to get the maximum revenues in the long term, and to protect the best interests of our shareholders and stakeholders through the hard work of our team and a positive work environment.* (National Commercial Bank Annual Report 2010, p.2)

The bank began reporting on its governance structures for preventing conflicts of interest on its website in 2014, explaining that

> *The governance of the banking sector and that of the National Commercial Bank in particular require the adoption of transparency. The senior and executive management of the bank, along with all the administrative levels, place a high priority on the practice and implementation of sound corporate governance in the sector at both domestic and international levels. The National Commercial Bank is committed to applying the best practices described in the recommendations of the Basel Committee on Corporate Governance, and to complying with the requirements and instructions of the banking and financial supervisory authorities.* (National Commercial Bank website, 2014)

This disclosure shows that the bank aims not only to adhere to the legal requirements but also to international best practice. The intention to apply best practice actually goes back further than this; it can be traced back to 2008, when it appeared in the bank's disclosure regarding its risk management objectives, system and activities. The annual report for that year reveals that the bank's aim is to

> *…achieve a comprehensive [risk management] system that is able to compete effectively and meet the risk-related banking standards and laws.* (National Commercial Bank Annual Report 2008, p.38)

Table 6.1 indicates that eleven of the banks in the sample disclosed information on their policy and performance in connection with environmental and social responsibility in their most recent annual report or website. However, in most cases, this was subsumed within more general statements about the bank's intentions towards its customers, employees or the community at large. The National Commercial Bank was the only bank to talk explicitly about the concept of social responsibility and the role this plays in guiding the bank's policy and activities. On its web page dedicated to the topic, the bank asserts that:

> *Our sense of social responsibility underpins our involvement in the development of local communities. To this end, we give support to educational projects and the development of the education sector by funding schools and contributing to the establishment of computer laboratories across our beloved Libya to help students everywhere in our country be productive and participate in building our national economy.*
>
> *This modern concept of corporate social responsibility, through which firms and institutions in the private sector help in building and developing local communities, participating in their progress and making a difference, realising achievements and accomplishments in their home country, drives us here at the National Commercial Bank to work tirelessly towards the development of Libya's economy and society. Our work mainly focuses on the education sector, and on funding the educational programmes and processes to strengthen the economy of Libya and raise living standards for our citizens.*
>
> *At the heart of this is the National Commercial Bank's involvement in the Dates International Exhibition, which aims to highlight the quality of Libyan date products and to open the doors wide for Libyan farmers and exporters so that their products reach international markets.*
>
> *The National Commercial Bank was also recently honoured at a banking event held under the slogan "Small and medium enterprises: the strategic option to develop the economy and create job opportunities". The honour recognised the bank's role in fostering national and local entrepreneurial development through its support of SMEs. The forum was organised by the Union of Arab Banks with the cooperation of the Central Bank of Libya and the Arab Union for Small Enterprises.* (National Commercial Bank website, 2017)

The review of earlier web pages revealed that this example of disclosure has been reprinted without significant change since 2014.

Overall, the National Commercial Bank discloses information on only a few of the ISAR benchmark items, though there has been a slight improvement since it started reporting about CG on its website in 2014. It appears that the bank is trying to be more transparent with its shareholders, providing a dedicated link for them on its website, and it has also stated its intentions to work towards applying CG best practice and to protect all of its stakeholders.

6.5.5 United Bank

This bank is a joint-stock company, established in 2007 with the merger of three private banks. In 2010, a foreign bank acquired 40% of the bank's shareholding, leaving the remaining 60% with Libyan shareholders. As shown in Table 6.7, annual reports were available for this bank for the years 2007-2013, and web pages were available for 2013-2017. The review of these sources revealed a significant expansion in CG disclosure between 2011 and 2013, but nothing since then.

Table 6.7 The development of CG disclosure in United Bank

	Annual reports							Websites				
	2007	2008	2009	2010	2011	2012	2013	2013	2014	2015	2016	2017
Ownership Structure and Exercise of Control Rights						2	2					
Financial Transparency	2	2	2	2	2	3	3					
Auditing												
Board and Management Structure and Process						3	3					
Corporate Responsibility and Compliance	1	1	1	1	1	1	1					
Total	**3**	**3**	**3**	**3**	**3**	**9**	**9**	**0**	**0**	**0**	**0**	**0**

Within the ownership structure and exercise of control rights group of items, United Bank disclosed information on ownership structure and changes in shareholdings in its reports for 2012 and 2013. The bank's 2013 annual report, for example, explains that

> *The United Bank of Commerce and Investment (UBCI) was established following the merger of three national banks. The bank's operation was limited in certain urban areas of the country until the year 2009 when major investors and insurance companies acquired stakes in the bank.* (United Bank Annual Report 2013, p. 7)

The report goes on to explain the reasons behind the foreign merger:

> *The shareholders saw the need to improve the infrastructure of the bank in order to compete in Libya's booming industrial sector and agreed to look for foreign banks willing to enter into a strategic partnership agreement that would guarantee improvement in the bank's infrastructure and resources over the upcoming years. Three years after its establishment, the bank's stakeholders signed a strategic partnership agreement with Ahli United Bank. One of the leading banking groups in the Kingdom of Bahrain, it has a strong presence in the Middle East and North Africa regions.* (United Bank Annual Report 2013, p.7)

The disclosure about the change in shareholdings highlights the importance of the foreign partner in improving the bank's ability to be competitive.

Like the previous banks, United Bank disclosed information regarding financial and operating results and critical accounting estimates in its annual reports, adding company objectives in 2012. According to the 2013 annual report, these are

> *…upgrading services and products to meet customers' expectations; ensuring an appropriate environment for developing the professional capacities of employees; achieving excellent returns for shareholders; and ensuring the bank remains worthy of the title "Best Private Bank in Libya".* (United Bank Annual Report 2013, p.7)

It began reporting within the board and management structure and process group of items in 2012, disclosing information regarding the governance structures it has put in place to prevent conflicts of interest. The bank was at pains to point out that it

> *…pays great attention to optimising corporate governance practices. The bank's board of directors is responsible for supervising the implementation of all policies and regulations to ensure the best returns are achieved for all stakeholders, including shareholders, customers, employees and more generally, society as a whole. These policies and procedures include the laws and regulations issued by the Central Bank of Libya and the Basel Committee's directives. The bank periodically reviews its governance policies and improves them when necessary.* (United Bank Annual Report 2013, p.16)

The extract suggests that the bank sees the application of CG as being in the interests of all stakeholders. Furthermore, in its determination to abide by the directives of both the CBL and the BCBS, it appears to demonstrate a commitment to achieving international best practice. This commitment is expressed clearly in the board's willingness to establish board committees to assist it in its duties:

> *The board of directors has formed several committees for special purposes to assist in supervising the bank and to enhance the applied governance procedures. These committees are assigned specific responsibilities and they report periodically to the board of directors. Following each AGM meeting, the board of directors forms its board committees and appoints members. These committees are considered the link between the bank's management and the board of directors.* (United Bank Annual Report 2013, p.16)

The commitment to achieving best practice is also evident in the bank's provision of comprehensive biographical information on all board members and executive managers. This information is a feature of its annual reports in 2012 and 2013. An example is the lengthy statement describing the background and qualifications of the board chairman, Mr Abdulla A. Saudi, published in the annual report of 2013.

> *Abdulla Saudi is a world-renowned and respected international banker with over 50 years of experience. He holds a Diploma in Commerce, Management and Accounting. He worked at the Central Bank of Libya for 14 years, holding various positions including that of Manager of the Banking Department and Head of the Foreign Investment Department. He was the founder of the Libyan Arab Foreign Bank, where he served as Executive Chairman between 1972 and 1980, establishing branches of the bank worldwide. He was the founder of the Arab Banking Corporation (B.S.C.), Bahrain and served as its President and Chief Executive from 1980 to 1994. He also founded*

> *Arab Financial Services (E.C.), Bahrain in 1982 and ABC Islamic Bank (E.C.) in the early 1980s. Mr Saudi was honoured at Georgetown University in Washington D.C., as a result of being voted one of the "Most Innovative Bankers" by the representatives of governments and international commercial bankers attending the International Monetary Fund and World Bank meetings in 1980. In 1991, he was awarded the accolade "Best Banker" by the Association of Arab-American Banks in New York. He was the first to receive the "Arab Banker of the Year" award, in 1993, from the Union of Arab Banks. In recognition of his role in the development of banking relationships between Arab and European states, Mr. Saudi has been honoured, over his career, with several gold medals and awards, notable amongst which are those bestowed in 1977 by the King of Spain and the President of Italy and the Grand Medal of the Republic of Tunisia in 1993. In 2012, he was awarded the Integrity Award by the Arab Union for Combating Forgery – Subordinate of the Arab League. He is currently the Executive Chairman of ASA Consultants (W.L.L.), Bahrain, Deputy Chairman of Al-Baraka Banking Group/Bahrain, and board member of Credit Libanais/Beirut.* (United Bank Annual Report 2013, p.9)

Also in the board management structure and process category, the bank's 2013 annual report devotes a whole page to risk management.

> *During 2013, UBCI worked on activating the risk department's role in line with the bank's strategy, CBL regulations, and Basel II requirements. A complete credit policy, along with an executive risk committee, and its roles and responsibilities, were prepared by the risk department and approved by the board of directors. In addition to its work mitigating operational risk, the committee is responsible for restructuring the bank's branches and approving Murabaha financing of more than 15 million Libyan dinars.* (United Bank Annual Report 2013, p.9)

This disclosure offers further evidence that the bank is aiming to meet international standards.

In the corporate responsibility and compliance category, the bank disclosed information on its policy and performance in connection with environmental and social responsibility in each of its annual reports from 2007 to 2013. In its 2013 annual report, for example, it thanks its employees, CBL regulators, customers and investors:

> *I would like to seize this opportunity to express my sincere thanks to the Bank's shareholders, regulatory authorities led by the Central Bank of Libya, all our customers including businesses and businessmen and others for their support and understanding. I would also like to express my thanks to all the Bank's employees for enduring a great deal of inconvenience due to the extraordinary conditions* (United Bank Annual Report 2013, p.12)

United Bank's CG disclosure began in its 2012 annual report with the announcement that it would start implementing reforms in 2013. This report set out the twin aims of United's CG policy as being to provide a high-quality banking service for Libyan customers and to protect shareholders and depositors in line with international standards and Libyan law. Accordingly, it explained that the size of the board would be increased from seven to ten members to meet new legal requirements (United Bank Annual Report 2012, p.8). The report was also the first to give details of the qualifications and experience of board members and executives. This trend continued in the 2013 annual report, which gives more comprehensive information about the bank's CG practice, such as its creation of board committees. It is an indication of the bank's commitment to work towards best international practice that one of these committees is not compulsory under the CGLBS (2010); in other words, the bank has shown that it is willing to go beyond minimum compliance in terms of its CG disclosure and practice.

6.5.6 Commerce & Development Bank

This is the largest private bank in Libya, with 30 branches across the country. It was established in 1996 without any support from the government. Annual reports for this bank were available only for 2007-2011, but web pages were available for the years 2010-2016.

Table 6.8 The development of CG disclosure in Commerce & Development Bank

	Annual reports					Websites						
	2007	2008	2009	2010	2011	2010	2011	2012	2013	2014	2015	2016
Ownership Structure and Exercise of Control Rights	1	1	1	1	1	1	1	1	1	1	1	1
Financial Transparency	2	2	3	3	3							
Auditing												
Board and Management Structure and Process			1	1	1							
Corporate Responsibility and Compliance	1	1	1	1	1							
Total	**4**	**4**	**6**	**6**	**6**	**1**	**1**	**1**	**1**	**1**	**1**	**1**

The review of these reports and pages indicated that over this period, the bank gave no information about shareholder structure other than to state the number of natural and juridical persons holding shares. Like the other banks, it disclosed its financial and operating results and critical accounting estimates, which appeared in its annual reports up until 2011. It also listed its objectives between 2009 and 2011. According to the annual report for 2011, these are:

> *To satisfy our customers' expectations;*
> *To increase profits and reduce costs to increase stockholders' equity and strengthen the bank's financial position;*
> *To build a sound banking institution, focusing on asset quality;*
> *To recruit, train, motivate and reward talented banking personnel by providing local and foreign training programmes and incentives for the best among them;*
> *To install the single-family spirit in all branches and agencies under the leadership of the bank's top management.* (Commerce & Development Bank Annual Report 2011, p. 10)

Similar statements appear in the annual reports for 2009 and 2010. Once again, by focusing on customers, stockholders and staff in its disclosed objectives, the bank aims to cement its reputation as a stakeholder-oriented organisation.

The only item to feature from the board and management structure and process category is governance structures such as committees and other mechanisms to prevent conflicts of interest. The bank began reporting on its governance structures in its 2009 annual report, declaring that

> *Where the Board of Directors' activity is governed by Libyan Banking Law No. 1/2005, the Bank of Commerce and Development adopts the Institutional Governance Manual, aiming to achieve the principles of institutional governance by the separation of the Board of Directors and executive management in terms of responsibilities and delegation of authority.* (Commerce & Development Bank Annual Report 2009, p.15)

The same statement is repeated in the annual reports of 2010 and 2011. The example suggests that the main force shaping the Commerce and Development Bank's CG disclosure and practice is the coercive pressure exerted by the law. The bank seems inclined to comply only with the minimum legal requirements, making no mention of best practice or international standards.

Also under the governance structures item, the bank disclosed information about its board meetings in its 2011 annual report, which accounts for the reduced number of board meetings that were held that year:

> *The Board of Directors held only three meetings during the year 2011 due to the circumstances that accompanied the revolution and the consequent interruption in communication between East and West Libya and the difficulty of communicating with board members in Tripoli.* (Commerce & Development Bank Annual Report 2011, p. 12)

The disclosure reflects the impact the unstable political situation has had on CG in Libya.

In terms of corporate responsibility and compliance, the bank disclosed in its 2011 annual report how it had discharged its environmental and social responsibility during the revolution:

> *In spite of the liquidity crisis suffered by most Libyan banks, resulting in some banks having to close their doors to customers, thanks be to God, we were able to provide the withdrawal ceiling amount specified by the Central Bank of Libya, at LYD 750, for all customers of the Bank. Additionally, your Bank provided the vaults of branches of the other banks with a flow of cash to cover their currency needs. Your Bank was the only bank, enabled by its own capability, to operate its Western Union transfers, which played a huge role in solving the problems of citizens, especially those problems of expenses related to medical treatment and study costs abroad, as well as foreign workers in Libya who preferred to remain in the country.* (Commerce & Development Bank Annual Report 2011, p.11)

To sum up, the Commerce and Development Bank did not start reporting on CG until 2009. Although this is encouraging in that it predates the CGLBS becoming mandatory in 2010, the evidence suggests that CG practice in this bank is largely shaped by the law and the coercive pressure from the CBL. Disclosure is offered on very few of the ISAR benchmark items, and there is no suggestion that the bank is willing to go beyond the minimum level of compliance.

6.5.7 First Gulf Libyan Bank

This is a fully-fledged commercial bank. It is equally owned by the Libyan government and its foreign bank partner. Table 6.9 shows that annual reports were available for this bank for the period 2008-2013 and web pages were available for 2009, 2010, 2013 and 2017; however, review of these sources showed that the bank discloses information on only a few items, and that there has been no significant improvement in terms of CG disclosure and practice over this period.

Table 6.9 The development of CG disclosure in First Gulf Libyan Bank

	Annual reports						Websites			
	2008	2009	2010	2011	2012	2013	2009	2010	2013	2017
Ownership Structure and Exercise of Control Rights							1	1	1	1
Financial Transparency	2	2	2	2	2	2	1	1	1	1
Auditing										
Board and Management Structure and Process							1	1	1	1
Corporate Responsibility and Compliance	1	1	1	1	1	1	1	1	1	1
Total	**3**	**3**	**3**	**3**	**3**	**3**	**4**	**4**	**4**	**4**

On the bank objectives item, First Gulf Libyan Bank declares that its aim is

> *…to be a world class organisation. Striving towards this aim is the philosophy of providing and optimising shareholder, customer and employee value. People focused, in line with its belief that people drive excellence and make the difference, First Gulf Libyan Bank creates opportunities to challenge its workforce and empower it to grow and become world-class.*
>
> *At First Gulf Libyan Bank, trust and integrity are inherent ethics. Whether it is interaction with colleagues, customers, partners or stakeholders, the Bank builds mutually beneficial and enduring relationships by adhering to these corporate principles.* (First Gulf Libyan Bank website, 2016)

The objectives indicate a stakeholder-oriented bank that is keen to establish a reputation for trustworthiness among its stakeholders. To this end, the website furnishes these stakeholders with reassuring details about the bank's risk management framework:

> *The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Bank Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures and reviews the adequacy of the risk management framework*

in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in its oversight role by the Internal Audit. (First Gulf Libyan Bank website, 2016)

However, while the general level of disclosure of non-financial information is low, the bank does follow international best practice when it comes to its financial reporting; in this instance, it goes beyond minimum compliance. For example, according to the 2011 annual report,

> *The financial statements of First Gulf Libyan Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the interpretations issued by the Standing Interpretation Committee of the IASB, and the domestic regulations and guidelines of the Central Bank of Libya.* (First Gulf Libyan Bank Annual Report 2011, p.12)

On the issue of corporate responsibility and compliance, First Gulf Libyan Bank, like others in the sample, offers a general statement about social responsibility. These have been published in both the annual reports and on its website. Most recently, its 2017 website states that

> *FGLB strives to set standards of excellence, explore new opportunities and pursue innovation. The bank focuses on delivering products and services that address the needs of a dynamic economy, perpetuate progress and meet customer requirements.* (First Gulf Libyan Bank website, 2017)

6.5.8 Al-Saraya Bank

This bank was established in 1997 as the Al-Ahli Bank of Tripoli. In 2007, the bank became a joint-stock company, a new management was installed and it was renamed Al-Saraya Bank. By mid-2016, the bank had five branches. As Table 6.10 indicates, annual reports were available for the period 2007-2013 and web pages were available for 2013-2017. Review of these sources once again indicated that the bank discloses information on very few of the ISAR benchmark items; apart from its financial and operating results, Al-Saraya Bank disclose under three items of this category, financial and operating results, critical accounting estimates and company's objectives. Under the category of Board and Management Structure and Process the bank only discloses information on its governance structures for preventing conflicts of interest and the qualifications of its board members, and regarding to Corporate Responsibility and Compliance, the bank disclose information on its policy and performance in connection with environmental and social responsibility.

Table 6.10 The development of CG disclosure in Al-Saraya Bank

	Annual reports							Websites				
	2007	2008	2009	2010	2011	2012	2013	2013	2014	2015	2016	2017
Ownership Structure and Exercise of Control Rights												
Financial Transparency	3	3	3	3	3	3	3					
Auditing												
Board and Management Structure and Process								2	2	2	2	2
Corporate Responsibility and Compliance								1	1	1	1	1
Total	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**

In terms of its governance structures, the bank states only that

> *The Board of Directors' primary responsibility is to supervise the management of the bank's affairs by providing effective corporate governance. In doing so, the Board aims to balance the interests of the bank's diverse constituencies, including its shareholders, customers, employees and responsibility to the communities in which we operate.* (Al-Saraya Bank website, 2016)

As with the other banks in the sample, the disclosure is designed to display a stakeholder-oriented approach towards CG, making explicit Al-Saraya Bank's commitment to balance the various interests of its shareholders, customers, employees and the wider community. The bank is one of the few to provide sufficient information about the qualifications and background of its board members on its website. The 2011 annual report reveals that the board met eight times that year and that

> *Decisions were taken in relation to the appointment of the chairman of the board and senior managers.* (Al-Saraya Bank Annual Report 2011, p.3)

The single item disclosed in the corporate responsibility and compliance category is the bank's policy and performance in connection with environmental and social responsibility. This disclosure takes the form of a brief statement describing the bank's wish to foster the professional development of its employees:

> *We treat our employees with trust and respect. Because we believe in what we do, we are always ready to give them the best and make the greatest effort to help them enhance their skills.* (Al-Saraya Bank website, 2017)

The same statement appears in each version of the bank's website between 2013 and 2017. Overall, the review of Al-Saraya Bank's reports and websites demonstrated no improvement in its disclosure practice over the research period.

6.5.9 North Africa Bank

North Africa Bank is predominantly state-owned, with just 18% of the bank in private hands (see Table 3.2). The bank, which holds capital of 350 million Libyan dinars, already provides its services through 54 branches and agencies scattered all over the country and has plans to expand its network even further. However, the review of its annual reports (for the period 2007-2008) and web pages (for the period 2013-2017) revealed that there was no significant improvement in its CG disclosure over the research period; since 2013, North Africa Bank has disclosed information on only one item, in the financial transparency category (see Table 6.11).

Table 6.11 The development of CG disclosure in North Africa Bank

	Annual reports		Websites				
	2007	2008	2013	2014	2015	2016	2017
Ownership Structure and Exercise of Control Rights		1					
Financial Transparency	3	3	1	1	1	1	1
Auditing							
Board and Management Structure and Process							
Corporate Responsibility and Compliance	1	1					
Total	4	5	1	1	1	1	1

Information about one item in the ownership structure and exercise of control rights category was disclosed in the bank's 2008 annual report, when it acknowledged the change in shareholding occasioned by its merger with other institutions:

> *The bank is complying with Decision No. 1/2006 in its merger with 21 private banks. Two banks completed the merger procedures during 2007 and by the end of 2008, eleven banks will have been merged with our bank.* (North Africa Bank Annual Report 2008, p. 2)

The bank disclosed information on three items in the financial transparency category in its annual reports for 2007 and 2008. These included financial and operating results, critical accounting estimates and its objectives. More recently, the bank's disclosure in terms of its objectives has been geared towards its decision to start offering its customers Islamic financial services. Hence, on its 2016 website, it announced that

> *The bank intends to provide banking services in conformity with the Islamic legal code in two branches…We are looking forward to being pioneers in the world of financial services and to providing our customers with the widest ranging and highest quality services in accordance with the Islamic legal code, delivered with professionalism by highly skilled banking experts. We intend to employ advanced technology in our*

management, operating and customer service functions to develop a highly skilled staff that is able to respond to our customers' requirements in the most effective way possible. (North Africa Bank website, 2016)

Table 6.11 shows that the bank disclosed information for just one item in the corporate responsibility and compliance category during the research period. This disclosure, regarding its policy and performance in connection with environmental and social responsibility, appeared in the 2007 and 2008 reports. However, the information now being provided by the bank about its Islamic banking services is arguably being presented as evidence of its commitment to social responsibility, for example in its promise to employ staff

…who promise to devote their efforts and time to give the best service they can to the bank's customers according to the Regulations of the Legal Authority on Islamic Services, according to the Islamic code. (North Africa Bank website, 2016)

Like the previous banks, North Africa Bank aims to distinguish itself by emphasising the quality of the service it offers, but unlike the previous banks, it is also seeking to enhance its legitimacy and reputation by adopting Sharia-based rules.

6.5.10 Al-Amman Bank

Al-Amman Bank started out as a private company, originally owned entirely by Libyan shareholders. It was one of the first banks to be established after the CBL gave permission for private commercial banks to start operating in the LBS (with the issue of Banking Law No. 1/1993, later replaced by Banking Law No. 1/2005). The bank is now owned 60% by private Libyan shareholders, with the remaining 40% being held by foreign partners. The review of the bank's annual reports (covering the period 2007-2008) revealed a very low level of CG disclosure (on financial and operating results only), but there was slightly more disclosure on its website (available for the period 2013-2017).

