University Of Gloucestershire

The Barriers to Effective Marketization of Corporate Equity in Libya

By

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PhD

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DECLARATION

In accordance with University of Gloucestershire, I do hereby declare that this work has not previously been accepted in substance for any degree and is not being concurrently submitted for any other degree. I further declare that this thesis is the result of my own independent work and investigation, except where otherwise stated (a bibliography is appended). Finally, I hereby give consent for my thesis, if accepted, to be available for photocopying and for inter-library loan, and for the title and abstract to be made available to outside organisations.

Zainab Abdussalam Ahmed

Gloucestershire University

DEDICATION

I dedicate this work first to Allah then to my dear mother and father who provided me with unbounded support and encouragement.

I also dedicate this work to my wonderful brothers; Nader, Wessam, Mahmud, and Yosef for their love and support.

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ABSTRACT

Libya is an emerging market in the Middle East and North Africa (MENA) region. Early efforts to encourage financial market development in the 1990s were re-energised after the lifting of UN sanctions in 2003 following dramatic changes in the Libyan financial market. One of these critical decisions was the establishment of the Libyan stock market in 2006. This thesis attempts to explore the challenges that may face the Libyan stock market by examining the barriers which affect the development of the Libyan stock market. In this endeavour the researcher develops a best practice model to help the Libyan stock market achieve its ambitions. The aim of this thesis is to fill the gap in academic research on MENA financial market by investigating the role of ten selected factors on the development of the Libyan stock market. In this thesis, trust is introduced as a major moderator of the ten selected factors under study. Although, there are many examples in the literature of how to understand and interpret trust and, in particular, behavioural economics, transaction cost economy and more general social process theory leads to different understandings of the concept of trust. In this thesis it is argued that the concept of transaction cost economy allied with social process theory provide useful insights. In order to explore and understand the situation of the Libyan stock market as a human construct; and the factors which may affect Libya and its stock market development, the interpretive accounting research (IAR) appears to be the most suitable paradigm for this research. Thus this study uses qualitative methods and mainly semi-structured interviews.

Data collection from key stakeholders in the Libyan stock market (officers and brokers) involved qualitative methods (face-to-face semi-structured interviews) were carried out to help to identify four research questions.

RQ 1: What are the factors which may affect the Libyan stock market development?

RQ 2: What is the relationship between trust and the main factors as it effects the Libyan stock market development?

RQ 3: What are the barriers to use of unwritten contracts in the Libyan stock market?

RQ 4: How can the Libyan State and market work together to improve the social economy and regulation of transaction cost on the capital resource of the Libyan stock market?

In answering the research questions, the findings of this thesis make the following contributions.

First, this research found that technology development in addition to all ten selected factors (culture, religion, bureaucratic quality, banking sector, foreign investment, political risk, privatization, stock market liquidity, per capita income and Law & regulations) is considered a barrier to the development of the Libyan stock market. **Second**, this research found that the Libyan national culture can be described as "uncertainty acceptance" in the financial market area, which is completely different to Hofstede (2001), Twati (2006) and Abubaker (2008), who claim that Libyan culture is described as "uncertainty avoidance". **Third**, this research found that financial markets in Islamic countries should be aware of culture and religion as critical factors that enhance trust and development. **Fourth**, due to the importance of trust in the