Table 6.12 The development of CG disclosure in Al-Amman Bank

	Annual reports		Websites				
	2007	2008	2013	2014	2015	2016	2017
Ownership Structure and Exercise of Control Rights			2	2	2	2	2
Financial Transparency	1	1					
Auditing							
Board and Management Structure and Process			1	1	1	1	1
Corporate Responsibility and Compliance			1	1	1	1	1
Total			3	3	3	3	3

Describing its ownership structure, one version of the bank's 2016 website explains that

Since the development of the Al-Amman Bank is a consistent goal of its founders whether in terms of financial position or expanding its services and competition capabilities, in 2010, Al-Amman Bank entered into a strategic partnership with Banco Espirito Santo *from Portugal, one of the largest banks in Europe, increasing Al-Amman Bank's capital to 100,020,000 LYD.*

Al-Amman Bank is now 40% Portuguese-owned by Banco Espirito Santo, and 60% Libyan-owned by the Libyan private sector. The Portuguese partner is in charge of the executive management and represented by four members of the Board of Directors alongside three Libyan Board members including the Chairman. Al-Amman Bank is now part of the international BES Group. (Al-Amman Bank website, 2016)

The website was subsequently amended to record the change in shareholding when this partnership ended:

Al-Amman Bank has ended its partnership with Banco Espirito Santo. The 40% shares of the previous partner have been acquired by Freslake Limited with the same fully paid share capital in the order of 100,020,000 LYD. (Al-Amman Bank website, 2016)

None of the websites contain anything in the financial transparency or auditing categories, but in the board and management structure and process category, they give information about the governance structures the bank has in place to prevent conflicts of interest. Thus, the 2016 version of the site asserts that

Al-Amman Bank's corporate governance model fully complies with the Libyan legal framework and the Central Bank of Libya's (CBL) regulations and Corporate Governance Framework for the Banking System. (Al-Amman Bank website, 2016)

Once again, the disclosure suggests that CG in the bank has been influenced primarily by legal obligations. There is no indication on the website that Al-Amman Bank has any interest in going beyond the minimum CG requirements. Describing the structure of its governance, the bank explains that it is based on three pillars:

- *A Board of Directors that is in charge of the overall strategy and of monitoring its execution by management;*
- *A General Manager and his team, responsible for leading the executive management of the bank and executing the strategic plan;*
- *A Control Committee that monitors the work and results of the Board of Directors and the General Manager and his team.* (Al-Amman Bank website, 2016)

Finally, the website adds that

The Board of Directors is composed of nine members, including a Chairman and Deputy Chairman and seven Members (Al-Amman Bank website, 2016)

6.5.11 Al-Nuran Bank

This is a new bank, first established in 2008 but only operating since 2015. Al-Nuran Bank is a joint-stock Libyan company with a capital of 600 million dinars divided equally between the Libyan Foreign Bank and the Qatari Bank (Al-Nuran Bank website, 2016). The sole information source for this bank was its website, published in 2016 and 2017. Although the bank disclosed on only ten out of the 52 items in the ISAR benchmark on these sites, it achieved a higher level of CG disclosure, especially in regard to board and management structure and process, than the other banks in the sample. The site published information for items in four of the five ISAR categories: ownership structure and exercise of control rights, financial transparency, board and management structure and process and corporate responsibility and compliance.

Table 6.13 The development of CG disclosure in Al-Nuran Bank

	Websites	
	2016	**2017**
Ownership Structure and Exercise of Control Rights	2	2
Financial Transparency	2	2
Auditing		
Board and Management Structure and Process	5	5
Corporate Responsibility and Compliance	1	1
Total	**10**	**10**

As Table 6.13 reveals, in the first of these categories, the bank disclosed information on two items. On the issue of ownership structure, the 2016 website states that

> *The Bank's subscribed capital is 600 million Libyan dinars, divided into 60 million shares, the value per share ten Libyan dinars paid upon incorporation: from the Libyan Foreign Bank 30 million shares totalling 300 million L.D, and Qatar holding 30 million shares totalling 300 million L.D.* (Al-Nuran Bank website, 2016)

On the other item, Al-Nuran Bank was the only bank in the sample to disclose information about the process for holding annual general meetings:

> *The Ordinary General Assembly of Parties and Extraordinary AP held their meetings last August 14, 2015. An announcement was made regarding the appointment of the Board of Directors. Consideration was also given to the Board of the Bank's report of its activity for the years 2013 and 2014; the financial statements and Auditors' report and the ratification thereof; the discharge of the Board of Directors; and the Sharia Supervisory Board's report for the years 2013 and 2014. In addition, External Auditors were chosen to review the financial statements of the Bank for the years 2015 and 2016, in accordance with the statute, and their fees were determined.* (Al-Nuran Bank website, 2016)

Table 6.13 shows that in the financial transparency group, the bank disclosed information on two items in 2016 and 2017. Al-Nuran Bank, like almost all of the other banks, disclosed information about its objectives and, also like most of the other banks, this disclosure was designed to show that it is stakeholder-oriented:

> *We aim to build partnerships with all our stakeholders including employees, customers, businesses, suppliers, shareholders – these relationships are the foundation of our business. We will never compromise on our principles or our transparency as these are what make these relationships durable.* (Al-Nuran Bank website, 2016)

However, the bank was ahead of the others in its willingness to disclose information about the board's responsibilities regarding financial communications. According to the 2016 website,

> *The Bank follows a clear policy towards communicating information on its activities and business to all its shareholders and related parties. It endorses a communication disclosure policy consistent with the requirements of the Basel Convention 2; the Assembly of Parties of the Bank holds an annual meeting, attended by the Chairman and members of the Board of Directors, representatives of the official authorities and Auditors, to review the financial results and respond to questions and inquiries from shareholder."* (Al-Nuran Bank website, 2016)

The bank disclosed information for five items in the board and management structure and process group in both 2016 and 2017. This was also the only bank to disclose information about the composition of the board of directors, though it made no mention of the balance of executives and non-executives. The 2016 website explains that

> *The Bank's Board of Directors consists of ten members appointed in accordance with the provisions of the Statute of the Bank in line with the amended banking law. The Bank's Board consists of members with the relevant professional background and work experience. Members are selected based on their professional experience in accordance with the Institutional Control Charter requirements (Corporate Governance Guide). Appointment to the Board is subject to the approval of the Central Bank of Libya.* (Al-Nuran Bank website, 2016)

As this example highlights, the bank provided information about the qualifications and background of board members, emphasising particularly their experience. This professional experience may be one reason why Al-Nuran Bank is already able to achieve higher quality CG disclosure and practice than its competitors.

Describing the governance structures the bank has in place to prevent conflicts of interest, the 2016 website insists that

> *Protecting the rights of shareholders and adding value to their ownership in the Bank will always be a priority of Al-Nuran Bank, which it will achieve through the application of professional banking practices. The Bank will not only apply the State and regulators' laws (including the Corporate Governance Guide issued by the Central Bank of Libya and the Bank's own Institutional Control Charter), it will also seek to learn from the governance of other major companies. The Bank will work continually to achieve the best return for related parties, including shareholders, customers, employees and society in general. The efforts to implement the Corporate Governance Guide are the direct responsibility of the Bank's Board of Directors and are consistent with the Central Bank of Libya's publications, regulations and legal requirements.* (Al-Nuran Bank website, 2016)

Again, the disclosure is indicative of a stakeholder-oriented approach to CG and an apparent willingness to exceed the minimum legal requirements. A tendency towards mimetic isomorphism (see section 4.3.2) is also evident in the bank's stated desire to learn from other companies.

Still in the category of board structure and process, Al-Nuran Bank was again unique in describing how directors' remuneration is determined:

> *The financial benefits of the Chairman and members of the Board of Directors are determined by resolution of the General Assembly of the Bank, based on a proposal from the Board, in accordance with the recommendations of the Appointment and Remuneration Committee, as set forth in the Bank's corporate governance manual. Members are paid from the date they start attending Board meetings.* (Al-Nuran Bank website, 2016)

The disclosure is designed to show that the remuneration policy is shareholder-oriented; the fact that approval is required from the general assembly means that shareholders are able to deploy financial incentives to ensure that executives are aligned with their interests.

In relation to the risk management objectives, system and activities item, the bank explains that

> *The Board has set up a comprehensive set of policies covering all local and international bank operations and built a modern risk management system to ensure the continuity of the safety of assets invested. The Bank is dealing with banking risks in an integrated manner and within a comprehensive risk management framework, in accordance with the latest standards, customs and banking practices. This system operates within a multilevel regulatory and control organisational structure to ensure the correct application of the principles of corporate governance. At Board level there are supervisory and control committees to ensure the protection of the assets of the Bank and to apply the concepts of commitment. Other Board committees are concerned with safety and performance improvement at the level of operational activity.* (Al-Nuran Bank website, 2016)

The disclosure reflects Al-Nuran Bank's intention to apply best practice in terms of its risk management policy, which it sees as crucial to protect the bank's assets.

Finally, Table 6.11 shows that in 2016 and 2017, the bank disclosed information on one item in the corporate responsibility and compliance category: its policy and performance in connection with environmental and social responsibility. In this respect, the bank's performance compares with that of the other banks in the sample. Encompassed within its statement of objectives, it explains that

> *We aim to build partnerships with all our stakeholders including employees, customers, businesses, suppliers, shareholders – these relationships are the foundation of our business. We will never compromise on our principles or our transparency as these are what make these relationships durable.* (Al-Nuran Bank website, 2016)

To conclude, the evidence offered by the bank's website suggests that it has already achieved a good level of CG disclosure and practice, and that it has ambitions to achieve best practice in this area. Interestingly, it is the only bank in the sample to be influenced (or at least, to acknowledge that it is influenced) by the CG practice of other institutions.

6.6 Summary of Initial Analysis

The first part of the chapter gives some initial indications of the current state of CG disclosure in LCBs. The descriptive analysis of the sample as a whole suggests that the level of CG disclosure provided by commercial banks is low, and that there is no significant variation between banks. The analysis of LCBs' CG disclosure by information category using the ISAR benchmark gives a general picture of current practice and allows some observations about the factors that are shaping this practice. These factors were investigated further in the interview stage of the study. The analysis reveals low rates of CG disclosure when compared to the ISAR benchmark, with 38 of the 52 items not being reported by any of the banks in the sample. Financial and operating results are disclosed by most of the banks, but the only other items that are widely reported (i.e. by at least half of the banks) are ownership structure, changes in shareholdings, company objectives, critical accounting estimates, governance structures such as committees and other mechanisms to prevent conflicts of interest, and policy and performance in connection with environmental and social responsibility.

In the second part of the chapter, the comparison with other developing countries suggests that on average, LCBs exhibit the lowest level of CG disclosure. In most of these countries, the maximum total average level of disclosure across the top ten companies is 9.08 of the ISAR benchmark items, whereas in Libya, the average figure for the top ten commercial banks is 1.58. Interestingly, Libya is even behind countries sharing similar economic and social cultures such as Egypt and Morocco.

The third part of the chapter analyses examples of text published by eleven of the sixteen banks in their annual reports and websites over the period 2007-2017. This section offers initial observations about how CG disclosure has developed and the institutional factors that might be shaping practice in these banks. Table 6.14 summarises the findings of this analysis. Table 6.14 shows that the majority of LCBs appear to be weak in terms of their CG disclosure, though there are individual examples of good practice and evidence of improvement in some banks. The results show that disclosure in most banks is stakeholder-oriented, but that while several banks claim to want to achieve CG best practice, hardly any are willing to go beyond the minimum requirements. There are a number of possible explanations for the current low levels and inferior quality of CG disclosure in LCBs. The main reason may simply be that the concept of CG is still new in the banking sector, and that consequently, key actors lack a true understanding of its importance. This is compounded by the tendency among some to see dedicated CG regulations

Table 6.14 Summary of evaluation of annual reports and websites

Name of bank	Evaluation
Jumhoriya Bank	Despite a slight improvement since the launch of the mandatory CG code in 2010, the bank remains weak in terms of CG disclosure. Disclosure is stakeholder-oriented; the examples reveal that the bureaucratic state, as expressed in the CBL, is the main force shaping the bank's CG disclosure and practice. The economic openness programme adopted by the previous regime appears to have had a positive impact, but the dramatic political changes of 2011 have affected this programme and, consequently, Jumhoriya Bank's CG disclosure and practice. The bank seems inclined only to comply with minimum requirements, having started reporting on CG only in 2010 when the CG code became mandatory. Furthermore, its annual reports and web pages cover mandatory items only.
Wahada Bank	This bank discloses information on only a few of the ISAR benchmark items. No significant improvement was observed over the period covered in the annual reports (2007-2010) or that covered in the web pages (2012-2017), despite the bank's claim that it wants to work towards best practice and adopt international standards.
Sahara Bank	The few examples of disclosure that are available for this bank show it is poor at disclosing information about CG. The bank's foreign partner seems to play an essential role in the bank's activities, including its CG.
National Commercial Bank	This bank discloses information on only a few of the ISAR items, though matters have improved slightly since it started reporting about CG on its website in 2012. The bank appears to want to be transparent with its shareholders, providing a dedicated link on its website. It claims that it aims to apply CG best practice and to protect all stakeholders.
United Bank	The bank's disclosure reveals that it aims to achieve international best practice and that it has already exceeded minimum compliance.
Commerce & Development Bank	The bank made some improvement when it began reporting on CG in 2009, but its disclosure is limited. The results reveal that CG in the bank is shaped by the law and by coercive pressure from the CBL. There is no indication that the bank is willing to exceed minimum compliance.
First Gulf Libyan Bank	CG disclosure is weak, though the bank applies international standards when preparing its financial reports.
Al-Saraya Bank	This bank is weak in terms of CG disclosure, reporting only briefly on governance structures, one board meeting and the background of board members.
North Africa Bank	CG disclosure is very limited in the bank's annual reports and web pages. Its disclosure regarding the bank's objectives reveals that the bank is seeking to enhance its legitimacy by offering Sharia-based banking.
Al-Amman Bank	The limited CG information on the bank's website reveals that the law is the main factor informing governance in this bank. There is no indication that the bank has any plans to exceed the minimum CG requirements.
Al-Nuran Bank	The textual examples reveal that this bank is applying good CG disclosure and practice. Its disclosure reveals a stakeholder-oriented approach to CG and an ambition to apply best practice. It also shows that this bank is keen to mimic the CG practice of other institutions.

as redundant because they believe that sufficient provision already exists within Libya's banking and commercial law. The CBL's response to this resistance has arguably been insufficient, both in terms of its efforts at awareness-raising and enforcement, though the dramatic change in Libyan culture and political upheaval since the 2011 revolution may well have impeded its ability and the ability of other institutions to foster real improvement. Progress may also have been slow because there seems at present to be little pressure from either inside or outside stakeholders for the disclosure of non-financial CG information. As long as this remains the case, banks have no immediate reason to consider such information important, and they will continue to give priority to financial results.

The findings raise a number of questions about the institutional aspects that drive banks to disclose and practise CG, or that deter them from doing so: for example, what makes individual banks disclose information about some aspects of CG and not others? And why do some banks disclose much more than others? It may be helpful to draw on institutional theory to try to answer these questions; to investigate, for example, the influence of isomorphism, how banks respond to this isomorphism, and whether there is any institutional logic behind CG disclosure and practice. The analysis of annual reports and websites alone cannot provide comprehensive answers to these questions; rather, this stage is limited to offering an institutional understanding of CG disclosure and practice and general insights into the current state of this practice in LCBs. To gain a fuller understanding of the institutional forces involved and their effect on banks' practice, it was necessary to gather qualitative, in-depth data from key actors in the sector. These data, which were collected by means of semi-structured interviews, are presented in the following chapter.

Chapter 7 Interview Analysis

7.1 Introduction

This chapter considers the findings from the second stage of the study, which involved the collection of data by means of semi-structured interviews. The focus here is on Research Questions 5,6 and 7:

5- How do the key social actors perceive the development of CG disclosure and practice in LCBs?

6- What are the institutions that may be influencing this development in LCBs?

7-How do the key social actors think these institutions are impacting the development of CG disclosure and practice in LCBs?

The chapter is divided into two sections: the first investigates the interviewees' perceptions regarding recent developments in CG disclosure and practice generally in Libya and in LCBs in particular; and the second discusses the impact of key institutions on the development of CG disclosure and practice in LCBs, as perceived by the interviewees. These findings are arranged and discussed thematically.

7.2 Recent Development of Corporate Governance Disclosure and Practice in the Libyan Banking Sector

The interviews sought to uncover respondents' views about CG disclosure in Libya generally and in the banking sector in particular. This section discusses these findings, first exploring how LCBs have developed their own CG practice in response to recent reforms, as perceived by the interviewees, before then focusing specifically on their perceptions of CG disclosure (research question 5). In this way, it aims to give an insight into the nature of CG in the LBS before addressing the factors that shape this practice (see section 7.3). It seeks to supplement and strengthen the findings derived from the content and textual analysis, especially in areas where these data sources (i.e. company annual reports and websites) yielded only limited information.

The textual analysis discussed in the previous chapter revealed that although there are examples of good practice, and there has been some general improvement across the sector as a whole, the majority of LCBs still appear to be weak in terms of CG disclosure. The findings also suggested that in most banks, there is little willingness to go beyond the minimum requirements in terms of CG disclosure and practice, and that what disclosure there is, is stakeholder-oriented.

7.2.1 The Recent Development of Corporate Governance Practice[13]

According to the interviewees, the majority of LCBs are not yet applying CG effectively. As one executive manager (EM) indicated:

> *We have started to apply corporate governance, but we are still in the very early stages.* (EM1)

Most have made some effort to meet the minimum requirements set out in the CGLBS (2010) by setting up committees and restricting their board, but it appears that in most cases, these committees are not yet active enough to have had any impact. One board member (BM) acknowledged that

> *We do not apply corporate governance effectively in our bank. We only established four committees, including a corporate governance committee, in 2011, but these committees don't work perfectly yet. However, we are trying to improve our practice and we plan to start conducting meetings in the near future.* (BM3)

Banks with foreign partners appeared slightly ahead of other LCBs, with most saying that they had started developing their CG before the new code came into force. This was emphasised by one BM, who said that

> *The CBL issued the corporate governance code in 2010, but we had started considering corporate governance in our bank before that code. When the bank combined with a foreign bank in 2008, the board established committees including a corporate governance committee. This has had three meetings about applying corporate governance in the bank. The consultant from the foreign bank has given us a lot of help in this regard.* (BM1)

Another BM from another joint foreign-owned bank was equally keen to emphasise his bank's commitment to implementing CG principles:

> *After the CBL issued the corporate governance code in 2010, we immediately started changing our governance to meet the requirements of the new code. We established committees (audit committee, risk committee, remuneration committee and corporate governance committee), and we started to adhere to the minimum number of meetings for the board and its committees. We are already adhering to most of the requirements of the new code.* (BM2)

From the perspective of regulators and outside stakeholders, however, CG practice in LCBs remains weak despite the CBL's efforts at reform. A regulator (R) from the CBL admitted that

> *Libyan commercial banks so far are not fully applying the code. Only some banks are applying some corporate governance mechanisms, such as establishing the four main board committees and adjusting the number of board members to meet the requirements of the new code.* (R1)

[13] This section discusses the findings yielded by the interview questions in part B (see Appendix D).

R2 agreed:

> *Although the CBL issued the code and gave banks a period of time (six months) to reconstruct their management to meet the requirements of corporate governance, they are not complying with these requirements.* (R2)

An external auditor (EA) pointed to the lack of CG particularly in relation to disclosure, explaining that

> *We as auditors started focusing on corporate governance when some banks issued their own corporate governance codes. We have noted that banks are not fully complying with good corporate governance practice, particularly regarding disclosure – they do not disclose corporate governance information. Some banks have some good corporate governance practice, but generally speaking, corporate governance practice is still weak in Libyan commercial banks, even though the CBL is making a lot of effort to monitor banks and encourage them to follow good corporate governance practice. In future, I think corporate governance will improve as awareness increases among stakeholders in the Libyan banking sector.* (EA1)

Another EA criticised the banks' attitude to risk management:

> *Most banks do not commit to corporate governance, especially in regard to risk. There are no risk policies in most commercial bank.* (EA2)

At the time of the interviews, only two of the banks in the sample were exceeding the minimum CG requirements under the CGLBS (2010). Nevertheless, the majority declared their intention to work towards achieving best practice. According to two senior accounting managers,

> *We have a five-year plan for achieving best practice of corporate governance. We have established the four committees which are required by the code. The board contains nine members, all of them qualified and with long experience in the banking sector, and most of them are independent.* (P5)
>
> *We have good corporate governance practice in our bank, though we do have some shortcomings. For example, we do not have a corporate governance committee yet. Generally speaking, we comply with most corporate governance requirements.* (P2)

P5 asserted that

> *Corporate governance differs between Libyan commercial banks. Our bank was one of the first to apply corporate governance, and we are now improving our bank to reach best practice.* (P5)

The findings suggest that CG is developing in broadly similar ways across the commercial banks. The majority have not yet managed to meet the minimum requirements of CG, though most have accepted the new practice of establishing board committees. This represents an improvement on previous CG practice, which in most banks was limited to ensuring that the board had between five and seven qualified and experienced members, that the roles of chairman and general manager were separated, and that there was a monitoring committee.

7.2.2 Corporate Governance Disclosure in Libyan Commercial Banks[14]

The disclosure index findings revealed generally poor disclosure practice in LCBs' annual reports and websites, with a few notable exceptions (see section 6.2). This section of the interview sought to explore these findings further by eliciting the interviewees' perspectives (particularly those in the preparer (P) and EA groups) on CG disclosure. To this end, they were asked to express their opinion regarding the importance of and reasons for disclosure or nondisclosure in respect of ownership structure and the exercise of control rights, financial transparency, auditing, board and management structure and process, and corporate responsibility and compliance.

7.2.2.1 Ownership Structure and Exercise of Control Rights

The results of the descriptive analysis (see section 6.2.3.1) indicate that LCBs disclose insufficient information in this category. When asked why they thought banks are weak in this area, most interviewees in Group P (those most directly involved in the preparation of annual reports) expressed the view that as the Banking Law (2005) and CGLBS (2010) give stakeholders the right to access information about ownership whenever they want to, it is not necessary to include it in annual reports.

> *We do not disclose information about the rights of shareholders and other details in the annual reports as this is already available to stakeholders by law.* (P7)

They also saw the information as being specifically the concern of shareholders and therefore best presented through the AGM:

> *We disclose all information related to shareholders only in the AGM.* (P3)

These results, in general, are in line with the finding of the ISAR benchmark analysis that the majority of banks do not disclose information about ownership structure in their annual reports and websites. Information about control rights, the process for holding annual general meetings, the availability and accessibility of meeting agenda, and control structure are not publicly disclosed and are only available to shareholders. The institutional factors shaping disclosure practice in this area, as perceived by the interviewees, are discussed in section 7.3.

7.2.2.2 Financial Transparency

In this part of the interview, respondents were asked to give their opinion of their bank's disclosure practice in matters of financial transparency (e.g. the bank's financial and operating results; the board's responsibilities regarding financial communications; company objectives and company activities; the nature, type and elements of related party transactions; the decision-making process for approving transactions with related parties; the rules and procedures

[14] This section relates to the interview questions in part C (see Appendix D).

governing extraordinary transactions; critical accounting estimates; and the impact of alternative accounting decisions).

The majority of interviewees indicated that significant space is given to the disclosure of financial information as this is required under existing commercial law, tax law and banking law. Several Group P interviewees confirmed that they prepare the bulk of the financial statement, which is disclosed in the annual report and presented to shareholders in the AGM:

> *The financial information is the most important information and required by most of the laws and international standards. We prepare a financial statement and we include it in the annual report with the notes and provide this information to the public.* (P7)

Similarly, P1 explained:

> *We disclose the two main financial statements (income statement and financial position statement) quarterly. Regarding the cash flow statement, we disclose it annually. This information is important for all users and legally required.* (P1)

Several interviewees mentioned the importance of disclosing information about bank objectives and activity and critical accounting estimates, particularly for shareholders. P4 explained:

> *We disclose information about the strategic plan in the annual report, the bank website and in the AGM for shareholders.* (P4)

Similarly, P7 confirmed:

> *We disclose information about the strategic plan in the annual report and in the AGM for shareholders.* (P7)

P2 noted that this information is also important for employees:

> *We disclose information about the strategic plan for our bank on all computer desktops. We give all staff the objectives and strategies for our bank to remind them about these objectives and plans.* (P2)

However, recent cultural changes and post-revolutionary instability have created uncertainty among banks and made determining these objectives more complicated. This was indicated by P3 and P4:

> *Information about strategic plans is very important, but unfortunately, we do not disclose sufficient information about these strategic plans as we do not have a planning department. Also, the situation Libya is now facing is another obstacle to determining clear objectives.* (P3)
>
> *The changes in the management and the board that have occurred as a result of the changes in Libya have created an unstable situation in the bank. The changes in Libya have led the CBL to refocus its priorities, and this has significantly impacted on the bank's strategy.* (P6)

Regarding the other items in the financial transparency category, the majority of respondents said their bank offers little or no disclosure about the nature, type and elements of related party transactions and the decision-making process for approving transactions with related parties. P4 attributed this to a lack of written policies in this area:

> *There is no written policy regarding conflicts of interest and as a result, there is no disclosure about it.* (P4)

P5 felt that external auditors could be more proactive here, remarking that

> *I think the external auditor has a role to play in encouraging improvement in corporate governance disclosure (e.g. disclosing information about related party transactions), but we do not get any guidance from auditors in this regard.* (P5)

There also seemed to be a lack of awareness of the importance of this information; P6 mentioned that some banks have a written policy for dealing with related party transactions but do not bother to disclose it.

The findings suggest that banks give most attention to financial information and the information that is required by law, but that other items in this category are less likely to be disclosed.

7.2.2.3 Auditing

The ISAR benchmark analysis revealed that Libyan commercial banks do not disclose information about auditing. Items in this category include information about the process for interacting with external auditors; the process for interacting with internal auditors; board confidence in the independence and integrity of external auditors; auditors' involvement in non-audit work and the fees paid to them; length of time spent with current auditors; and rotation of audit partners. The interviewees were asked for their opinions about these items and the lack of disclosure in this category.

The majority of interviewees indicated that their annual reports are reviewed by at least two external auditors, who are appointed by shareholders. However, external auditor EA1 suggested that although Libyan law is consistent with international standards and most banks have an audit committee, many fail to comply fully with the law, particularly those laws and rules related to the selection of external auditors. He argued that board members and chairs play too great a role in the appointment and dismissal of external auditors, who may lose their contract if their report conflicts with the board's interests. This may be one explanation for the non-disclosure of auditing-related information. Other interviewees suggested that audit-related disclosure is rare because it is not legally required and there is no pressure for this information from stakeholders.

P7 pointed to the CBL's lack of enforcement in this area, while BM2 added that there is no pressure to apply international standards. P4 also argued:

> *"We need to improve our reports to meet the requirements of international standards"* (P4).

P1 ascribed the lack of auditing-related disclosure to the weakness of national institutions such as the Libyan Accountants and Auditors' Association (LAAA). These institutions could play a role in improving auditing practice in general, as well as LCBs' audit-related reporting.

To sum up, interviewees noted a lack of awareness about the importance of disclosing auditing information; a lack of pressure to apply international standards (which adversely affects disclosure practice in general and reporting on auditing in particular); the lack of a legal regulatory framework (which would exert coercive pressure); and the weakness of professional bodies such as the LAAA (which might exert normative pressure).

7.2.2.4 Board and Management Structure and Process

The textual analysis revealed that the majority of LCBs do not provide sufficient detail about board and management structure and process. This was confirmed by most interviewees, though P1, P5 and P4 all argued that this information is important for shareholders and should be presented in the AGM.

P2, P3 and P4 all claimed that their bank has disclosed information about the board and management since it has been a requirement under the CGLBS (2010). P3, for instance, stated that

> *It is very important to disclose information about the board, including their experience, qualification and their remuneration and so on. This is one of the corporate governance requirements, and banks should fully disclose information in relation to the board.* (P3)

However, as far as governance structures are concerned, the ISAR benchmark analysis indicated that only a few banks disclose information about the committees and other mechanisms they have in place to prevent conflicts of interest, even though this information is required by the CGLBS (2010). Once again, some interviewees argued that banks do not disclose information about CG structures and policies because this information is already available elsewhere, but everyone recognised that the information should be fully disclosed somewhere, not just for the benefit of shareholders:

> *Corporate governance information is very important. If the bank does not disclose information about corporate governance, it can't be accountable to shareholders;* (P4)

but also decision makers:

> *Corporate governance information is important for all users. The more information about corporate governance there is, the more it facilitates decision making for users;* (P6)

and regulators:

> *Corporate governance information is important for users such as shareholders and regulators such as external auditors, the CBL and the Libyan Audit Bureau.* (P3)

Explaining why his bank discloses information about its governance structure, P2 stated:

We provide corporate governance information not only to adhere to the law, but also to gain a competitive advantage for our bank and to attract customers to deposit their money in our bank. Corporate governance information gives them a guarantee that their deposits are in a safe place. We are trying to improve the image of the bank, and corporate governance information improves the bank's reputation. (P2)

The majority of interviewees indicated that their bank does not disclose information related to risk management objectives, systems and activities, though some said they do have a risk management policy. P1 explained:

We have recently established a new risk management policy, and one of its objectives is to write the policies for risk management, but unfortunately, we have not yet written this policy or disclosed information about risk in our annual reports. (P1)

The widespread lack of written risk management policies may be one factor behind the lack of disclosure for this item. However, both P5 and P4 argued that such disclosure is not even necessary in their bank:

We do not disclose information about the risk policy in our bank as we only have two kinds of risks: operating and finance risks. We do not have other kinds of risks. (P4)

Another interviewee whose bank does disclose information about risk put this down to the influence of the EA:

We disclose information about risk and we have risk management. We received notice from the external auditor in this regard and we took it into account. (P7)

Generally, the interviewees felt that their banks do not disclose sufficient information about board and management processes. They offered a number of reasons for this, including the unstable political/economic situation, the limited power of CG committees, a lack of awareness, and the limited role played by the EA.

7.2.2.5 Corporate Responsibility and Compliance

The ISAR benchmark analysis showed that LCBs tend to pay attention only to social responsibility issues and ignore the other items in this category. When members of Group P were asked for their opinions about disclosure practice in this category, they pointed to a general improvement in social responsibility disclosure, which they ascribed mainly to increased awareness and the change in Libyan culture. P4 explained:

Before the Libyan revolution, social disclosure was controlled by the regime and impacted by the political trends of the time. It was focused on celebrating the regime. Social activities now include supporting displaced people, offering interest-free loans and Hajj loans and so on. In the future, I suppose social disclosure will increase as awareness of this kind of disclosure grows. Currently, we disclose information about our social practice on our website. (P4)

However, the quality of social responsibility disclosure is generally still weak. Furthermore, none of the banks provide environmental information or information about the impact of their environmental and social responsibility policies on the firm's sustainability; most interviewees explained that these items are not required by law and so there is no pressure to produce them. P1 summed up the performance of many of the banks with his acknowledgement that

> *We have done some social activities such as making donations to families displaced in the revolution, but in general, we are quite poor at CSR and this is reflected in the CSR disclosure in the annual reports.* (P1)

To sum up, the findings from the interviews confirm that most LCBs tend to comply with the CG disclosure requirements only insofar as they apply to financial results. Other areas are largely ignored, though there is some evidence that banks have recently begun to disclose information on governance structures and policies. In the course of these discussions, the interviewees identified a number of institutional factors that affect the practice of CG disclosure in LCBs. These are discussed in the next section.

7.3 Institutional Factors Shaping the Development of CG Disclosure and Practice in LCBs

This section analyses and interprets the data from the semi-structured interviews to understand the institutional factors that may be influencing CG disclosure and practice in LCBs and in Libya in general. The section aims to answer Research Questions 6 and 7 by identifying, describing and evaluating the themes that emerged from the interviewees' answers[15]. Table 7.1 presents these emergent themes and sub-themes, example quotes from interviewees, initial interpretations and associated themes.

Table 7.1 Emergent themes

Topic (interview data category) (key institution)	Sub-theme	Example	Interpretation	Associated themes
The bureaucratic state (CBL)	Non-compliance	- We do not disclose information about rights and other details of shareholders in the annual reports (P7). - We do not apply corporate governance effectively in our bank (BM3).	Some banks do not comply with disclosure requirements or fully implement all CG principles.	-Regulatory enforcement role -The cooperative role of the CBL - Recent political change and instability
	Minimum compliance	- We amended our own corporate governance code to meet the requirements of the CBL's corporate governance code (BM1). - Information about the board, including their	Some banks comply to the minimum level to avoid penalties. They see CG as an imposed system that must be followed.	- Regulatory enforcement role

[15] The themes emerged from the interviewees' answers to the general questions in parts B, C and E (see Appendix D) as well as the questions in part D directly addressing the impact of institutions on CG disclosure and practice.

		experience, qualification and their remuneration is one of the corporate governance requirements which must be followed (P3).		
	Exceeding minimum compliance (best practice)	- Our bank applies CG effectively (BM2). - We have a five-year plan that includes applying CG best practice (P5).	Some banks are trying to achieve best practice in terms of CG compliance.	- The cooperative role of the CBL
	Regulatory enforcement role	- We punish banks who do not comply with the code (R2). - We usually punish banks that contravene the law by the imposition of fines and penalties (R3).	CBL (the key regulator) intervenes with banks not meeting its standards.	Non-compliance /minimum compliance/ regulatory failure
	The cooperative role of the CBL	- Before we issued the code we worked with the Libyan Bank Association on a workshop (R1). - We do a lot of courses in relation to new developments in banking, including corporate governance (R2).	CBL plays a role in raising awareness of the importance of CG.	Exceeding minimum compliance
	Regulatory failure	- We have not received any significant guidance from the CBL about CG (BM2). - Corporate governance disclosure and practice is weak because there is little enforcement by the CBL (R5).	CBL is insufficiently proactive in encouraging good CG practice, with the result that there is a general lack of awareness and knowledge in the LBS.	- Regulatory enforcement role - The cooperative role of the CBL - The law's supportiveness of and consistency with CG
Culture and kinship networks	Independence	- Unqualified people are appointed to reporting or accounting department positions on the basis of personal relationships (P2). - Nepotism leads to people being appointed to important positions who are not qualified (P7). - It is difficult to be independent in Libyan society. Any auditor who tries to improve a company will lose his contract with that company because the board chairman or members will resist hearing any information that conflicts with their interests (EA2).	Kinship ties inhibit CG disclosure and practice. Family relationships between boards, owners, managers and external auditors affect the disclosure and practice of CG.	
	Culture of secrecy	- The impact of Libyan culture can be significant in relation to the hiding of information or the provision of information	The secrecy culture encourages the tendency towards conservative behaviour, which	Resistance

		to specific persons who have a personal relationship with a board member or director inside the bank (R4). - We do not have official access to CG information; we use our familial and friendship connections to get this information, which helps us to invest in the bank (Iv1).	leads to very limited CG disclosure.	
Religion	Consistency with CG	- There are many principles in CG, such as disclosure and transparency and integrity, that are a part of Islam (P1). - There is much talk in Islam about corporate governance, but unfortunately, this factor has not impacted on the practice of corporate governance and disclosure in Libya (P2).	The Islamic religion supports CG, but this has had no significant impact in Libya.	
The Market		- We provide corporate governance information not only to adhere to the law, but also to gain a competitive advantage for our bank and to attract customers to deposit their money in our bank (P2).	There is a market or economic value behind applying CG	
Political institution	Economic openness policy	- All openness programmes, including the CBL's programme, encourage foreign investment and the adoption of corporate governance, but this is still new in Libya and it will take time to improve (R4). - The issuing of that code was part of the openness programme adopted by the Libyan government in general and the improvement programme adopted by the CBL in particular (R2).	Economic openness policy adopted by the Libyan government supports corporate governance.	
	Resistance	- The code is good but the timing was not; this code was issued under the previous regime in 2010, and corporate governance was not acceptable then as everything was considered from a political perspective (R1). - Many board members are not willing to adopt good CG in their companies as they are still influenced	The socialist ideology of the old regime is still evident and fuelling resistance to the economic openness policy and CG disclosure and practice.	Economic openness policy/the cooperative role of the CBL

		by the socialist ideology which controlled the country for decades (EA3).		
	Recent political change and instability	- We cannot disclose information about board members representing the foreign partner as they come from a country that doesn't have a good relationship with the parties that control some regions (P3). - We have good CG, but events since the revolution have negatively impacted the practice of CG in our bank (EM4).	The unstable situation has negatively affected CG disclosure and practice.	Non-compliance/ regulatory failure/ the power of the law
The Law	The law's supportiveness of and consistency with CG	- The code is suitable for the Libyan environment and we took all our laws into account when we created the code; there is no overlap between the principles of the code and any other laws (R1). - Libya does not need a corporate governance code; rather, the corporate governance mechanisms should be included in Libyan commercial law, and enterprises should reform their governance to meet these laws (R5).	The law supports CG and does not overlap with it.	
	The power of the law	- Applying corporate governance means complying with the law; it is applied better in countries that are committed to the law than in countries where the law is weak (R1). - In developing countries such as Libya, the law is not applied as strictly as in developed countries (EA3).	Compliance with the law in Libya is weak. This has negatively affected CG.	Recent political change and instability

The following sections discuss these emergent themes in more detail.

7.3.1 The Bureaucratic State (the CBL)

As mentioned in section 4.3.6.1, the CBL is the main regulatory body in the LBS, acting on behalf of the state to ensure that CG is applied in Libya's commercial banks. The CBL is therefore treated as the main expression of the bureaucratic state in this study, and the following sub-sections examine its influence on the emergence and development of CG disclosure and practice among LCBs. The themes that emerged in regard to this institution may be divided into two categories: the role of the CBL in influencing levels of CG compliance (whether this is non-compliance, minimum compliance or best practice) and its role in facilitating the implementation of CG (through monitoring and enforcement, training and awareness raising, and the creation of an effective regulatory framework).

7.3.1.1. The CBL's Role in Influencing Levels of Compliance

Three sub-themes emerged under this category.

7.3.1.1.1 Non-compliance

This theme emerged when interviewees were asked to assess CG disclosure and practice in LCBs and the reasons why some items are not disclosed or put into practice, despite being mandatory requirements since 2010. Twenty-two out of 26 interviewees expressed the view that LCBs do not fully comply with CG principles. The content analysis showed that LCBs do not disclose important information about ownership rights, board operations and auditing, for example, so the interviewees were asked for their opinion on why this is.

In terms of ownership rights, as explained in section 7.2.2.1, most interviewees believed that existing provisions within the Banking Law (2005) and CGLBS (2010) for the disclosure of this information render its disclosure in annual reports unnecessary. This finding confirms the initial observation made in the content analysis that many senior accounting managers misunderstand the purpose of CG disclosure, which is to disclose in detail a company's actual practice. In contrast, the law only sets out in general terms what should happen. Stakeholders are more interested in actual practice as it is this information that assures them that the bank is complying with the law. This result is in line with Darmadi (2013), who argues that the lack of awareness among bank managers could be the reason behind the low level of CG disclosure in the sector. It suggests that the CBL is failing in its aim to raise CG awareness among LCBs, while the general lack of disclosure suggests that it is also failing in its enforcement role (see 7.3.1.2.1).

Other reasons offered for non-compliance were the relative novelty of the concept of CG in Libya and the ongoing economic and political instability:

> *Corporate governance is still in its early stages in our bank, and we are facing problems as a result of the unstable situation in Libya.* (EM2)

The unstable situation and its impact on the development of CG are discussed in section 7.3.5.3.

7.3.1.1.2 Minimum Compliance

It became apparent that some banks tend to comply only with the minimum requirements in terms of corporate governance disclosure and practice and are unwilling to go beyond this minimum. 13 out of 26 interviewees spoke about the tendency of banks to comply only with the minimum CG requirements, P3, for instance, explained that his bank only applies the requirements mandated by the CBL when preparing annual reports:

> *"We are a commercial bank and profit is the main aim of our bank. We apply CG only for legitimacy's sake as we are monitored and supervised by the CBL. We only apply what they ask us to do; otherwise, we do not voluntarily implement any CG practice. Generally speaking, I do not think corporate governance is important, particularly nowadays, and applying it is time-consuming"* (P3).

P1 also asserted that his bank tends to meet only the minimum CG requirement; there is no effort towards best practice. Disclosure of financial information was seen as more important than disclosure of non-financial information because the former is required *"by most laws and international standards"* (P7).

Several interviewees saw CG as an externally imposed requirement that must be followed in order to avoid punishment. For example, P5 admitted that the only reason his bank established four board committees was because *"they are required by the CGLBS (2010)"* (P5). A similar view was expressed by a board member from another bank; he also saw corporate governance as a requirement imposed by the CBL:

> *"In July 2010, we were informed by the CBL about the corporate governance code. The bank has taken that code into account and amended its own code to meet the CBL's requirements"* (BM1).

P7 acknowledged that CBL enforcement is the thing most likely to influence the development of CG practice, but when asked why his bank does not disclose auditing information, he explained that there are no rules requiring this information. In other words, the CBL cannot enforce rules that do not exist.

The findings suggest that corporate governance and disclosure requirements are interpreted differently by different banks, and that most comply only with those mechanisms they regard as appropriate for them. Even in this, they are motivated by a desire to avoid penalties rather than a desire to follow best practice. The interviewees' comments reflect a tendency among banks to regard the application of corporate governance as a matter of adhering to regulatory requirements, rather than as something that can improve bank performance or protect shareholders and other stakeholders.

7.3.1.1.3 Exceeding Minimum Compliance (Best Practice)

The textual analysis showed that while most banks claim to be aiming for best practice, very few have achieved this level of CG. That some banks are working towards best practice in terms of CG disclosure and practice was confirmed in the interviews; thirteen interviewees said that LCBs are pursuing best practice as a result of training and encouragement from the CBL. However, it also emerged that these banks are not responding purely to coercive pressure from the CBL. P2 explained that his bank is motivated to go beyond the minimum regulatory requirements not just because it wants to be seen to be adhering to the law, but because it sees this as a way of gaining a competitive advantage. His bank sees CG disclosure as an opportunity to build customer trust and gain credibility, allowing it to grow its reputation and attract new customers. He added that

> *There are a lot of details about corporate governance which it is very important to disclose in the annual reports. I believe this information is very important and adds value to the annual reports. We are planning to disclose more information about corporate governance in the future.* (P2)

Similarly, a BM from another bank with good CG practice explained that

> *Applying good corporate governance and disclosing information about it has a positive impact on the bank's reputation as it increases confidence in the bank at national and international levels. Nowadays, disclosure and transparency are very important for banks as they are facing an unstable situation and many risks.* (BM2)

The evidence indicates that the good practice of these banks actually originates with the executive management rather than the bureaucratic state. P2, when asked why his bank is one of the best Libyan banks in terms of CG disclosure, explained:

> *I would say that the strong executive management in our bank is the reason for the high quality of our annual reports and the increase in disclosure, particularly in corporate governance disclosure.* (P2)

This is consistent with Maingot and Zeghal's (2008) finding that the choice to disclose and the extent of disclosure are influenced by the strategic considerations of management. It also echoes Thomas and Boolaky's finding (2009), from the Japanese banking sector, that NEDs have a more significant impact on the extent of disclosure than total assets or audit firms. BM2, when asked why his bank has good CG practice, also attributed it to executive management, observing that

> *I think experienced managers play a significant role in that they transfer their experience from working in other banks to our bank.* (BM2)

The CBL may be playing an indirect role here through its training programmes for EMs (see 7.3.1.2.2).

R1 from the CBL mentioned the need to exceed minimum requirements and pursue best practice as a way of bringing the LBS into line with international standards. Asked about the motivation behind the CBL's issuing of the CGLBS (2010), he explained:

> *The application of corporate governance in the Libyan banking sector is part of our adherence to international criteria such as Basel 1, 2, 3; governance is part of these standards. We receive representatives annually from institutions such as the World Bank and Basel who consult with us, and we discuss a lot of topics including corporate governance. They don't put pressure on us to apply corporate governance, but they give consultations and we take their advice into account to improve our practice. The CBL's corporate governance code was one result of this advice, but they did not force us to*

> *issue this corporate governance code. We issued this code to improve the banking sector and follow the international standards.* (R1)

This suggests that Libya's CG code differs in purpose from codes in other developing and developed countries. This purpose is evident in the CBL's efforts on behalf of the state to encourage, advise and assist LCBs to implement CG.

7.3.1.2 The CBL's Role in Facilitating the Implementation of CG

Discussion of the bureaucratic state's role in facilitating the implementation of CG produced findings that have been grouped into three sub-themes.

7.3.1.2.1 The Regulatory Enforcement Role

Only eight interviewees saw the CBL as playing a regulatory role and imposing sanctions against banks not implementing CG. The CBL's steps to encourage CG in LCBs include the issue of the voluntary CGLBS in 2006 and the replacement of this voluntary code with the mandatory CGLBS code in 2010. One regulator with the CBL asserted that the central bank has made significant efforts to force LCBs to apply the 2010 code:

> *After the CBL issued the code we gave banks six months to reform their governance to meet the requirements. We sent them many letters asking them to comply with the code and we punished some banks who did not comply with the code.* (R2)

His colleague, R1, gave a similar account of the CBL's actions:

> *The CBL was monitoring the banks and we gave them a period of time (six months) after issuing the code to reconstruct their banks and adopt it. After this period of time we sent them letters to ask them whether they were applying the code. Some of them replied to us saying they were having difficulties and obstacles as a result of the unstable situation facing the country and the banking sector.* (R1)

The comments are evidence that in the early days of the CGLBS (2010) at least, the CBL played a significant monitoring and enforcement role. This role is vital in getting banks to engage with CG, which is itself vital for the protection of the economy. However, the CBL's more assertive approach seems to have been short-lived; CG has not remained a top priority for the central bank, and it has become selective in what it monitors. This was indicated by R3 when he stated that

> *We usually punish banks that contravene the law by the imposition of fines and penalties; however, we do not force banks to practise corporate governance and we do not continuously provide reports to boards about the weakness of corporate governance in their bank as we can see the problems they are facing as a result of the unstable situation, and that their priorities are issues such as operating and liquidity risk and Islamic banking.* (R3)

The link between the lack of enforcement from the CBL and the unstable political situation is discussed in section 7.3.1.2.3.

7.3.1.2.2 The Cooperative Role

Eight interviewees felt that the CBL has sought to increase awareness and help banks apply CG. R3, for instance, explained:

> *We have sent banks lots of letters and had many meetings with them, and we have conducted many workshops.* (R3)

Similarly, R1 added that

> *Before we issued the code, we collaborated with the Libyan Bank Association on workshops, and we invited all employees in the Libyan banking sector, including board chairmen, board members and managers. We discussed this code critically with them. After issuing the code we conducted several training courses for board members, managers and employees through the Institute of Banking and Financial Studies, which is linked to the CBL.* (R1)

Interviewees from the CBL pointed out that the central bank provides a range of training programmes on different topics, including CG, which have had a positive impact on employees and managers working in the sector. According to R2,

> *We have good staff, particularly in the important departments, and we do a lot of courses on modern banking issues including corporate governance. I myself took a course about corporate governance in 2008 after the CBL issued the voluntary code in 2006, and it was very useful.* (R2)

However, the banks seemed less satisfied with the CBL's efforts in this regard. P1 stated that

> *I would actually add that an important factor, which has a significant impact on the practice of corporate governance, is training for the board and directors. There are very few programmes and workshops about corporate governance. The CBL should give more attention to training programmes to encourage the practice of corporate governance in the Libyan banking sector.* (P1)

The CBL's training programmes were also criticised for a perceived lack of focus on policy, with EA3 complaining that

> *The training programmes adopted by the CBL are not effective although they are expensive; they are lacking in terms of policy.* (EA3)

However, another interviewee stated that failings in the CBL's training policy may be partly attributable to the prevailing political institution:

> *In Libya, we do not give enough attention to human resources. This is because the public sector mentality which prevailed under the previous [socialist] regime did not focus on developing people. It was characterised by corruption and weak monitoring, but the private sector now is also impacted by the same mentality and it focuses only on profit.* (P3)

The continuing influence of the old socialist mentality, and its impact on the development of CG disclosure and practice, is discussed in section 7.3.5.2.

To sum up, the CBL's cooperative role encompasses training programmes, workshops and issuing codes of CG; numerous interviewees (e.g. EM4) indicated that the focus on CG began in their bank when the CBL issued its voluntary code and increased when the code become mandatory in 2010. Although its response may seem insufficient in some ways, it has nevertheless played an important role in raising awareness about CG within the banking sector (inspiring some banks to pursue best practice), though here too, it could be more effective.

7.3.1.2.3 Regulatory Failure

Twenty-one out of 26 interviewees asserted that the current regulatory framework, including the CBL's codes of CG, has largely failed to achieve the desired outcome. This is despite the fact that, as one senior CBL source explained:

> *The code is comprehensive and detailed and it takes into account the Libyan environment. Many workshops were conducted with board members and managers before it was issued. An expert from the World Bank stayed with us while we were developing it and provided significant help. In addition, experts from international institutions reviewed the code and provided feedback on it.* (R1)

In other words, the code itself should provide a solid and suitable foundation for CG in the Libyan environment. Nevertheless, compliance is poor. The majority of banks blamed the CBL for this; P1, for example, claimed:

> *There is no compulsion from the CBL; it issued the code, but it is not monitoring the practice in banks.* (P1)

Similarly, BM2 excused the weak CG disclosure and practice in his bank with the explanation that

> *We are not monitored by the CBL or any other stakeholders.* (BM2)

R2 noted that despite being given six months to comply with the code, many banks still do not adhere to CG requirements, but numerous respondents attributed this to a lack of awareness among boards and managers. R4, for instance, suggested:

> *I think awareness is poor of the importance of corporate governance in these banks. They should want to improve their practice without any pressure from any institutions.* (R4)

When it was put to R1 that many banks blame the CBL for not monitoring them sufficiently, he also expressed the view that banks should not need to be forced to apply CG, but should see the benefits it offers for themselves:

> *Banks should apply the code without enforcement or any monitoring from the CBL as corporate governance is important and will reflect positively on their banks. They are unaware of the benefits of corporate governance; that is why they blame the CBL.* (R1)

And his colleague added that

> *I think banks should disclose any information that will add value to the bank even if this information is not required by law.* (R3)

One explanation for the CBL's lack of enforcement was offered by R2, who conceded that the CBL has other more important priorities:

> *There is no institutional pressure like that related to FAT for example, so we in the CBL give attention to other issues more than corporate governance as we are facing pressure from international institutions to address these. Such pressure has not occurred for corporate governance.* (R2)

This interviewee's comment indicates that institutional pressure from international organisations is impacting the CBL's monitoring of CG practice. However, as another interviewee observed, the CBL only issued the CG code because of this international pressure in the first place; it did not emerge in response to demands from within the LBS. This, he argued, may explain why compliance is weak:

> *Corporate governance is weak because enforcement by the CBL is weak and because the code was issued because of pressure from international banks; the code was not created because the banking sector was aware of and wanted to improve CG.* (R5)

Even calling it a code creates misunderstanding among boards and managers. Mandatory principles are presented in the form of rules and laws in the LBS, with the result that many see the term "code" as signifying that the contents are voluntary; as one regulator explained:

> *The reason why Libya does not need a code is that corporate governance principles carry more weight [in banking and commercial law] than they do in the code.* (R5)

R4 attributed this lack of understanding to the fact that

> *Corporate governance is still new in Libya and most boards and directors in banks do not have sufficient information about it.* (R4)

It can be concluded from the above that regulatory failure is the result of a number of factors, including lack of awareness and understanding of CG among boards and managers and lack of monitoring and enforcement by the CBL. However, the CBL's ability to address any of these issues has been severely undermined since the 2011 revolution by the political instability in Libya.

The bureaucratic state institution was mentioned by all of the respondents. Six sub-themes emerged under this institution, the most popular of which was non-compliance: 22 out of 26 interviewees expressed the view that LCBs do not fully comply with CG principles. The second most frequently mentioned sub-theme was regulatory failure, with 21 out of 26 interviewees suggesting that the CG code has failed to improve CG disclosure and practice in the LBS because of a lack of enforcement and poor awareness. Joint third most frequent were the minimum compliance and exceeding minimum compliance sub-themes; thirteen interviewees spoke about the tendency of banks to comply only with the minimum CG requirements because they have to (to avoid penalties and secure legitimacy), but more positively, an equal number spoke of LCBs pursuing best practice as a result of training and encouragement from the CBL.

Only eight interviewees saw the CBL as playing a regulatory role and imposing sanctions against banks not implementing CG, while the same number saw it as playing a cooperative role and attempting to raise awareness.

Table 7.2 The bureaucratic state (CBL)

Sub-theme	Frequency
Non-compliance	22 out of 26
Minimum compliance	13 out of 26
Exceeding minimum compliance (best practice)	13 out of 26
Regulatory enforcement role	8 out of 26
Cooperative role	8 out of 26
Regulatory failure	21 out of 26

7.3.2 Culture and Kinship Networks

Many interviewees noted the impact of kinship networks on CG disclosure and practice in Libya. Two sub-themes emerged under this institution: independence and the culture of secrecy. The following sections discuss these sub-themes in detail.

7.3.2.1 Independence

The interviewees (12 out of 26) acknowledged that it is difficult to be independent in Libyan society generally because of the prevailing kinship-oriented culture. The CGLBS (2010) attempts to address this in its stipulation that bank boards must have at least two independent directors, who must have no relationship with majority shareholders, other board members or executive managers. Despite this, however, there was general agreement among the interviewees that most banks do not have the requisite number of independent directors on their boards, and that board independence in general is undermined by nepotism. P2 pointed to the way in which nepotism compromises the integrity of the appointment process for managers and board members:

> *"We have some negative issues in our culture that can reflect on corporate governance such as nepotism arising from Libya's kinship culture. This is obvious in the appointment process; it leads to people being appointed who are not qualified, particularly in important departments such as accounting and reporting. This negatively impacts on the practice of reporting and disclosure"* (P2).

Appointing unqualified people to important positions in senior management, the board or the CG or auditing committee undermines corporate governance as these positions need qualified and knowledgeable people who understand corporate governance and its importance. P7 also reported that in his bank,

> *"The kinship culture has a negative impact on the bank. For instance, nepotism causes people to be appointed who are not qualified and not independent"* (P7).

P3, meanwhile, spoke of the kinship culture creating a sense of *"indebtedness"* among board members; these individuals cannot be independent if it is their relatives who appoint them.

The impact of kinship varies from bank to bank; EM4 argued that it may be particularly damaging in banks where the board chairman or managers share the same kinship and directly affect decision making and policy. In all cases, however, it reduces the independence of directors and managers.

7.3.2.2 Culture of Secrecy

The culture of secrecy works in direct opposition to disclosure and transparency. Eight of the 26 interviewees indicated that banks are highly affected by the culture of secrecy, which severely limits their disclosure practices, including CG disclosure. As R4 reported:

> *The impact of Libyan culture is significant in relation to hiding information from the public. It is available only to people who have a family relationship with board members or directors inside the bank.* (R4)

It emerged from the interviews that some CG information is regarded as sensitive in Libyan society. The content and textual analysis showed a significant lack of disclosure about BMs, and a number of interviewees (e.g. EM1) confirmed that some BMs are unwilling to disclose information about their remuneration and qualifications. The culture of secrecy means that investors can find it difficult to access CG information; Iv1 explained that

> *We do not have official access to CG information; we use our familial and friendship connections to get this information, which helps us to invest in the bank.* (Iv1)

The inclination towards secrecy may also be seen as a manifestation of the resistance to CG disclosure that exists in some quarters (see section 7.3.5.2). This inclination seems to have a negative impact on CG in general and disclosure in particular.

It can be concluded that the interviewees saw the kinship institution as having an impact on the development of CG disclosure and practice in two main ways: twelve of the 26 mentioned its effect on board independence, while nine spoke of the impact of the culture of secrecy.

Table 7.3 Culture and kinship networks

Sub-theme	Frequency
Independence	12 out of 26
Culture of secrecy	8 out of 26

7.3.3 Religion

The majority of interviewees believed that religion (Islam) should have a positive impact on CG in the LBS, with several noting the similarity between CG principles and Islamic religious principles. P1, for example, explained that

> *The religion of Islam supports corporate governance as there are many principles in Islam, such as disclosure and transparency and integrity, that are a part of Islam.* (P1)

However, he continued:

> *Unfortunately, although Libya is a Muslim country, the religion of Islam has not impacted on the practice of corporate governance yet.* (P1)

Similarly, P2 acknowledged that

> *Islam talks about many of the concepts of corporate governance such as disclosure and transparency and anti-corruption, but unfortunately, this factor has not impacted on the practice of corporate governance and disclosure in Libya.* (P2)

It can be concluded that while religion theoretically supports the development of CG disclosure and practice in Libya, it has yet to make any significant impact in practice.

7.3.4 The Market

The general view among interviewees was that the market is not sufficiently active to influence the development of CG in Libya. A few interviewees indicated that their banks are implementing CG to make themselves more competitive; P2, for example, talked about CG being applied to *"raise the competitive value"* and *"improve the image"* of his bank, while BM2 spoke of the positive effect disclosing information about governance structure has on his bank's reputation, *"[increasing] confidence in the bank at the national and international levels"*. On the whole, however, the market does not have a significant impact as Libya is still in the early stages of developing its economy and the government's privatization/liberalization programme remains underdeveloped. Progress in this regard has also been obstructed by the political instability since the revolution.

7.3.5 Political Institution

Many interviewees observed that political factors have had an impact on the emergence and development of CG in Libya in general and in the banking sector in particular. Three sub-themes emerged under this institution: the government's economic openness policy, the resistance of those who remain loyal to socialist principles, and the recent political change and instability.

7.3.5.1 Economic Openness Policy

As mentioned in Chapter Three (see sections 3.2.1 and 3.3.4), the previous regime adopted an economic openness policy at the beginning of the nineties. Implementing CG was one of the initiatives in this policy. R4 explained that:

"Significant changes occurred in the Libyan economy after 2005. Libya was under the socialist regime and all the openness programmes that were adopted, including the CBL's openness programme, were intended to encourage foreign investment" (R4).

According to the interviewees (17 out of 26) indicated that the economic openness policy adopted by the previous regime has positively affected CG in LCBs by encouraging foreign investment and the entry of foreign banks into the sector. Libyan banks' interaction with and exposure to foreign CG practices has led to an implicit "knowledge transfer" as they have adopted the observed best practices of their foreign partners. P2 explained that:

"The foreign partner has an impact on our practice and they have a significant influence on our corporate governance disclosure in annual reports and websites" (P2).

Similarly, BM2 stated that:

"The foreign partner has an impact and they are always in direct contact with the executive management" (BM2).

In fact, this interviewee attributed the emergence of CG in his bank to its foreign partner:

"We started considering the corporate governance in our bank when the bank combined with a foreign bank in 2008. The board established some committees, including a corporate governance committee, which was required by the foreign bank. The consultant from the foreign bank gave us a lot of help in this regard" (BM2).

The liberalization programme adopted by the Libyan government has thus played a part in the improvement of CG in Libyan businesses in general and the banking sector in particular. However, this programme has not been universally welcomed; it has encountered resistance from some of those who remain loyal to the socialist principles of the old regime.

7.3.5.2 Resistance

Ten interviewees explained that the old socialist mentality still prevails among key actors and employees across Libya, including in the banking sector. R1 illustrated how the socialist regime has affected the introduction of CG in Libya:

Corporate governance was not acceptable in the previous regime as at that time, everything was considered from the perspective of politics, and corporate governance considers notions such as democracy and sharing decision making, which were incompatible with the socialist dictatorship which dominated before the openness programme. Even after the economic openness programme had given us the concept of corporate governance, it was incommunicable, as this concept was not acceptable but conflicted with the socialist regime. We could not feature this topic proudly in the workshops we did; we had to try and be careful when explaining it. This is one of the reasons why the code was not activated at that time. (R1)

EA3 explained that this resistance is still evident in the Libyan environment, including the banking sector:

Libyan culture and the mentality of the previous regime are still dominant. There is no separation of power between executives and non-executives, the owner and the monitor are the same person or same organisation, there is no third or independent party, and the culture of disclosure and transparency is still weak. (EA3)

Similarly, Iv2, when asked why CG remains weak in the banking sector, observed:

> *I think the reason behind the lack of corporate governance and disclosure in the banking sector, especially in state banks or in banks that are majority owned by the CBL, is the prevalent socialist mentality. This mentality has negatively affected the banks, managers and boards. They only care about their salary and do not give proper attention to improving their bank.* (Iv2)

This adherence to the old mentality may be one reason why the openness policy has failed significantly to change key actors' behaviour in regard to CG, although another may be the relative newness of the programme; as R4 pointed out: *"Corporate governance is still new in Libya and will take time to improve"*. However, this has not been made any easier by events since the 2011 revolution.

7.3.5.3 Recent Political Change and Instability

The majority of interviewees (22 out of 26) cited the unstable political situation as one of the significant factors impacting the development of CG disclosure and practice in LCBs. One regulator from the CBL explained:

> *There are several factors behind the weakness of corporate governance disclosure and practice in LCBs. One of them is the unstable situation which is facing the country and banking sector. Some banks are now operating with permanent boards, and most boards, particularly in big banks, are finding it difficult to hold meetings as they are coming from regions under the control of different militia groups and parties.* (R2)

As this interviewee indicates, the revolution of 2011 created a change in culture, with the country being divided into regions controlled by different political groups. The practical difficulties this creates in terms of CG, especially in relation to board meetings and AGMs, were also highlighted by BM1:

> *We are now working under exceptional circumstances; for example, we as a board struggle to hold meetings as the members are from different regions and they find it difficult to travel.* (BM1)

Disclosure has also been badly affected by the complexity of the political landscape; P3, for example, explained that his bank is unable to disclose information about the BMs representing the bank's foreign partner because they come from a country that is unpopular with certain regional factions. The power of these regional groups is also observable in the CBL's decision since the revolution to prioritise the introduction of Sharia in the LBS. This has seen the central bank add a new chapter about Islamic banking to the Libyan Banking Law, and it is currently developing a new CG code related specifically to Islamic banking.

To sum up, the political institution was perceived by many interviewees as having had an impact on the emergence and development of CG disclosure and practice in the LBS. Three sub-themes were identified: seventeen out of 26 interviewees saw the economic openness policy as having had a positive effect on the development of CG disclosure and practice, although ten interviewees suggested that the advance of both the liberalisation programme and CG have been impeded by resistance from those reluctant to abandon the old socialist mentality. The most pressing concern, however, was the recent political change and resulting instability, which was cited by 22 out of 26 interviewees as having negatively affected the development of CG.

Table 7.4 Political institution

Sub-theme	Frequency
Economic openness policy	17 out of 26
Resistance	10 out of 26
Recent political change and instability	22 out of 26

7.3.6 The Law

A number of interviewees mentioned the impact of the legal institution on the development of CG disclosure and practice in Libya in general and the banking sector in particular. Two sub-themes emerged under this institution: the supportiveness of the law and the power of the law.

7.3.6.1 The Law's Supportiveness of CG

Libyan banking and commercial law already supports many aspects of CG such as the requirement for a board and the protection of shareholder rights. This was pointed out by eleven of the 26 interviewees. R5 went on to say that banks adhere to these existing laws more than they do to the principles stipulated in the CG code. He suggested that in fact, existing legal provision renders the CG code redundant:

> *Libya does not need a corporate governance code; rather, the corporate governance mechanisms should be included in Libyan law such as commercial and banking law and enterprises should reform their governance to meet these laws. The reason why Libya does not need a code is that corporate governance principles carry more weight [in the law] than they do in the code.* (R5)

However, R1 emphasised that there is no overlap between existing law and the CGLBS (2010) or the CGLSM (2007):

> *The code is suitable for the Libyan environment and we took all our laws into account when we created the code; there is no overlap between the principles of the code and any other laws.* (R1)

This interviewee went on to say that in developing the CGLBS (2010), care was taken to ensure that it is consistent not only with the Libyan legal environment but also international standards.

> *This code was prepared by experts and reviewed by foreign consultants and they support it and agree with all its details. They say this code meets all the international standards and allows companies to achieve best practice.* (R1)

7.3.6.2 The Power of the Law

Although the law is consistent with the CGLBS (2010) and CGLSM (2007), enforcement is generally weak, and this has negatively impacted on CG disclosure and practice in Libya in general and in LCBs in particular. This was the view of nine of the 26 interviewees. R1 explained that

> *Applying corporate governance means complying with the law; it is applied better in countries that are committed to the law than in countries where the law is weak. If there is no law in the country, corporate governance will be very weak or altogether absent.* (R1)

This interviewee attributed the weakness of the legal institution to the political instability in Libya, explaining:

> *Nowadays, Libya is facing an unstable situation as a result of post-revolution events in particular. This has impacted on the commitment to corporate governance and on the law in general. So the unstable situation in Libya is having a significant impact on the law in general and corporate governance.* (R1)

To sum up, two sub-themes emerged under this institution. Eleven out of 26 interviewees described the law as supportive of and consistent with many of the CG principles, but nine pointed to a lack of enforcement, arguing that the legal institution is currently weakened as a result of the turbulent political situation.

Table 7.5 The law

Sub-theme	Frequency
The law's supportiveness of CG	11out of 26
The power of the law	9 out of 26

7.4 Summary

This chapter starts by discussing the interviewees' perceptions of how CG practice has developed in LCBs. It reveals that the majority of LCBs are not achieving the minimum requirements of CG, although all have established board committees. This represents an improvement on previous CG practice, which was limited to requirements for a board of between five and seven qualified and experienced members, the separation of the roles of chairman and general manager, and the establishment of a monitoring committee. In terms of CG disclosure, the findings show that LCBs only adhere to the requirement regarding the disclosure of financial results. There is a significant lack of disclosure about remuneration policy for BMs and key executives, BMs' information, related party transactions, foreseeable risk factors, the role of employees in CG, and governance structures and policies (though the view among interviewees was that there has been a slight improvement in relation to this last topic).

The chapter then discusses the findings regarding the institutional factors shaping the emergence and development of CG disclosure and practice in LCBs. Six institutions were discussed with interviewees: the bureaucratic state, culture and kinship networks, religion, the market, the political institution and the law. All of the interviewees mentioned the role played by the bureaucratic state. Six sub-themes emerged within this institution, the most frequently mentioned being non-compliance: 22 out of 26 interviewees indicated that LCBs do not fully comply with the CGLBS (2010). It is perhaps not surprising then that 21 talked about regulatory failure, arguing that the code has failed to improve CG disclosure and practice because of weak enforcement and training by the CBL and the current political situation. Thirteen out of 26 observed a tendency among banks to comply with only the minimum requirements of a system they see as an externally imposed burden, but the same number said LCBs are exceeding minimum requirements and working towards best practice with the support of the CBL. Just eight interviewees saw the CBL as facilitating the implementation of CG by enforcing regulation, while another eight saw it as doing the same job by training and raising awareness.

Two sub-themes emerged in the discussions of the impact of the kinship institution. Twelve out of 26 interviewees noted the adverse effect of this institution on board and manager independence, explaining that this independence is undermined when directors and executives are appointed through nepotism. The second sub-theme was the secrecy culture; nine interviewees claimed that this limits individuals' access to CG information.

The interviewees acknowledged that while Libya's religious institution (Islam) theoretically supports CG disclosure and practice, it has as yet had no significant impact. The same perception existed in regard to the market, which was seen as having little effect because the country is still in the early stages of developing its economy. The view was that the government's programme of privatisation and liberalisation is not yet sufficiently advanced to inform the development of CG, and that events since the revolution have further hindered progress in this regard.

The impact of Libya's current political situation was mentioned by many interviewees as having had an impact on the emergence and development of CG disclosure and practice in the LBS. Three sub-themes emerged for this institution: the government's economic openness policy, resistance and the recent political change and instability. Seventeen interviewees felt that the openness policy has impacted positively on the development of CG disclosure and practice, but on the other hand, ten remarked on the continuing resistance in some quarters to the ideas of both openness and CG. The recent political change and instability were cited by 22 out of 26 interviewees as having negatively affected the development of CG.

Finally, a number of interviewees saw Libya's legal institution as having a significant impact, with eleven remarking that Libyan commercial and banking law is already supportive of and consistent with many of the principles of CG. On the other hand, nine interviewees questioned the power or effectiveness of the law, pointing to a lack of enforcement which they attributed mainly to the political situation.

The findings suggest that overall, the emergence and development of CG disclosure and practice in Libya are being shaped positively by the bureaucratic state (as expressed in the CBL) and the law, but that kinship networks and politics are having a negative impact. The fact that few interviewees mentioned either religion or the market suggests that these institutions do not have a significant impact at the present time.

Chapter 8 Discussion

8.1 Introduction

The previous chapter discusses the data gathered from the semi-structured interviews, providing further insights into the recent development of CG disclosure and practice in the LBS and the institutional factors shaping this development, as perceived by significant social actors in the sector. This chapter summarizes the main observations both from these interviews and from the earlier report and website analysis, discusses the importance of these observations and compares the findings with those identified in the literature review. The chapter begins with a discussion of the findings regarding the current state and recent development of CG disclosure and practice in the LBS, and how these findings support or challenge those of previous studies. It then discusses the institutional factors shaping CG disclosure and practice in the sector, with sections on the bureaucratic state, culture and kinship networks, religion, the market, the political institution and the law.

8.2 The Current State of Corporate Governance Disclosure

This is the first study to employ the ISAR benchmark to compare Libya's CG disclosure performance with that of other developing countries. Comparison of CG disclosure in the top ten LCBs with that of the top ten companies in each of 22 other developing countries revealed that LCBs exhibit the lowest level of CG disclosure in their annual reports and websites. This was confirmed by the interviewees, one of whom acknowledged that:

> *"Libya is still very behind compared to other countries which are applying a higher level of governance"* (R1).

Looking at the picture in the LBS specifically, the report and website analysis revealed low rates of CG disclosure among the sixteen commercial banks in the sector, when compared to the ISAR benchmark. There was disclosure on just fourteen of the 52 items in the index, with the most commonly reported items being financial and operating results (by fifteen banks in the sector), company objectives (by fourteen banks), ownership structure (by twelve banks), critical accounting estimates (by twelve banks), policy and performance in connection with environmental and social responsibility (by eleven banks), changes in shareholdings, and governance structures such as committees and other mechanisms to prevent conflicts of interest (by eight banks each). Five banks disclosed information regarding their risk management objectives, system and activities, while three disclosed the qualifications and biographical information of board members. The process for holding annual general meetings, the board's responsibilities regarding financial communications, the composition of the board of directors (executives and non-executives), the determination and composition of directors' remuneration, and mechanisms protecting the rights of other stakeholders in business were disclosed by one bank each. The findings from the textual analysis confirmed that there is a significant lack of CG disclosure in the sector, though there has been some slight improvement, particularly in relation to information about governance structures and CG policy.

When UNCTAD (2011) examined the disclosure practices of the top ten enterprises from each of the 22 emerging economies in the UN, it found that on average, these enterprises reported on two-thirds of the items in the ISAR benchmark (see Figure 6.6). Reporting was more extensive in some of the groups than others; items in the auditing group, for example, were significantly less widely reported than items in the financial transparency group. This was also evident in the current study, with three of the most widely reported items (financial and operating results, company objectives and critical accounting estimates) all being in the financial transparency category, and none of the banks reporting on any of the items in the auditing category. UNCTAD's survey revealed that the majority of disclosure was on mandatory items, though voluntary reporting was also widespread. It concluded that *"not surprisingly…, mandatory items do have a higher rate of disclosure compared with voluntary items"* (UNCTAD, 2011, p.14). This is consistent with this study's finding that the few items disclosed by LCBs tend to be mandatory requirements.

On the question of what motivates companies in developing countries to disclose CG information, Oliveira et al. (2014) found that coercive pressures (i.e. the implementation of laws, rules and sanctions) exert more influence on Brazilian companies than normative pressures (e.g. international organisations' recommendations), but that these coercive pressures actually result in Brazilian companies going beyond what is expected by international bodies such as the UN. The current findings support Oliveira in that they suggest that LCBs disclose information primarily in response to coercive pressure from the CBL, though in the case of the LBS, this coercive pressure is much more limited both in its ambition and its impact.

As Figure 6.6 indicates, although Egypt is slightly ahead of Libya in terms of its CG disclosure performance, it still sits near the bottom of UNCTAD's league table. This is confirmed in another study by UNCTAD (2007), which identifies low rates of CG disclosure among Egypt's CASE 30 enterprises when compared to the ISAR benchmark. There are some similarities between the findings of the current study and UNCTAD's findings for Egypt; in both countries, financial and operating results, company objectives and critical accounting estimates are widely reported. However, UNCTAD found that in Egypt, the nature, type and elements of related party transactions, and risk management objectives, system and activities are also widely disclosed. Another, more recent, Egypt-based study by Samaha et al. (2012) also found generally minimal levels of CG in the country's listed companies, though it identified high levels of disclosure for those items that are mandatory under the EAS.

8.3 The Recent Development of Corporate Governance Practice

The observations made in the annual report and website and interview analyses regarding the recent development of CG disclosure and practice in the LBS are particularly important, given that no other study has investigated this development since the issue of the mandatory CGLBS in 2010 (see Larbsh, 2010; Magrus, 2012; Zagoub, 2011).

The main finding from the content analysis in the first stage was that although there has been a slight improvement in the CG disclosure practice of some banks in recent years, on the whole, practice across the sector remains weak. This was confirmed in the interviews, which indicated that the majority of banks do not achieve the minimum CG requirements. Furthermore, even where requirements have nominally been met, there is evidence of decoupling. For example, the majority of banks have followed the requirement to set up board committees (a new development in the LBS), but these committees seem to be largely ineffective because most are merely ceremonial responses designed to help the banks avoid sanctions from the CBL (Moll et al. 2006).

The results echo those of Alshehri (2012), writing about the KSA, in showing that regulatory reform alone is not enough to bring about significant development in CG. In the case of commercial banks in the LBS, the examples of disclosure that do exist are often designed to show that the bank concerned is stakeholder-oriented, but while a number claim to be intent on achieving best practice, very few are willing to go beyond the minimum CG requirements. Possible explanations for the lack of progress in Libya include post-revolutionary cultural change and instability, lack of familiarity with the concept of CG (and hence limited awareness of the importance of CG disclosure) among key actors in the sector, lack of enforcement from the CBL, and a tendency among inside and outside stakeholders to prioritize financial information over non-financial information. The post-revolution instability and the role played by the CBL in enforcing (or not) the requirements in the CGLBS (2010) are two examples of the larger institutional factors that are shaping the development of CG disclosure in the LBS. These and the other main institutional factors explored in the interviews are discussed in the following section.

8.4 The Institutional Factors Affecting CG Disclosure and Practice

This part of the chapter discusses the institutional factors that were investigated in the second stage of the study (the interview stage). Six institutional factors were identified: the bureaucratic state, culture and kinship networks, religion, the market, the political institution and the law. The following sub-sections discuss each of these institutional factors, and the sub-themes that emerged for each, from the perspective of institutional theory.

8.4.1 The Bureaucratic State

By considering the impact of the bureaucratic state on the development of CG in Libya, as perceived by different groups of stakeholders, this study takes a new approach to the investigation of CG in developing countries. It has been argued that the bureaucratic state institution plays an important role in organizing the complex relations involved in this world-system (Finnemore, 1996). Omran et al. (2008) argue that state involvement is especially essential in emerging societies, where it plays a key role in the relationship between legal origin and financial arrangements, while Evans and Rauch (1999) suggest that bureaucratic authority plays an important role in developing the economy in such societies. However, very few studies have considered the impact of this institution on CG.

Among those that have, Bukhari (2014) seems to challenge the assumed primacy of the bureaucratic state's role in his finding that in Saudi Arabia, informal institutions play a part alongside formal ones in introducing and improving CG in listed firms. However, studies conducted in Libya have all affirmed the importance of the state in enforcing CG; Zagoub (2011) identifies coercive pressure from the CBL as the most important institutional factor shaping the practice of CG in LCBs, but as both Larbsh (2010) and Magrus (2012) point out, the central bank is inconsistent in its efforts at enforcement. Troublingly, the implementation of the mandatory CGLBS (2010) seems to have done little to improve matters.

8.4.1.1 Non-compliance

Both the first and second stage analyses revealed that Libya lags behind many other developing countries in its CG disclosure and practice, with many requirements being widely ignored despite the CBL's regulations. Given that the interviews suggested that the main reasons for non-compliance are lack of enforcement by the CBL and the bank's failure to raise awareness among actors in the sector, this suggests that the current level of coercive pressure being exerted by the CBL is inadequate. One solution might be to oblige LCBs to disclose CG information as a separate chapter in the annual report and to make annual reports available on the bank's website. Banks not meeting the CG requirements could then be easily identified and the CBL could apply penalties accordingly.

The current high rate of non-compliance with the CGLBS (2010) seems to challenge new institutional theory's assumption regarding the value of coercive pressure (DiMaggio & Powell, 1983; Moll, Burns & Major, 2006; Scott, 1995), but the fact that many of the banks have not been swayed to adopt CG codes by the directives and recommendations of international banking organisations such as the BCSB, the OECD and the Basel Committee suggests that they are not particularly sensitive to normative pressure either (DiMaggio & Powell, 1983; Scott, 2008). The LSM seems to have had little effect on the CG practice of listed banks, either through coercive or normative pressure, and neither the LAAA, EAs nor the Audit Bureau have done much to change norms within the profession.

8.4.1.2 Minimum Compliance

The interviews revealed that some banks comply only with the minimum requirements in terms of CG disclosure and practice. This suggests that these banks are motivated not by the desire to achieve best practice, but to avoid penalties from the CBL; in other words, they are merely responding to coercive pressure from the bureaucratic state. These banks tend to view CG as the state's way of enforcing a certain code of behaviour, rather than as a tool for improving performance. The result is consistent with Bukhari's (2014) finding that firms tend to apply only minimum levels of CG when the key actors in these firms view it as an externally imposed obligation. This lack of intrinsic motivation the assumption that CG is a state-imposed burden rather than a source of potential benefit has had an adverse effect on the development of CG in individual banks, and by extension, across the sector as a whole.

The CBL has imposed CG rules in an effort to protect shareholders, but the fact that it has an ownership stake in many of the banks in the LBS may call into question its ability to monitor their implementation of these rules with equal impartiality. This point was made by a number of interviewees; R5, for example, noted that

> *There is a problem with the CBL's monitoring as it is not independent. The Libyan central bank monitors banks that are related to it and others which are private banks, but it is not logical for the CBL to monitor and sanction itself.* (R5)

R3, meanwhile, was concerned about the CBL's ability to objectively monitor banks in which it is currently having to play an active managerial role:

> *The dual role of the CBL is another problem facing the monitoring process. It monitors banks and at the same time, it's carrying out executive tasks because of the current unstable situation facing the country and the banking sector.* (R3)

The quotes suggest that the CBL does not stand at the same distance from all banks, and that it may be favouring those banks to which it is linked over private banks. The CBL is itself monitored by another independent institution, the Board of Accountancy, but this institution has not yet addressed the issue of CG. One of the EAs explained that

> *The Board of Accountancy has good auditors and the CBL is monitored by this institution. The problem is that the Board of Accountancy does not pay attention to CG as they believe it is still in the early stages and is not an issue of concern in Libya.* (EA1)

The results suggest that regulatory institutions within Libya's bureaucratic state have had only a limited impact on the development of CG in the country; the threat of penalties for non-compliance has induced some banks to comply with minimum requirements but, as indicated in section 8.4.1.1, by no means all. Furthermore, it has done nothing to encourage voluntary practice or disclosure.

8.4.1.3 Exceeding Minimum Compliance

The evidence from the textual analysis and the interview stage suggests that only a few banks are working towards applying best practice in terms of their CG. These banks seem to be motivated mainly by the twin aims of protecting their shareholders and improving their reputation, in the hope that this will attract new investors (Aguilera & Cuervo-cazurra, 2009; Bukhari, 2014). In exceeding the minimum CG requirements, these banks seem to be exhibiting a tendency towards mimetic isomorphism, as described by new institutional theory (DiMaggio & Powell, 1983). Faced with the challenge of implementing this new concept of CG, they are trying to mitigate the uncertainty by adopting international principles that go beyond what is required by the CGLBS (2010). They themselves may not yet fully appreciate the potential value of these principles, but they are nevertheless willing to mimic the international practice of their foreign partners.

The interviewees indicated that manager quality is a key factor in determining the level of CG practice in banks; those from banks exceeding minimum CG compliance explained that this was in large part due to the experience and drive of managers. This may reflect the influence of normative isomorphism as a force for CG development; as managers move from international organisations into joint-Libyan-foreign-owned or entirely Libyan-owned banks, they are likely to bring with them the norms they have learned and to positively influence the culture and practice in their new workplace. However, the willingness and ability of banks to transform themselves normatively are also likely to be influenced by the CBL through its role as the provider of training programmes, conferences and workshops. As the interviewees explained, the CBL is itself under pressure from international organisations such as the World Bank and the BCBS to encourage best CG practice in the LBS. How it responds to this pressure – by seeking to raise awareness in the LBS about the importance of CG disclosure and practice – is discussed in section 8.4.1.5.

8.4.1.4 The CBL’s Regulatory Enforcement Role

This theme emerged at the interview stage when respondents talked about the CBL’s role as an expression of the bureaucratic state. According to new institutional theory, the CBL, as the sector’s chief organisational authority, is supposed to exert institutional pressure on organisations to comply with the CG requirements (DiMaggio & Powell, 1983; Scott, 2008). Banks that refuse to comply are indeed theoretically subject to fines and penalties, but the findings suggest that in practice, enforcement by the CBL is generally inconsistent and inadequate. Since this is the first study to investigate the CBL’s enforcement role since the CG reforms, this is a significant observation. It is also discouraging, given that state authorities are of particular importance in supporting development in transitional and developing economies (Che & Qian, 1998).

Several interviewees (R1, P8 and P9) indicated that one of the reasons why CG disclosure levels are low in the LBS is because many managers are resistant; they do not want to disclose CG information because they think this represents a threat to their power. If this is the case, it is even more important that the CBL performs its enforcement role robustly in order to protect shareholders. Othman & Zeghal's (2008) finding that there is a positive relationship in emerging societies between the size of the capital market and the level of CG disclosure makes the case even stronger for enforcing CG regulations in Libya. All of the previous CG disclosure and practice studies that have been conducted in Libya (e.g. Larbsh, 2010; Magrus, 2012; Zagoub, 2011; Ellabbar, 2007; Kribat, 2009; Hawashe, 2014) have reached the same conclusion that regulatory enforcement is essential in improving CG disclosure and practice in the country.

8.4.1.5 The CBL's Cooperative Role

Several interviewees highlighted the importance of the CBL's role in raising awareness about CG, explaining that it needs to offer training programmes for managers, BMs and those involved in preparing annual reports. Respondents mentioned the workshops that were conducted by the CBL prior to the issue of the CGLBS (2010), but several interviewees were critical of the bank's training efforts, identifying this as a key factor in the low level of CG disclosure and practice in the LBS.

This is the first study to consider this aspect of the CBL's role; the nearest comparable example from the literature is Bukhari's (2014) Saudi-based study. He found that the capital market authority in that country plays an important role in raising awareness among listed Saudi companies, working with them to promote the achievement of best CG practice. Similarly, the findings in this study indicate that notwithstanding its failings, awareness of CG in the banking sector has mainly been driven by the CBL, and that it has been supportive of CG practice in LCBs. The CBL's attempts to raise awareness started in 2006 with the launch of the voluntary CG code, but as numerous interviewees observed, the replacement of this code with the mandatory version in 2010, signalling the perceived importance of CG, was also significant in bringing the issue to the attention of more in the sector. Although the response to these codes has been inadequate, they have nevertheless played a crucial role in making more organisations, managers, BMs and regulators aware of the concept of CG. This is consistent with Cankar's (2005) finding that while self-regulation codes might often be ineffective in transition economies, they can still play an essential role by stimulating discussion about CG matters and promoting familiarity with the concept.

8.4.1.6 Regulatory Failure

Many interviewees observed that the CBL's codes and regulations have been unable to guarantee best practice or even minimum compliance. One key reason, mentioned by most interviewees, is the lack of monitoring and enforcement by the CBL. The result can be seen as an extension of the findings of other Libya-based studies conducted before the recent CG reforms (Larbsh, 2010; Magrus, 2012; Zagoub, 2011). These studies mention the lack of legal framework as an important factor behind the low level of CG in Libya. Several interviewees were concerned enough to suggest that unless this problem is urgently addressed, there could be serious repercussions not just for the banking sector but for the economy as a whole. Like numerous authors, they linked failure on the part of the bureaucratic state and other institutions to implement adequate CG with an increased risk of financial crisis (see Bukhari, 2014; Erkens, Hung & Matos, 2012; Johnson., Boone., Breach & Friedman 2000; Lemmon & Lins, 2009).

8.4.2 Culture and Kinship Networks

In Libya, the notion of kinship extends beyond the immediate family to encompass not just relatives by marriage but anyone with the same family name (known as "cousins"). As mentioned in section 3.2.4, Libyan society is characterized by a strong reliance on tribal and family networks (Twati, 2006), with professional as well as personal relationships being shaped by family, clan and tribal affiliations (Abubaker, 2007). Several of the interviewees noted the impact of this informal institution on the development of CG disclosure and practice in the LBS. Two main sub-themes were identified: its impact on professional independence, and the corrosive effect of the culture of secrecy.

8.4.2.1 Independence

A number of interviewees argued for the need for banks to adhere strictly to objective criteria when appointing BMs and managers, explaining that the appointment process is often subverted by nepotism. This can have a negative impact on CG development as it can lead to individuals being appointed who lack the necessary qualifications or experience. This problem has also been identified by Dela Rama (2012), who found that in the Philippines, where family-owned business groups dominate, the presence of significant corruption in the business environment has undermined attempts at CG reform.

Several interviewees highlighted the adverse effect of this aspect of Libyan culture on board independence. The observations from the content analysis indicated that no LCBs disclose any information about the independence of their board, and this was confirmed in the interviews. Furthermore, there was general agreement among the interviewees that most banks do not have the number of independent directors on their boards that is required under the CGLBS (2010).

These results are consistent with Zagoub (2011), who found that in reality, LCBs have very few independent NEDs.

As explained above, the selection of BMs is often impacted by kinship ties, with directors being selected because of their relationship to the owners. Where one kinship group dominates the board, it is more likely that conflicts of interest will arise, with the board abusing its position and prioritising its own objectives over those of other shareholders. Other studies have identified the adverse impact such dominance by kinship ties can have on CG in non-western and developing economies; Filatotchev et al. (2005), for example, found a negative relationship between CG performance and board dominance by the founding family in firms listed in the Taiwan Stock Exchange, while Bukhari (2014) observed that BM independence in listed firms in the KSA is negatively affected by kinship ties.

8.4.2.2 Culture of Secrecy

This theme emerged in the interviews, with respondents claiming that the culture of secrecy which adversely affects traditional disclosure in Libya has also impacted on CG disclosure in the country. The analysis of annual reports and websites showed that LCBs are very weak at disclosing CG information, but the interviews revealed that part of the reason for this is that some boards and managers resist disclosure because they think it is not in their interest. Similar findings have been identified by other researchers investigating CG disclosure in societies characterised by a strongly kinship- or clan-oriented culture. Qu and Leung (2006), for example, found Chinese listed companies to be generally unwilling to provide sensitive information such as CG information, while Arafa (2012) found that the culture of secrecy that dominates Egyptian companies' traditional disclosure practices also extends to their online disclosure. So cautious are they when deciding what to reveal on their websites that online disclosure is very limited.

8.4.3 Religion

This institutional factor was mentioned by a number of interviewees as having the potential to impact on the development of CG disclosure and practice in Libya. The impact of religion on CG has been widely discussed in the literature on Islamic countries, where religion is central (Abu-tapanjeh, 2009; Alshehri, 2012; Hasan, 2008; Daryaei., Salehpour., Bishe & Karimi, 2013). Abu-tapanjeh (2009), for example, draws a parallel between religious principles, which demand and guarantee honesty, justice, fairness and the protection of all parties' rights, and the main objectives of CG, which are the protection of shareholders' rights and interests, and of the firm's assets. Others seeing a link between the principles of Islam and the principles of CG include Hasan (2008), who concludes that the stakeholder model of CG is consistent with the principle of maqamsid Sharia, and Alshehri (2012), who argues that the concept of accountability in Saudi companies is shaped by Islamic law.

Daryaei et al. (2013) make a pragmatic case for combining the principles of Islam and western-style governance, suggesting that:

> *"The synthesizing of western corporate governance systems with Islamic values such as accountability, transparency, social justice and trustworthiness, helps companies to attract investment and improve their performance in terms of corporate and social responsibility, to realize corporate objectives, protect shareholders' rights and other requirements".* (p.2406)

Their argument implies that the values of Islam can play an essential role in enhancing CG disclosure and practice, but the findings of this study suggest that although this potential is widely recognized in Libya, religion does not yet have a significant impact on CG either in the country in general or in the banking sector in particular. At the moment, it has less influence than any of the other institutions.

8.4.4 The Market

In the interview stage, it became apparent that the market is not yet strong enough to have a significant impact on CG in Libya. The country is still in the early stages of economic development, and the government's programme of privatisation and liberalisation remains underdeveloped. This is consistent with Lin's (2001) finding that both the market and legal institutions tend to be weak in developing countries, and that this leads to poor CG practice in these contexts. The result is also in line with Allen (2005), who argues that the law does not guarantee effective CG in developing societies as the market institution is underdeveloped in these societies.

Having said this, the findings show that in some cases, the decision to disclose is driven by market logic; that is, banks choose to disclose their CG practice because they think that it makes them more competitive. In placing an economic value on their CG, these banks seem to be exemplifying Thornton et al.'s (2012) argument that market logic is grounded in self-interest and takes its authority from investors. Actors rooted in market logic rationalise their behaviour in terms of its ability to generate profit. However, the findings suggest that this logic is not widespread in the LBS as it was mentioned by only a few interviewees.

8.4.5 Political Institution

The view was expressed in the interviews that both the current and previous political regimes have impacted on the quality and development of CG disclosure and practice in Libya in several ways. These impacts have been both positive and negative. Three sub-themes emerged during these discussions: the government's openness policy, the resistance to CG exhibited by those who remain loyal to the old socialist ideology, and the current political turmoil.

8.4.5.1 Economic Openness Policy

The interviewees perceived the Libyan government's economic openness policy as having had a positive impact on CG by exposing Libyan enterprises to the CG practices of their foreign partners. This seems to support Klautzer's (2013) argument that trade openness can encourage the adoption of good CG practices. Key actors have also been inspired to adopt good CG as they have come to understand its role in improving the efficiency of privatized companies (Coffee, 2001; Dyck, 2001; Johnson & Shleifer, 2011). The argument that more efficient companies means a more productive economy led the World Bank to cite the application of good CG as one of the most important factors in economic development (Saïdi, 2004), though as the OECD (2004) observes:

> *"Corporate governance is only part of the larger economic context in which firms operate that includes, for example, macroeconomic policies and the degree of competition in product and factor markets"* (p.12).

The findings of the study are therefore consistent with the previous literature in highlighting the link between economic liberalization and the quality of CG disclosure and practice. However, not everyone in the LBS has been equally supportive of these reforms, as is discussed in the next section.

8.4.5.2 Resistance

It emerged during the interviews that the move to improve CG disclosure and practice in Libya has met with resistance in some quarters from those who remain loyal to the principles of the old socialist regime. This regime, which controlled Libya for decades, espoused an ideology that was incompatible with the notion of CG, shared decision making and the separation of powers (R1), and this has made it difficult for some actors in the LBS (and beyond) to embrace these new ideas. The old ideology has thus had a negative impact on the development of CG in Libya. This was a source of frustration among some interviewees, who complained that the socialist ideology's continuing dominance among key actors in the LBS is one of the reasons why attempts at economic reform have been unsatisfactory.

This is an important observation as there is a significant lack of literature investigating the impact of the political institution on CG in developing countries; as mentioned in section 4.3.6.5, the few studies that have addressed the influence of political institutions on CG have mostly been conducted in western societies. Among those that have been conducted in developing countries, the results have been mixed. For example, in contrast to the current study, Schnyder (2010) found that direct and indirect political connections (on the part of owners, CEOs and BMs) have no real influence on the quality of CG in Ukraine; in other words, these connections do not necessarily make organisations more resistant to implementing CG.

In China, Gao (2011) found that state-owned enterprises provide more disclosure on social issues than privately owned companies as they are more politically sensitive (social disclosure in the country includes political slogans). However, generally, the literature suggests that CG is more likely to encounter resistance in societies where there is a high level of government control. Shleifer & Vishny (1994), for example, indicate that state-owned firms are likely to prioritise adherence to government policy over enhancing economic efficiency. They also suggest that pressure from politicians makes many of these firms inefficient, implying a link between political interference and the development (or obstruction) of CG.

8.4.5.3 Recent Political Change and Instability

The majority of interviewees cited the recent political change and instability as having had a significant impact on the development of CG disclosure and practice in the LBS. The Arab Spring brought with it the opportunity to improve CG in the MENA countries (Iatridis & Zaghmour, 2013), and the subsequent regime changes and changes in the political and legal framework have indeed impacted on the accounting system in several of these countries (Al Ismaily, Al-Busaidi, Cervantes & McMahon, 2010; Lal Joshi & Gao, 2009; UNCTAD, 2009). In Libya, however, regime change has not had the positive impact on CG that was predicted. Rather, CG disclosure and practice have been negatively affected by the instability since the revolution. The division of the country into regions controlled by warring political groups has severely hampered banks' ability to implement key CG mechanisms; for example, security issues have made it dangerous for directors to travel across country to board meetings and for shareholders to attend AGMs to discuss and ratify annual reports. This has made the preparation of these reports much more difficult, with the result that many banks have not published a hard copy annual report since 2011. The fact that the country is split between ideologically opposed factions creates additional problems for banks with foreign partners. One interviewee explained that his bank has to be cautious when disclosing CG information relating to its foreign partner because this partner comes from a country that is opposed by certain regional groups.

Most of Libya's institutions have suffered badly as a result of the turmoil, including the banking sector. The majority of interviewees noted this, as did the annual reports and websites of most banks. At the time of writing, the CBL is divided into two, with one arm in western Libya and the other in the east the result of the schism between Libya's two governments and parliaments. Not surprisingly, this weakening of the country's main CG enforcement authority is having a terrible effect on the development of CG disclosure and practice in Libya. This observation is important as no study has so far investigated the impact of the political changes on CG in Arab Spring countries such as Tunisia, Egypt, Yemen and Libya.

8.4.6 The Law

The literature highlights the importance of the law in shaping CG in developed countries (Milhaupt, 1996; Shleifer & Vishny, 1997), but suggests that in developing countries, it is often inadequate to support the development of CG. Young et al. (2008), for example, argue that although most developing countries adopt the Anglo-American system, their legal institutions, including disclosure parameters, accounting requirements and securities trading boundaries, are often lacking or ineffective. The findings from the interviews seem to support Young et al.(2008)'s conclusion because they suggest that although Libya's commercial law, banking law and market regulation are generally consistent with CG principles, they are largely ineffectual in practice. The observation confirms the results of Larbsh (2010), Magrus (2012) and Zagoub (2011), who all identify the weakness of the legal environment as one obstacle hindering the application of CG in Libya. This observation is important in providing a more up-to-date picture of the impact of the law on CG in one developing country undergoing dramatic change.

8.5 Summary

This chapter discusses the findings of this study in the context of the literature; that is, the extent to which they support or challenge others' findings and the assumptions of institutional theory. It starts by considering the current state and recent development of CG disclosure in LCBs, as revealed in the interview findings and the analysis of annual reports and websites. These indicate a general lack of CG disclosure among banks, though there are signs of slight improvement, particularly in regard to information about CG structures and policy. The interview findings suggest that CG practice has developed along broadly similar lines in most LCBs, with most banks failing to achieve the minimum requirements. The majority have modified their previous practice to the extent that they have set up one or more board committees, but the findings suggest that most of these committees are ineffective in practice. The observation appears to support institutional theory's assumption that organisations will decouple their practice in the face of external pressure; in this case, the banks are responding to coercive pressure from the CBL by setting up board committees that are designed to be merely ceremonial. The discussion suggests that the results are broadly in line with the findings of CG studies conducted in other developing countries, and that they provide the most up-to-date picture we have of the situation in Libya.

The bulk of the chapter discusses the main observations regarding the institutional factors that are impacting CG disclosure and practice in Libya in general and in LCBs in particular. Six major institutions are investigated – the bureaucratic state, kinship networks, religion, the market, the political institution and the law – and the discussion reveals a number of new institutional insights. It identifies the main expression of the bureaucratic state in this context as being the CBL; this regulatory authority aims to play the key role in developing CG disclosure and practice in the LBS by enforcing the regulations and working with banks to raise awareness and support the implementation of CG. However, the findings show that it has had only limited success in this regard, with most banks exhibiting minimum or even no compliance, and very few showing any inclination to exceed minimum compliance with the CGLBS (2010).

In regard to the impact of kinship networks, the findings appear to support the argument that this institution has a negative influence on CG. This can be observed in the lack of disclosure in those banks where appointments are made on the basis of personal relationships rather than qualifications or experience, and in the lack of independence among boards, managers and auditors. In contrast, the religious institution should have a positive influence on CG, given that the principles of Islam are in line with the principles of CG and should therefore support CG in achieving its objectives. However, the findings suggest that religion currently has a negligible impact on CG in Libya. The same seems to be true of the market institution, which is still in the early stage of development and therefore lacks the power to be a formative influence. Much more significant has been the political institution, which has had a mixed impact. The findings suggest that the openness policy adopted by the previous regime positively affected the development of CG in Libya, but that this progress may have been undermined by resistance from key actors who have remained loyal to the old socialist ideology. Post-revolutionary change and instability have done nothing to improve matters, presenting major practical obstacles to the preparation of annual reports and compromising the CBL's ability to monitor CG disclosure and practice efficiently. The last institution discussed is the law, which has again had both a positive and negative influence. The fact that Libya's existing laws are generally consistent with the principles of CG should theoretically support its development, but lack of enforcement by the regulatory authorities means that these laws are largely ineffectual in practice, and the legal environment for CG in Libya remains weak.

Chapter 9 Conclusion

9.1 Introduction

There are relatively few studies exploring CG disclosure and practice in the banking sector, either in developing or developed countries (Darmadi, 2013; Feldioreanu & Seriaa, 2015; Nwakama et al. 2011; Thomas & Boolaky, 2009). A handful have been conducted in the MENA region (Samaha et al.2012; Al-Moataz & Hussainey, 2012; Al-Malkawi et al. 2014; Othman & Zeghal, 2010), including a small number in Libya. However, no one has investigated CG in Libya since the recent CG reforms and the revolution of 2011. This research seeks to address this gap by exploring current CG disclosure and practice in the country's commercial banks and shedding light on the institutions that have influenced the development of this practice. It aims to answer the following research questions:

1- To what extent do LCBs adhere to the international requirements regarding CG disclosure in their annual reports and websites?

2- Is there any significant variation in CG disclosure between LCBs?

3- How have LCBs improved their CG disclosure over recent years in their annual reports and websites?

4- How LCBs has improved their CG disclosure over recent years in their annual reports and websites?

5- How do the key social actors perceive the development of CG disclosure and practice in LCBs?

6- What are the institutions that may be influencing this development in LCBs?

7-How do the key social actors think these institutions are impacting the development of CG disclosure and practice in LCBs?

The following sections summarise the findings of the research, discuss how they contribute to existing knowledge and interpret them from the perspective of institutional theory. The chapter then considers the implications of the findings. It concludes by acknowledging the limitations of the research and suggesting directions for future study.

9.2 Summary of Findings

In the first stage of the study, data gathered from LCBs' most recent available annual reports and websites were measured against UNCTAD's ISAR CG disclosure index to assess the extent to which LCBs are responding to international disclosure requirements (research question 1), how practice varies among LCBs (research question 2) and how their performance compares with that of companies in 22 other developing countries (research question 3). The annual reports and websites published between 2007 and 2017 were then analysed to investigate how CG disclosure and practice has developed in LCBs over the last ten years (research question 4).

In answer to the question regarding the **extent to which LCBs adhere to international** C**G disclosure requirements in their annual reports and websites,** the results revealed a generally poor level of CG disclosure across the LBS, with banks disclosing information on only fourteen of the 52 items in the ISAR index. This puts Libya well behind other developing countries, including others in the MENA region. Regarding the **variation between LCBs,** the results indicated that this is not significant. Interestingly, the highest level of CG disclosure was provided by two small, new banks (United Bank and Al-Nuran Bank), which disclosed information for nine and ten of the 52 ISAR items respectively. One bank disclosed information for eight items, seven banks disclosed information for six items, three banks disclosed information for five items, and one bank disclosed on four. The remaining two banks disclosed information for one item each. On the question of **how LCBs have improved their CG disclosure over recent years,** the results confirmed that as of 2017, the majority of banks still disclose very limited CG information, though there were some examples of good practice and there was evidence of slight improvement in some banks over the research period. The disclosure in most LCBs is stakeholder-oriented, but while several have expressed an ambition to work towards best CG practice, most comply only with the minimum requirements of the CGLBS (2010). Very few show any willingness to go beyond these minimum requirements.

The second stage of the study sought to answer research questions 5, 6 and 7 by focusing on the perceptions of key social actors such as those responsible for preparing annual reports, BMs, executive directors, EAs and investors. Semi-structured interviews were conducted with 26 of these actors to investigate their views on the importance of CG disclosure in annual reports and websites, the development of CG disclosure and practice and the institutional factors shaping this development. In answer to the question of **how key social actors perceive the development of CG disclosure and practice in LCBs,** the results highlighted a general lack of awareness about the importance of CG disclosure and practice. The interview results indicated that few banks have achieved the minimum CG requirements, and the only improvement has been the establishment of board committees. However, these committees appear to be mainly symbolic. Regarding **the institutions that may be influencing the development of CG disclosure and practice in LCBs,** and **how these institutions are impacting this development,** the interviewees considering six institutions that shape the CG disclosure and practice in LCBs, these institutions include bureaucratic state institution, legal institution, the kinship institution, political institutions, religion and market institution. The findings from the interviews suggest that the key social actors see the bureaucratic state as the main institution driving the development of CG disclosure and practice in Libya. The legal institution is seen as having a positive impact, but this is offset by the perceived negative impact of the kinship and political institutions. Finally, the findings suggest that neither religion nor the market are seen as having any impact on the development of CG disclosure and practice in Libyan society.

9.3 Contribution to Knowledge

The findings of this research provide information regarding the recent development of CG disclosure in LCBs, thereby narrowing the literature gap in relation to CG disclosure in banks in general (Darmadi, 2013; Feldioreanu et al. 2015; Nwakama et al. 2011; Thomas & Boolaky, 2009) and in the MENA countries in particular (Union of Arab Banks, 2007). It is the first study to give insights into the level of CG disclosure being offered by Libyan banks, thereby allowing comparison with CG disclosure levels in other developing and developed countries.

The study is especially useful because it adopts an empiric approach, gathering evidence from banks' annual reports and websites to assess the level of CG disclosure against national and international requirements. It enriches our knowledge by providing examples of this disclosure and showing both its quality and scope; in this way, it is able to shed light on which aspects of CG LCBs consider worth prioritizing, and where, if anywhere, there has been improvement.

The findings provide up-to-date evidence about the recent development of CG practice in LCBs. This is especially important, given the seismic changes that have taken place in the Libyan environment since previous studies were conducted. The years since 2011 have seen major CG reforms introduced within the banking sector, but more than this, they have witnessed dramatic cultural and political changes across Libya as a whole. This study offers crucial evidence of how LCBs are being affected by these changes, and how they are responding to these reforms.

9.4 Understanding/Interpreting Theoretically and Contextually CG Disclosure and Practice in LCBs

When the findings are considered from the perspective of institutional theory, the first conclusion that may be drawn is that its assumptions regarding institutional isomorphism do not seem to hold true in the Libyan environment. The findings suggest that commercial banks in the LBS have not, on the whole, felt compelled to adapt themselves or their practice in response to coercive, normative or mimetic pressures. For example, the coercive pressure being exerted by the CBL, although the main institutional force driving banks to implement CG, has been insufficient to properly institutionalise CG disclosure and practice in the LBS; even though the CG code has been mandatory since 2010, few banks have achieved the minimum requirements in terms of practice, and disclosure remains very weak in all banks. Furthermore, some of the changes that have been made (e.g. the establishment of board committees) seem to have been for form's sake only and are decoupled from banks' actual practice(Moll et al. 2006).. Normative pressures have had even less impact on banks' behaviour, with most banks failing to respond to the international standards for CG disclosure and practice issued by bodies such as the BCBS and the OECD. There does not appear to be any normative pressure from national organisations such as the LAAA or Libya's banking bodies. The only banks to exhibit any tendency towards mimetic isomorphism have been those with foreign partners, and they appear to be motivated mainly by uncertainty, mimicking the practice of their foreign partner because they are unsure about CG. It can thus be concluded that institutional pressures in the LBS produce different results from those seen in developed and even other developing countries.

The study adds to our limited knowledge about the impact of the bureaucratic state on CG in MENA countries by providing evidence from the Libyan context. This evidence indicates that this institution, as embodied in the CBL, has had a positive impact on the development of CG disclosure and practice in LCBs, though as discussed above, it has not yet succeeded in institutionalising it across the sector. The CBL has sought to influence banks by working with them (its cooperative role) and by supervising and sanctioning their behaviour (its regulatory enforcement role), but it has been criticised for its weak performance, particularly in the latter role (regulatory failure). Part of its difficulties in terms of its monitoring/enforcement function is that the CBL, as the state bank, is also the part or sole owner of many of Libya's commercial banks, which arguably compromises its ability to be impartial. In any case, the current situation is that some commercial banks do not comply with the CG requirements in the CGLBS (2010), some comply to only minimum levels, and only a very few exceed minimum compliance.

The results of the study suggest that the main reason banks fail to apply CG or disclose information is because they are under no real pressure to do so from the CBL. Lack of enforcement is leading banks to ignore CG – a state of affairs that is unlikely to change unless the CBL becomes more proactive. However, the fact that lack of awareness about CG issues was identified as another reason for non-compliance suggests that the CBL's support/cooperative role is just as important as its enforcement role. The recent political change and instability are also leading to non-compliance as banks have been forced to reprioritise their interests and give greater attention to issues such as risk. In the current political landscape, the topic of CG seems less important to many banks.

Minimum compliance tends to be the result of a lack of appreciation of the importance of CG. Banks complying to only the minimum level generally regard CG as just another externally imposed set of regulations. They are not motivated to achieve best practice, but adhere to the minimum requirement merely to avoid penalties from the CBL and maintain legitimacy

(Deephouse & Suchman, 2008). In other words, they comply in response to institutional pressure, not because they want to improve governance in their banks. This lack of interest in pursuing best practice is likely to have an adverse effect on the long-term development of CG in these banks. The joint-Libyan-foreign banks that exceed the CG minimum requirements may be seen as practising mimetic isomorphism, as posited by new institutional theory (DiMaggio & Powell, 1983). Faced with a new concept, the objectives of which they may not entirely understand, these banks imitate the practice of their international partner, thereby going beyond what is required by the CGLBS (2010). However, another interpretation is that these banks are inspired to follow good practice by their managers, in which case their behaviour may be explained in terms of normative isomorphism; managers who have worked internationally bring international norms with them when they come to work in Libya, changing the work culture. The CBL also has the potential to strengthen normative pressure and encourage normative isomorphism among LCBs by raising awareness across the sector through its provision of training and conferences. However, the findings suggest that there is little evidence of this happening at present, despite the fact that the CBL is itself under pressure from international bodies such as the World Bank and the BCBS to promote best CG practice within the LBS.

The findings confirm the importance of the CBL's enforcement role but reveal that this enforcement is inconsistent and generally inadequate. This is troubling, given the resistance to disclosure exhibited by managers, many of whom see it as a threat to their power. Enforcement is thus important to protect shareholders, but the findings show that the CBL's cooperative role in raising awareness about CG is also crucial. However, its performance has been mixed here; on the one hand, its issuance of the voluntary and mandatory CG codes has brought the concepts of governance and disclosure to the attention of key actors, but on the other, its failure to supplement the regulation with adequate information and training is seen by many as one of the main reasons for the low level of CG disclosure and practice in the LBS. The fact that there has been no significant improvement since the CGLBS was made mandatory in 2010 is confirmation that codes and regulations alone are insufficient to guarantee best practice, or even minimum compliance, in the Libyan environment.

Turning to the other institutions addressed in the study, the results suggest that the kinship institution has a negative impact on CG disclosure and practice in Libyan society by undermining the independence not just of managers and BMs but of the appointment process itself. It also helps perpetuate the culture of secrecy which severely limits traditional disclosure in Libya. This willingness to allow managers and boards to resist sharing information has had an adverse impact on CG disclosure in the country.

The political institution seems to have had both positive and negative impacts on the emergence and development of CG disclosure and practice in Libya. The government's economic openness policy has had a positive impact on the economy in general and on CG in particular, but it has faced resistance from those who remain loyal to the old socialist ideas. This socialist ideology, which rejects central CG principles such as shared decision making and the separation of powers between executives and non-executives, is still prevalent among key actors in the LBS, impelling them to resist the CG reforms as not in their interest.

Unfortunately, the recent changes in Libya's political landscape have not brought with them the looked-for improvement in CG. Instead, the results suggest that CG disclosure and practice have been negatively impacted by the post-revolutionary instability, with the division of the country into warring regions severely hampering banks' activities, including their ability to implement CG mechanisms such as board meetings and AGMs. Joint-foreign-Libyan banks face the additional difficulty of judging how much to disclose about their foreign partner when this partner might be persona non grata to some of the country's political factions. The findings highlight the significant adverse effect the current political uncertainty is having on the banking sector, illustrated most forcibly by the splitting of the CBL into two halves, one in the west of the country and the other in the east. Caught in the conflict between two competing governments, the CBL's ability to enforce regulation has been badly compromised, with major consequences for the development of CG disclosure and practice in Libya.

The political instability is also undermining the power of Libya's legal institution beyond the CBL to foster improvement in the country's CG. The results suggest that existing commercial and banking law and market regulation are broadly consistent with CG principles, but that these laws are largely ineffectual. The task of strengthening the legal environment so that it better supports CG is made much more difficult by the ongoing political uncertainty.

The findings indicate that neither religion nor the market have a significant impact on CG disclosure and practice in Libya. In the case of religion, it is widely understood that CG principles such as justice, honesty, serving the public interest and promoting disclosure and transparency are consistent with the teachings of Islam, but even so, the institution has little influence on CG either in general or in the banking sector in particular. In the case of the market, the findings suggest that Libya's economic development is still at too early a stage for this institution to be strong enough to have an impact. The government's privatisation/liberalisation programme remains underdeveloped, and very few actors seem to be driven by market logic.

9.5 Practical Implications

The findings have a number of practical implications for banks and regulatory bodies such as the CBL. The analysis reveals that despite the CBL's efforts to improve CG in the banking sector, first through the voluntary CGLBS (2006) and then through the mandatory CGLBS (2010), there remains a significant lack of disclosure, and that most banks are only superficially applying some aspects of CG, for example establishing board committees that serve a ceremonial rather than a practical purpose. This underlines the importance of taking into account Libya's specific context when deciding on the best way forward.

The first implication of the findings seems to be that the CBL needs to be much stricter in enforcing compliance from those banks that are failing to reach even the minimum requirements of CG disclosure and practice, for example by imposing penalties and fines. At the same time, it should also focus more on its cooperative role with these banks and expand its efforts to raise awareness of CG through workshops, conferences and training courses for BMs, EMs, regulators and those responsible for preparing annual reports. In banks that limit their compliance to the minimum requirements, the CBL should focus on the causes of this behaviour. For example, if the bank does no more than it has to because it regards CG as merely an externally imposed set of restrictions, the CBL should seek to raise awareness about the potential benefits of implementing CG. Education is also important in the case of banks that are exceeding the minimum requirements; if they are imitating their foreign partner because they are uncertain about what they should be doing, the CBL has a role to play in helping them understand the point of applying CG in their bank and clarifying their objectives.

The view among many participants in this study was that if banks are not made to apply CG, Libya's whole economy will be negatively impacted and the likelihood of financial crisis will increase. The CBL must therefore make CG one of its top priorities and be much more assiduous in performing its enforcement role. It must also be more consistent, ensuring that it does not favour state-owned banks over private banks, and that it pays equal attention to all aspects of CG practice. It could also be more effective in its awareness-raising role, for example by ensuring that its training programmes are more clearly targeted and that they offer banks better value for money.

The findings highlight that informal institutions such as kinship networks also have an impact on CG disclosure and practice in the LBS. The fact that this institution works against compliance should be a matter of concern to regulators and key CG actors. It is vital that the CBL takes steps to ensure the integrity of the process for appointing BMs and managers, as the findings of this study suggest that this process is too often undermined by nepotism. Not only does this compromise the independence of these boards and managers, but it also leads to unqualified people being put into important positions. The other side effect of allowing kinship networks to dominate – the culture of secrecy – may be tackled by the CBL raising awareness among banks of how important it is to be transparent with shareholders and other stakeholders.

The finding that Islam has principles in common with CG, such as a belief in the importance of disclosure, transparency and integrity, implies that religion might be used to encourage wider acceptance of CG in Libya. For example, banks, including the CBL, could use religious discourse to promote the concept of CG with their shareholders and other stakeholders.

Finally, the results of the study have two major implications in terms of the political institution in Libya. Firstly, they suggest that although the previous regime's economic openness programme has had a positive impact on CG, it could perhaps have done more were it not for the resistance of those who refuse to abandon socialist principles. Since this mentality still seems to dominate in Libyan society, the CBL needs to focus on re-educating these CG actors. Secondly, the recent political change and instability have, not surprisingly, had a negative impact on CG disclosure and practice in Libya. The CBL, itself divided into two by the political division in the country, has allowed CG to drop down its list of priorities. However, the findings suggest that the unstable situation has made it more, not less, important that the CBL pays close attention to the issue.

9.6 Limitations of the Study and Directions for Future Research

This part of the chapter comprises two sections: the first considers the limitations of and difficulties faced in the study, and the second recommends possible directions for future research.

9.6.1 The Limitations and Difficulties Faced in the Study

There are some important limitations to the study that need to be taken into account when considering its findings. One important limitation is that in the first stage of the study, difficulties in accessing the annual reports for some banks meant that it was not always possible to include the most recent annual report. Similarly, while the Wayback Machine allowed the collection of website data over several years, making it possible to see the historical improvement in online CG disclosure right up to the present day, some pages were inevitably missed. The fact that annual reports and websites present different data in different ways makes comparison between the banks more difficult, but the findings of the textual analysis were also limited by virtue of the fact that information was available on only a few aspects of CG (i.e. changes in shareholdings, ownership structure, bank objectives, governance structures such as committees and other mechanisms to prevent conflicts of interest, and risk management objectives).

In the second stage of the study, the main limitation was that time and financial constraints meant that it was only possible to conduct 26 interviews. Although these were conducted with a range of stakeholders in order to cover different aspects of CG disclosure and practice, the small size of the sample means that it might not fully reflect the range of perceptions held by stakeholders in the LBS.

The findings may also have been affected by the political instability facing banks and their stakeholders in Libya. The research was conducted at a time when most institutions, including the banking sector, were uncertain about the future, and some regions were facing armed conflict and deteriorating security. Given this backdrop, it is perhaps not surprising that most of the interviewees saw CG as a relatively low priority, or as a subject for more comfortable times. The point was repeatedly made that the unstable situation is the main obstacle to any improvement, including improvement in CG disclosure and practice.

Finally, the results of this study are based on a single developing MENA country with its own specific institutional factors. Since these may differ from those in other MENA countries, caution should be exercised when generalising the findings to other societies.

9.6.2 Directions for Future Research

There are very few studies investigating CG in Libya, so there are a number of ways in which the gap in the literature might be reduced. For example, this thesis focuses on the banking sector, but the investigation should be extended to other industries to provide a clearer picture of how Libyan companies are responding to national and international CG requirements.

Previous studies have tended to use annual reports as their main source of data; to the best of the researcher's knowledge, this is the first Libya-based study to draw some of its data from websites. Since the findings suggest that this is a fruitful source of disclosure-related data, other researchers might also find it helpful to use websites to investigate both financial and non-financial disclosure in the banking sector and beyond.

The results of the study show that there has been a slight improvement in CG disclosure since 2010, with more banks starting to give information about their CG practice in their annual reports and websites. Other researchers might continue the work started here by taking advantage of this disclosure to investigate banks' CG practice and the factors that affect this practice. Another suggestion is for researchers to pay closer attention to specific aspects of CG, such as the practice and disclosure surrounding board remuneration policy. The findings reveal a significant lack of disclosure on this issue, which the interviewees attributed to director resistance (directors do not want their remuneration arrangements to become widely known as they fear this might weaken them). Investigation of remuneration policy, practice and disclosure (and the factors shaping them) would be highly valuable as research in this area is very rare not just in Libya but in other MENA and developing countries.

The participants in this study were social actors within the banking sector who had a particular interest in CG disclosure and practice. They included senior accounting staff with responsibility for preparing annual reports, BMs, EMs, regulators, auditors and investors. However, given the impact that the political institution has on CG disclosure and practice in Libya, it would make sense for future researchers to also interview actors from this institution, such as party members, parliamentary representatives and government ministers.

The study draws on institutional theory to understand the forces shaping CG disclosure and practice in the LBS. This includes considering the role played by institutional logics. Future research could focus more closely on institutional logics, which are important first, because they link the macro (Meyer & Rowan, 1977) and micro levels within an institution (DiMaggio & Powell, 1983) and second, because they are the cognitive frameworks individuals use to make sense of their social reality and guide their actions (see section 4.3.5). As such, they may be able to give insight into the origin and nature of institutional tension.

Finally, as mentioned in section 9.6.1, this study was conducted in a single MENA country. Further research is needed to increase understanding of the development of CG disclosure and practice in other societies.

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Appendices

Appendix A 1 CG Disclosure Studies in Banking Sectors in Developing and Developed Countries

	Author (year)	Country (ies) & sample	Basis of index preparation	Index categories	Methodology	Main findings	Theoretical framework explanation
1	Darmadi (2013)	Indonesia 7 Islamic commercial banks	1.Indonesian Banking Regulations 2. Code of CG 3. Guidelines of the Islamic Financial Services Board	1. Sharia supervisory board 2. Board of commissioners 3. Board of directors 3. Board committees 4. Internal control 5. External audit 6. Risk management	Descriptive content analysis of banks' annual reports for 2010	The country's two largest and oldest Islamic commercial banks score higher than their peers. Disclosure of the sample banks on some dimensions, such as board members and risk management, is found to be strong. On the other hand, disclosure on internal control and board committees tends to be weak.	Only discusses the outcome (descriptive)
2	Nwakama et al. (2011)	23 Nigerian banks	1. CG Guidelines by the Central Bank of Nigeria (2009) 2. Nigerian Security and Exchange Commission (NSE) Rules (2009)	1. Board responsibility 2.Employee-employer relationship 3. Transparency/disclosure 4. Shareholder rights 5. Audit committee	Content analysis of annual reports for 1999-2009	Findings reveal that size is directly related to the margin between non-performing credit and performing credit. An increase in size increases additional credit, which in turn increases the margin between classified credit and non-classified credit. An increase in this margin is a signal of healthy CG. Furthermore, the results obtained from the CG indices reveal that Nigerian savings banks are above average in their compliance with the CG code of conduct.	Agency theory Stewardship theory Stakeholder theory Political theory Transaction cost theory
3	Maingot & Zeghal (2008)	8 Canadian banks	Toronto Stock Exchange Corporate Governance Guidelines	1. Online information 2. Board 3. Profile of directors 4. Remuneration of board 5. Board independence 6. Bylaws 7. Committees	Content analysis of websites, annual reports and proxy circulars for 2003 Dichotomous scoring	The bigger the bank, the more disclosure there is. The choice to disclose and the extent of the disclosure are influenced by the strategic considerations of management. An investor should refer to the annual reports and the proxy circulars and not only focus on the CG web page. Small banks tend to copy one another's CG disclosure and hence publish almost exactly the same information. This behaviour is consistent with the theory put forward by DiMaggio and Powell (1983).	Market forces Cost of disclosure Brief mention of institutional theory

4	Thomas & Boolaky (2009)	46 Japanese banks	Japanese National Corporate Governance Code	1. Separation of management and board 2. Internal audit committee 3. Compensation committee	Content analysis of annual reports for 2005, 2007 and 2009 Regression model	Results reveal in general that NEDs, cross-ownership, capital adequacy ratio and type of auditor are associated with the extent of CG disclosure. Of these four variables, NEDs have a more significant impact on the extent of disclosure than total assets or audit firms.	
5	Feldioreanu et al. (2015)	34 banks (17 from Romania and 17 from Malaysia)	CG principles	1. Sharia supervisory board 2. Internal control 3. External audit 4. Board of directors 5. Board committees 6. Risk management	Content analysis of websites for 2012	More profitable banks tend to disclose more information on CG than less profitable financial institutions, while the size of the bank does not appear to influence the value of the CG disclosure index.	
6	Union of Arab Banks (2007)	67 banks from Qatar, Oman, UAE, Yemen, Jordan and Egypt	Basel Committee on Banking Supervision, Organisation for Economic Cooperation and Development (OECD), the International Finance Corporation (IFC) and the World Bank's ROSC assessment template	1. General framework for good CG 2. Rights of shareholders 3. Equitable treatment of all shareholders 4. The role of stakeholders in CG 5. Transparency 6. Structure, functioning and responsibility of the board of directors 7. External monitoring role	A questionnaire	Banks provide a high level of disclosure of material information and financial transparency in line with international standards.	Only discusses the outcome (descriptive)

Appendix A 2 CG Disclosure in MENA Countries

N	Author (year)	Themes	Country (ies) & sample	Basis of index preparation	Index categories	Methodology	Main findings
1	Samaha et al. (2012)	The extent of CG disclosure and its determinants in developing markets: the case of Egypt	A sample of Egyptian companies listed in the Egyptian Stock Exchange	UNCTAD	1. Financial transparency 2. Ownership structure and exercise of control rights 3. Board and management structure and process 4. Corporate responsibility and compliance 5. Auditing	Content analysis of financial statements and websites	The level of CG is minimal in Egyptian listed companies, but disclosure is high for items that are mandatory under the Egyptian Accounting Standards (EASs).
2	Al-Moataz & Hussainey (2012)	Determinants of CG disclosure in Saudi companies	97 Saudi Arabian listed companies in 2006 and 2007	9 requirements of the Capital Market Authority (CMA)	1. Disclosure in the board of directors' report 2. Formation of the board 3. Audit, nomination and remuneration committees	Content analysis of financial reports and accounts	Board independence, audit committee size, profitability, liquidity and gearing are the main determinants of CG disclosure in Saudi Arabia. There is no statistically significant association between firm size and CG disclosure.
3	Al-Malkawi, Pillai & Bhatti (2014)	CG practices in emerging markets: the case of GCC countries	Gulf Arabic countries	The OECD Guidelines of 2004 and the CG codes in the respective GCC countries	30 attributes divided into three categories 1. Disclosure (11) 2.Board effectiveness (8) 3. Shareholder rights (8)	An unweighted Corporate Governance Index	The results demonstrate that GCC companies adhere to 69% of the attributes addressed in the CGI. The results also show that the firms listed in the UAE stock markets exhibit the best adherence to the CG attributes examined in the study, followed by Oman, Saudi Arabia, Qatar and Kuwait.
4	Othman & Zeghal (2010)	Investigating T&D determinants at firm level in MENA emerging markets	13 MENA emerging markets	S&P/IFC	1.Ownership structure and investor relations 2.Financial transparency and information disclosure 3.Board management structure and process	Content analysis of 216 annual reports for 1996-2006	The colonial background of the country has an impact on the level of T&D.

Appendix B: Most Recent Website, by Bank

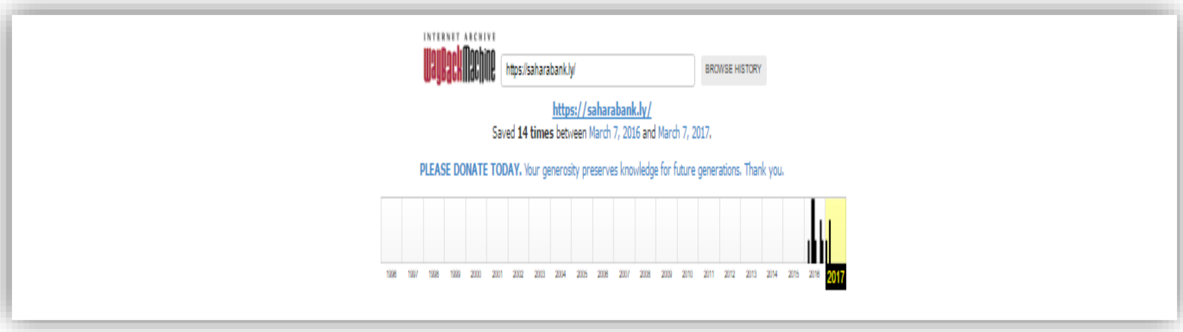
B.1 Jumhoriya Bank

2012
https://web.archive.org/web/20121207034527/https://www.jbank.ly/
2013
https://web.archive.org/web/20130730150422/www.jbank.ly/home.asp
2014
https://web.archive.org/web/20141030082639/http://jbank.ly/home.asp
2015
https://web.archive.org/web/20150420014736/http://www.jbank.ly:80/home.asp
2016
https://web.archive.org/web/20160310113713/http://www.jbank.ly:80/home.asp
2017
https://web.archive.org/web/20170508113800/http://jbank.ly:80/home.asp

B.2 Wahada Bank

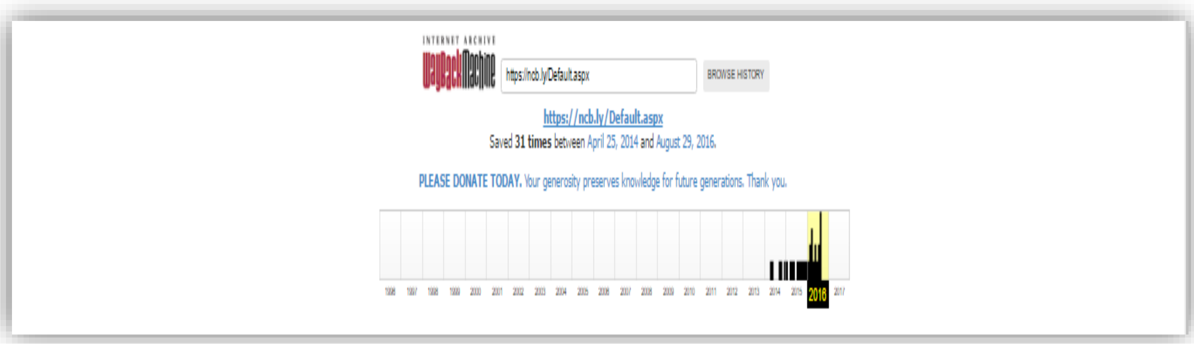
2012
https://web.archive.org/web/20121110100452/http://www.wahdabank.com.ly/
2013
https://web.archive.org/web/20130927004103/http://www.wahdabank.com.ly/
2014
https://web.archive.org/web/20141218184500/http://www.wahdabank.com.ly/
2015
https://web.archive.org/web/20151117080307/http://www.wahdabank.com.ly/
2016
https://web.archive.org/web/20161120030616/http://www.wahdabank.com.ly/
2017
https://web.archive.org/web/20170625080640/http://www.wahdabank.com.ly:80/ar/

B.3 Sahara Bank



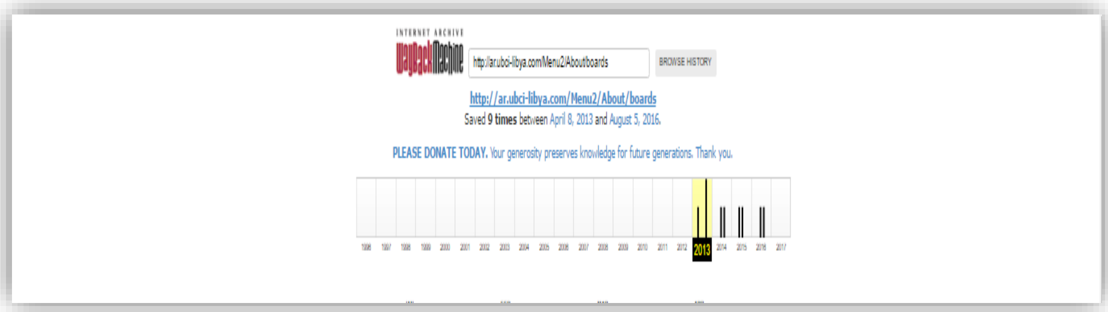
2016
https://web.archive.org/web/20160504170456/https://saharabank.ly/
2017
https://web.archive.org/web/20171225081740/https://saharabank.ly/

B.4 National Commercial Bank



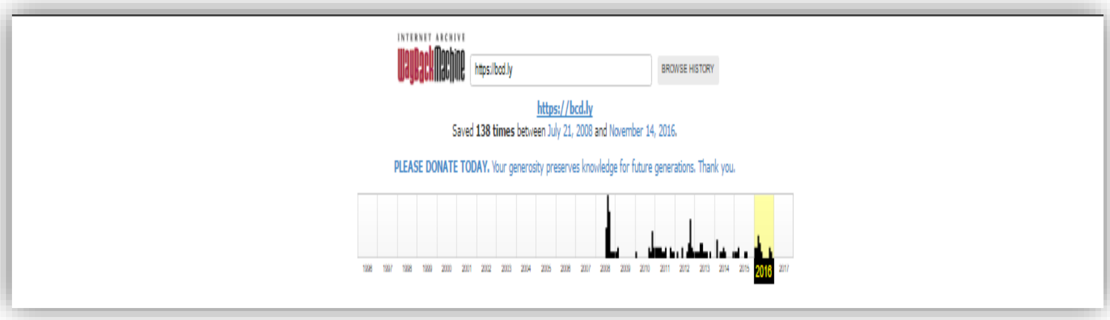
2014
https://web.archive.org/web/20141220154002/https://ncb.ly/Default.aspx
2015
https://web.archive.org/web/20151218165145/https://ncb.ly/Default.aspx
2016
https://web.archive.org/web/20161124081012/https://ncb.ly/Default.aspx
2017
https://web.archive.org/web/20170728050353/https://ncb.ly/Default.aspx

B.5 United Bank



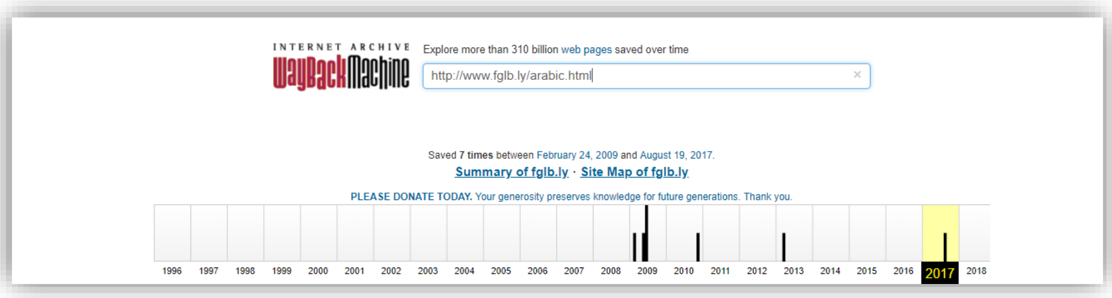
2013
https://web.archive.org/web/20131208170232/http://www.ubci-libya.com/
2014
https://web.archive.org/web/20141223222424/http://www.ubci-libya.com/
2015
https://web.archive.org/web/20150509114052/http://www.ubci-libya.com/
2016
https://web.archive.org/web/20161104094835/http://www.ubci-libya.com/
2017
https://web.archive.org/web/20170628154020/http://www.ubci-libya.com/

B.6 Commerce & Development Bank



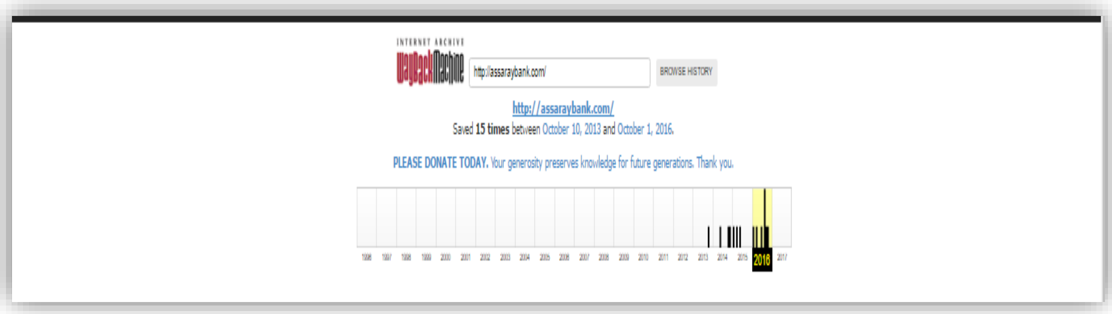
2010
https://web.archive.org/web/20100110211821/http://www.bcd.ly/arab/default.asp
2011
https://web.archive.org/web/20111220150910/http://www.bcd.ly:80/arabic/Default.aspx
2012
https://web.archive.org/web/20121115154618/http://www.bcd.ly:80/arabic/default.aspx
2013
https://web.archive.org/web/20130520081705/http://www.bcd.ly:80/arabic/default.aspx
2014
https://web.archive.org/web/20140218141057/http://www.bcd.ly:80/arabic/default.aspx
2015
https://web.archive.org/web/20150320014418/http://www.bcd.ly:80/arabic/default.aspx
2016
https://web.archive.org/web/20160205045422/https://bcd.ly/

B.7 First Gulf Libyan Bank



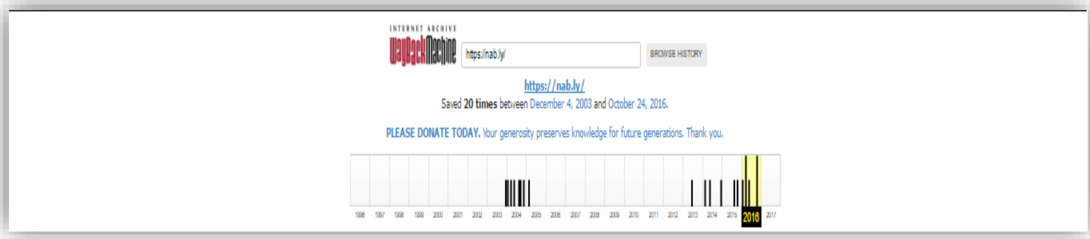
2009
https://web.archive.org/web/20090507111732/http://www.fglb.ly/
2010
https://web.archive.org/web/20101026074420/http://www.fglb.ly/
2013
https://web.archive.org/web/20130316020209/http://www.fglb.ly/
2017
https://web.archive.org/web/20170821074931/http://www.fglb.ly/index.html

B.8 Al-Saraya Bank



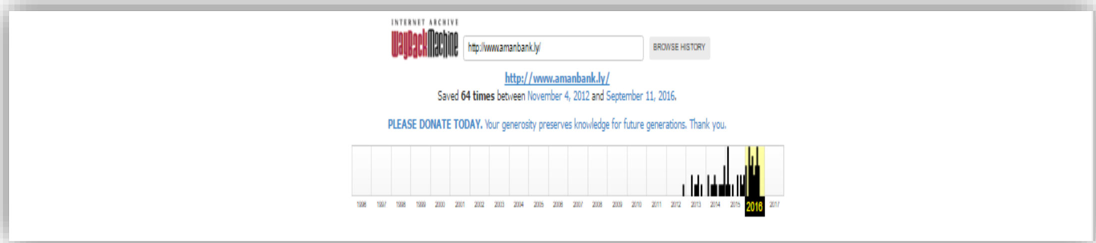
2015
https://web.archive.org/web/20150504010021/http://www.assaraybank.com/ar/
2016
https://web.archive.org/web/20161001153619/http://assaraybank.com/
2017
https://web.archive.org/web/20170521124337/http://assaraybank.com/

B.9 North Africa Bank



2013
https://web.archive.org/web/20130619221754/https://nab.ly/
2014
https://web.archive.org/web/20140517175652/https://nab.ly/
2015
https://web.archive.org/web/20151011113959/https://nab.ly/
2016
https://web.archive.org/web/20161024140628/https://nab.ly/
2017
https://web.archive.org/web/20170212222235/https://nab.ly/

B.10 Al-Amman Bank



2013
https://web.archive.org/web/20130805230211/http://www.amanbank.ly/
2014
https://web.archive.org/web/20141223044805/https://www.amanbank.ly/
2015
https://web.archive.org/web/20151231134118/https://www.amanbank.ly/
2016
https://web.archive.org/web/20161119030948/https://www.amanbank.ly/
2017
https://web.archive.org/web/20170914100252/https://www.amanbank.ly/

B.11 ALNuran Bank

2016
https://web.archive.org/web/20161115180750/http://www.nub.ly/
2017
https://web.archive.org/web/20170912221934/http://www.nub.ly/

Appendix C: Number of Enterprises Practising Disclosure, by Markets

Appendix C 1 Structure and Exercise of Control Rights

disclosure item	1	2	3	4	5	6	7	8	9
south Africa	10	3	7	6	4	9	6	9	0
	100%	30%	70%	60%	40%	90%	60%	90%	0%
Philippines	10	7	7	10	9	10	10	2	2
	100%	70%	70%	100%	90%	100%	100%	20%	20%
Hungary	4	4	3	4	4	4	4	4	3
	100%	100%	75%	100%	100%	100%	100%	100%	75%
Malaysia	10	9	7	10	10	10	5	3	2
	100%	90%	70%	100%	100%	100%	50%	30%	20%
Brazil	9	6	7	9	10	8	7	9	1
	90%	60%	70%	90%	100%	80%	70%	90%	10%
Thailand	10	10	3	10	10	10	10	4	3
	100%	100%	30%	100%	100%	100%	100%	40%	30%
India	10	6	8	8	5	9	6	4	0
	100%	60%	80%	80%	50%	90%	60%	40%	0%
Russian Federation28	8	10	6	8	8	8	10	9	1
	80%	100%	60%	80%	80%	80%	100%	90%	10%
Poland	10	10	8	10	9	10	9	4	1
	100%	100%	80%	100%	90%	100%	90%	40%	10%
Palestine	8	6	5	8	8	7	6	5	1
	80%	60%	50%	80%	80%	70%	60%	50%	10%
Indonesia	9	6	9	6	5	7	4	8	1
	90%	60%	90%	60%	50%	70%	40%	80%	10%
China	8	8	7	9	9	9	8	8	1
	80%	80%	70%	90%	90%	90%	80%	80%	10%
Egypt	6	5	1	5	3	5	3	1	1
	60%	50%	10%	50%	30%	50%	30%	10%	10%
Republic of Korea	7	8	7	7	8	9	4	4	1
	70%	80%	70%	70%	80%	90%	40%	40%	10%
Peru	4	4	2	4	4	4	4	2	1
	100%	100%	50%	100%	100%	100%	100%	50%	25%
Argentina	4	4	3	4	4	4	4	2	3
	100%	100%	75%	100%	100%	100%	100%	50%	75%
Mexico	8	6	5	7	7	8	7	8	2
	80%	60%	50%	70%	70%	80%	70%	80%	20%
Morocco	6	4	2	6	4	5	4	1	1
	100%	67%	33%	100%	67%	83%	67%	17%	17%
Czech Republic	5	5	3	5	5	5	5	3	4
	100%	100%	60%	100%	100%	100%	100%	60%	80%
Turkey	10	10	8	10	10	9	10	2	1
	100%	100%	80%	100%	100%	90%	100%	20%	10%
Chile	10	5	9	10	7	8	8	6	3
	100%	50%	90%	100%	70%	80%	80%	60%	30%
Colombia mbia	5	5	3	5	3	4	5	2	1
	100%	100%	60%	100%	60%	80%	100%	40%	20%
Libya	10	1	8	0	0	0	0	0	0
	100%	10%	80%	0%	0%	0%	0%	0%	0%

Appendix C 2 Financial Transparency

disclosure item	1	2	3	4	5	6	7	8
south Africa	10	8	10	10	9	3	5	9
	100%	80%	100%	100%	90%	30%	50%	90%
Philippines	10	10	10	10	10	7	1	10
	100%	100%	100%	100%	100%	70%	10%	100%
Hungary	4	4	3	4	4	1	2	2
	100%	100%	75%	100%	100%	25%	50%	50%
Malaysia	10	10	10	10	10	6	4	10
	100%	100%	100%	100%	100%	60%	40%	100%
Brazil	10	8	9	10	5	7	4	10
	100%	80%	90%	100%	50%	70%	40%	100%
Thailand	10	10	10	10	10	9	6	10
	100%	100%	100%	100%	100%	90%	60%	100%
India	10	9	10	10	5	3	6	9
	100%	90%	100%	100%	50%	30%	60%	90%
Russian Federation28	10	9	9	10	8	7	9	8
	100%	90%	90%	100%	80%	70%	90%	80%
Poland	10	10	10	9	9	6	9	6
	100%	100%	100%	90%	90%	60%	90%	60%
Palestine	10	10	9	10	10	9	7	7
	100%	100%	90%	100%	100%	90%	70%	70%
Indonesia	10	10	9	10	8	4	5	10
	100%	100%	90%	100%	80%	40%	50%	100%
China	10	9	9	10	7	4	5	9
	100%	90%	90%	100%	70%	40%	50%	90%
Egypt	10	7	8	10	4	1	4	3
	100%	70%	80%	100%	40%	10%	40%	30%
Republic of Korea	10	7	9	10	5	1	6	4
	100%	70%	90%	100%	50%	10%	60%	40%
Peru	4	4	4	4	3	4	1	3
	100%	100%	100%	100%	75%	100%	25%	75%
Argentina	4	4	3	4	3	2	2	4
	100%	100%	75%	100%	75%	50%	50%	100%
Mexico	10	8	10	10	9	9	8	9
	100%	80%	100%	100%	90%	90%	80%	90%
Morocco	6	4	4	5	4	0	2	1
	100%	67%	67%	83%	67%	0%	33%	17%
Czech Republic	5	5	5	5	5	2	5	4
	100%	100%	100%	100%	100%	40%	100%	80%
Turkey	10	10	10	10	7	1	10	6
	100%	100%	100%	100%	70%	10%	100%	60%
Chile	10	10	10	10	8	9	5	9
	100%	100%	100%	100%	80%	90%	50%	90%
Colombia mbia	5	5	5	5	3	2	5	5
	100%	100%	100%	100%	60%	40%	100%	100%
Libya	10	10	0	10	0	0	0	1
	100%	100%	0%	100%	0%	0%	0%	10%

Appendix C 3 Auditing

disclosure item	1	2	3	4	5	6	7	8	9
south Africa	10	9	7	6	10	7	1	2	4
	100%	90%	70%	60%	100%	70%	10%	20%	40%
Philippines	9	9	10	8	4	10	10	7	8
	90%	90%	100%	80%	40%	100%	100%	70%	80%
Hungary	4	4	4	3	1	4	4	1	4
	100%	100%	100%	75%	25%	100%	100%	25%	100%
Malaysia	10	10	9	4	8	10	9	0	9
	100%	100%	90%	40%	80%	100%	90%	0%	90%
Brazil	9	7	8	4	8	10	3	2	3
	90%	70%	80%	40%	80%	100%	30%	20%	30%
Thailand	10	10	10	10	7	10	10	3	7
	100%	100%	100%	100%	70%	100%	100%	30%	70%
India	10	9	10	6	2	9	9	0	9
	100%	90%	100%	60%	20%	90%	90%	0%	90%
Russian Federation28	8	8	9	6	6	8	3	0	4
	80%	80%	90%	60%	60%	80%	30%	0%	40%
Poland	6	5	10	6	8	7	7	2	6
	60%	50%	100%	60%	80%	70%	70%	20%	60%
Palestine	7	3	6	7	5	6	1	1	5
	70%	30%	60%	70%	50%	60%	10%	10%	50%
Indonesia	8	9	7	2	7	10	8	1	4
	80%	90%	70%	20%	70%	100%	80%	10%	40%
China	7	7	8	2	3	10	5	0	7
	70%	70%	80%	20%	30%	100%	50%	0%	70%
Egypt	7	6	5	6	1	6	4	2	0
	70%	60%	50%	60%	10%	60%	40%	20%	0%
Republic of Korea	1	3	6	2	3	7	4	1	4
	10%	30%	60%	20%	30%	70%	40%	10%	40%
Peru	4	4	4	4	0	4	4	3	4
	100%	100%	100%	100%	0%	100%	100%	75%	100%
Argentina	3	3	3	4	1	4	3	1	3
	75%	75%	75%	100%	25%	100%	75%	25%	75%
Mexico	6	8	6	1	5	9	2	3	6
	60%	80%	60%	10%	50%	90%	20%	30%	60%
Morocco	4	3	4	2	0	4	4	0	2
	67%	50%	67%	33%	0%	67%	67%	0%	33%
Czech Republic	5	5	5	5	0	5	3	2	5
	100%	100%	100%	100%	0%	100%	60%	40%	100%
Turkey	10	8	9	8	4	10	7	0	2
	100%	80%	90%	80%	40%	100%	70%	0%	20%
Chile	6	6	9	5	0	7	4	2	5
	60%	60%	90%	50%	0%	70%	40%	20%	50%
Colombia mbia	5	3	4	5	0	5	4	3	2
	100%	60%	80%	100%	0%	100%	80%	60%	40%
Libya	0	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0%	0%

Appendix C 4 Corporate Responsibility

disclosure item	1	2	3	4	5	6	7
south Africa	9	6	2	10	6	9	3
	90%	60%	20%	100%	60%	90%	30%
Philippines	10	5	6	6	2	8	0
	100%	50%	60%	60%	20%	80%	0%
Hungary	4	4	2	3	2	3	4
	100%	100%	50%	75%	50%	75%	100%
Malaysia	9	8	4	7	2	9	6
	90%	80%	40%	70%	20%	90%	60%
Brazil	10	7	4	9	6	10	8
	100%	70%	40%	90%	60%	100%	80%
Thailand	10	7	10	10	6	10	0
	100%	70%	100%	100%	60%	100%	0%
India	7	7	10	7	8	9	7
	70%	70%	100%	70%	80%	90%	70%
Russian Federation28	10	5	2	5	1	7	3
	100%	50%	20%	50%	10%	70%	30%
Poland	9	7	2	4	2	4	3
	90%	70%	20%	40%	20%	40%	30%
Palestine	7	4	4	6	4	4	4
	70%	40%	40%	60%	40%	40%	40%
Indonesia	8	8	7	8	5	10	10
	80%	80%	70%	80%	50%	100%	100%
China	8	5	2	4	2	5	4
	80%	50%	20%	40%	20%	50%	40%
Egypt	9	3	2	3	3	6	1
	90%	30%	20%	30%	30%	60%	10%
Republic of Korea	9	8	6	9	4	10	8
	90%	80%	60%	90%	40%	100%	80%
Peru	4	3	4	4	4	4	0
	100%	75%	100%	100%	100%	100%	0%
Argentina	4	2	4	3	3	4	0
	100%	50%	100%	75%	75%	100%	0%
Mexico	9	5	8	9	7	8	8
	90%	50%	80%	90%	70%	80%	80%
Morocco	5	2	1	1	0	2	0
	83%	33%	17%	17%	0%	33%	0%
Czech Republic	5	4	2	4	2	4	4
	100%	80%	40%	80%	40%	80%	80%
Turkey	10	6	3	7	2	9	0
	100%	60%	30%	70%	20%	90%	0%
Chile	10	5	5	6	4	8	0
	100%	50%	50%	60%	40%	80%	0%
Colombia mbia	5	4	3	5	2	5	0
	100%	80%	60%	100%	40%	100%	0%
Libya	10	0	0	0	0	1	0
	100%	0%	0%	0%	0%	10%	0%

Appendix C 5 board and management structure and process

disclosure item	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
south Africa	10	9	10	10	9	10	8	9	10	9	7	0	10	10	10	4	7	7	10
	100%	90%	100%	100%	90%	100%	80%	90%	100%	90%	70%	0%	100%	100%	100%	40%	70%	70%	100%
Philippines	9	9	10	9	9	10	10	10	6	6	9	3	10	10	10	6	8	5	7
	90%	90%	100%	90%	90%	100%	100%	100%	60%	60%	90%	30%	100%	100%	100%	60%	80%	50%	70%
Hungary	4	4	4	4	4	4	4	4	4	2	4	0	4	4	4	4	2	3	4
	100%	100%	100%	100%	100%	100%	100%	100%	100%	50%	100%	0%	100%	100%	100%	100%	50%	75%	100%
Malaysia	10	10	10	9	10	10	10	10	10	9	10	0	10	10	10	8	10	10	9
	100%	100%	100%	90%	100%	100%	100%	100%	100%	90%	100%	0%	100%	100%	100%	80%	100%	100%	90%
Brazil	10	10	10	10	9	10	8	9	3	4	10	0	3	7	9	4	3	6	3
	100%	100%	100%	100%	90%	100%	80%	90%	30%	40%	100%	0%	30%	70%	90%	40%	30%	60%	30%
Thailand	10	10	10	10	10	10	10	10	10	10	10	0	10	10	10	10	9	10	10
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	0%	100%	100%	100%	100%	90%	100%	100%
India	10	8	10	10	9	9	10	10	10	6	10	0	10	10	10	9	6	5	9
	100%	80%	100%	100%	90%	90%	100%	100%	100%	60%	100%	0%	100%	100%	100%	90%	60%	50%	90%
Russian	9	6	10	8	10	8	7	6	5	1	9	1	7	6	6	5	4	2	2
	90%	60%	100%	80%	100%	80%	70%	60%	50%	10%	90%	10%	70%	60%	60%	50%	40%	20%	20%
Poland	9	10	10	9	10	10	10	9	7	2	10	0	10	7	9	8	2	3	6
	90%	100%	100%	90%	100%	100%	100%	90%	70%	20%	100%	0%	100%	70%	90%	80%	20%	30%	60%
Palestine	9	6	9	7	7	10	9	9	3	1	6	1	7	6	9	4	2	4	3
	90%	60%	90%	70%	70%	100%	90%	90%	30%	10%	60%	10%	70%	60%	90%	40%	20%	40%	30%
Indonesia	10	10	10	10	10	10	10	7	7	6	10	0	10	4	6	6	6	5	7
	100%	100%	100%	100%	100%	100%	100%	70%	70%	60%	100%	0%	100%	40%	60%	60%	60%	50%	70%
China	9	9	10	9	10	10	10	10	8	7	10	1	10	10	10	4	2	5	9
	90%	90%	100%	90%	100%	100%	100%	100%	80%	70%	100%	10%	100%	100%	100%	40%	20%	50%	90%
Egypt	6	6	9	6	5	8	8	8	0	4	3	0	4	5	8	2	1	3	3
	60%	60%	90%	60%	50%	80%	80%	80%	0%	40%	30%	0%	40%	50%	80%	20%	10%	30%	30%
Korea	10	4	10	10	10	5	6	6	6	6	8	0	6	10	7	4	1	7	6
	100%	40%	100%	100%	100%	50%	60%	60%	60%	60%	80%	0%	60%	100%	70%	40%	10%	70%	60%
Peru	4	4	4	4	4	4	4	4	4	4	4	1	4	4	4	4	1	4	3
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	25%	100%	100%	100%	100%	25%	100%	75%

Argentina	4	4	4	4	4	4	3	3	4	4	4	1	4	4	3	3	2	4	3
	100%	100%	100%	100%	100%	100%	75%	75%	100%	100%	100%	25%	100%	100%	75%	75%	50%	100%	75%
Mexico	9	6	10	9	9	6	8	8	7	2	7	0	3	9	8	6	2	8	8
	90%	60%	100%	90%	90%	60%	80%	80%	70%	20%	70%	0%	30%	90%	80%	60%	20%	80%	80%
Morocco	4	4	6	4	3	4	2	1	3	2	2	0	4	1	1	2	0	0	0
	67%	67%	100%	67%	50%	67%	33%	17%	50%	33%	33%	0%	67%	17%	17%	33%	0%	0%	0%
Czech Republic	5	5	5	5	5	5	5	4	4	4	5	5	5	2	4	4	1	3	4
	100%	100%	100%	100%	100%	100%	100%	80%	80%	80%	100%	100%	100%	40%	80%	80%	20%	60%	80%
Turkey	10	10	10	10	10	10	8	8	5	9	10	0	7	6	8	6	3	5	2
	100%	100%	100%	100%	100%	100%	80%	80%	50%	90%	100%	0%	70%	60%	80%	60%	30%	50%	20%
Chile	9	10	10	9	10	10	5	5	8	5	8	0	10	8	5	8	1	5	7
	90%	100%	100%	90%	100%	100%	50%	50%	80%	50%	80%	0%	100%	80%	50%	80%	10%	50%	70%
Colombia mbia	5	5	5	5	5	5	5	5	5	5	5	0	5	5	5	5	2	5	5
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	0%	100%	100%	100%	100%	40%	100%	100%
Libya	8	0	1	0	0	5	3	0	0	0	0	0	1	0	0	0	0	0	0
	80%	0%	10%	0%	0%	50%	30%	0%	0%	0%	0%	0%	10%	0%	0%	0%	0%	0%	0%

Appendix D: Interview Guide (English and Arabic Versions)

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Interview Questions

Corporate Governance Disclosure and Practice in Libyan Commercial Banks

Institutional insights

by

ALI. M H ELFADLI

PhD Student
Henley Business School
Reading University
2015

Part A: General Information

1. Name………………………………………………………………………………………………….
2. Organisation…………………………………………………………………………………………….
3. Position………………………………………………………………………………………………….
4. Educational qualification ……………………………………………………………………........
5. Experience…………………………………………………………………………………………………….
6. Place of interview ………………………………………………………………………………………….
7.Notes…….
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No.	**Part B: The emergence and development of cooperate governance practice in Libya in general and LCBs in particular**
1	What do you know about corporate governance?
2	Why is corporate governance important?
3	Can you tell me about the practice of corporate governance in Libya in general and in the banking sector in particular?
4	When was corporate governance first applied in the Libyan business environment and in particular by Libyan banks?
5	Why, in your view, has the Libyan banking sector adopted corporate governance?
6	What changes have occurred in corporate governance practice in Libya in the last few years?
7	Why have these changes occurred?
8	Was there any resistance to change from the banks?
Part C: Corporate governance disclosure	
9	What is your relationship with the preparation of the annual reports and the website?
10	What standards do you use when you prepare the annual reports or disclose information on the website?
11	What do you know about the corporate governance codes issued by the CBL and LSM?
12	To what extent do you consider the disclosure requirements in these codes when you prepare the annual reports and disclose information on the website?
13	Is there any pressure from any side to disclose corporate governance information?
14	Why is information about ownership structure and exercise of control rights important? How would you assess LCBs' disclosure practice in regard to this information? Give reasons for your view.
15	Why is information about financial transparency important? How would you assess LCBs' disclosure practice in regard to this information? Give reasons for your view.
16	Why is information about auditing important? How would you assess LCBs' disclosure practice in regard to this information? Give reasons for your view.
17	Why is information about board and management structure and process important? How would you assess LCBs' disclosure practice in regard to this information? Give reasons for your view.
18	Why is information about corporate responsibility and compliance important? How would you assess LCBs' disclosure practice in regard to this information? Give reasons for your view.
19	Why is there a lack of corporate governance disclosure in LCBs compared to companies in developed and other developing countries?
Part D: Institutional factors	
20	Do you think all banks should disclose and practise corporate governance in a similar way? Why?
21	What sort of relationship do banks have with the CBL, LSM and LAAA?
22	What is the impact of these organisations on corporate governance disclosure and practice in Libya?
23	What role does Libyan society play in developing corporate governance disclosure and practice?
24	To what extent are corporate governance codes consistent with Libyan laws?
25	Are there any political factors that have an impact on corporate governance disclosure and practice? If so, how?
26	Do you think religion has an impact on corporate governance disclosure and practice? If so, how?
Part E: Other information	
27	Is there anything you would like to add that you feel is important for this research but we have not talked about?

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أفصاح وتطبيقات حوكمة الشركات في المصارف التجاريه الليبيه (مؤشرات مؤسساتيه)

جزء من الدراسه الميدانيه لاستطلاع اراء الفاعلين في حوكمة الشركات واصاحب المصالح في المصارف التجاريه الليبيه

أعداد

علي الفاضلي

طالب دكتوراه

جامعة ريدنق

2015

الجزء الأول : معلومات عامه

1 الإسم ....

2 المؤسسه ....

3 الوظيفه ....

4 المستوي التعليمي ....

5 الخبره العمليه ....

6 مكان المقابله ....

7 ملاحظات

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الجزء الثاني : نشأةو تطور حوكمة الشركات في ليبيا بشكل عام وفي القطاع المصرفي بشكل خاص
1 ماذا تعرف عن حوكمة الشركات؟
2 لماذا حوكمة الشركات تعتبر مهمه؟
3 هل لك ان تحدثني عن حوكمة الشركات في ليبيا بشكل عام وفي قطاع المصارف بشكل خاص؟
4 متي بدأتطبيق الحوكمه في ليبيا بشكل عام وفي المصارف بشكل خاص ؟
5 لماذا في رأيك المصارف الليبيه اعتمدت تطبيق الحوكمه ؟
6 ما هي اخر التغيرات التي حدثت علي ممارسات الحوكمه في المصارف التجاريه الليبيه ؟
7 ما اسباب هذه التغيرات ؟
8 هل كانت هناك اية مقاومه لهذه التغيرات ؟
الجزء الثالث: أفصاح حوكمة الشركات
9ماهي علاقتك باعداد التقارير السنويه و نشر المعلومات بالانترنت ؟
10 ما هي المعايير التي تستندوا عليها عند اعداد التقارير السنويه او عند نشر المعلوات علي موقعكم علي الانترنت؟
11 ماذا تعرف عن دليل الحوكمه الصادر عن مصرف ليبيا المركزي او دليل الحوكمه الصادر عن سوق الاورق الماليه؟
12 الي اي مدي تهتمون بمتطلبات الافصاح التي نص عليها دليل الحوكمه عند اعدادكم للتقارير السنويه ونشر المعلومات علي موقعكم في النترنت ؟
13 هل هناك اية ضغوط من اي جهه تطالبكم بالافصاح عن معلومات الحوكمه؟
14 لماذا في رايك تعتبر المعلومات عن حقوق الملكيه والسطره مهمه؟ كيف تقيم ممارسة المصارف التجاريه لافصاحاتهم عن هذه المعلومات ؟ الرجاء اعطاء اسباب لرايك ؟
15 لماذا في رايك تعتبر المعلومات الماليه والشفافيه مهمه ؟ كيف تقيم ممارسة المصارف التجاريه لافصاحاتهم عن هذه المعلومات ؟ الرجاء اعطاء اسباب لرايك ؟
16 لماذا في رايك تعتبر المعلومات عن المراجعه مهمه ؟ كيف تقيم ممارسة المصارف التجاريه لافصاحاتهم عن هذه المعلومات ؟ الرجاء اعطاء اسباب لرايك ؟
17 لماذا في رايك تعتبر المعلومات عن تركيبة مجلس الاداره والمديرين ه مهمه ؟ كيف تقيم ممارسة المصارف التجاريه لافصاحاتهم عن هذه المعلومات ؟ الرجاء اعطاء اسباب لرايك ؟
18 لماذا في رايك تعتبر المعلومات عن مسولية والتزام الشركات مهمه ؟ كيف تقيم ممارسة المصارف التجاريه لافصاحاتهم عن هذه المعلومات ؟ الرجاء اعطاء اسباب لرايك ؟
19 لماذا في رايك هناك ضعف في افصاح الحوكمه في المصارف مقارنة بالشركات في الدول الناميه ؟
الجزء الرابع : العوامل المؤسساتيه
20 هل تعتقد ان علي المصارف ان تطبق وتفصح عن الحوكمه بشكل مشابهه ؟ ولماذا؟
21 ما هي نوع العلاقه بين المصارف التجاريه مع مصرف ليبيا المركزي وسوق الاوراق الماليه و ديوان المحاسبه ونقابة المحاسبين؟
22 ماهو تاثير هذه المنضمامات علي افصاح وممارسة حوكمة الشركات
23 ما هو تاثيرطبيعة المجتمع الليبي علي تطور افصاح وممارسة حوكمة الشركات في المصارف الليبيه ؟
24 الي اي مدي هناك توافق بين دليل حوكمة الشركات والقوانين السائده في ليبيا ؟
25 هل هناك اية عوامل سياسيه تري ان لها تاثير علي افصاح وممارسة الحوكمه في ليبيا بشكل عام وفي قطاع المصارف بشكل خاص ؟
26 هل تعتقد ان الدين له تاثير علي أفصاح وممارسة حوكمة الشركات في ليبيا بشكل عام وقطاع المصارف بشكل خاص ؟ اذا كانت الاجابه نعم كيف؟
الجزء الخامس: معلومات أخري
27هل هناك اية معلومات تود أضافتها تري انها مفيده لهذا البحث لم نتطرق لها ؟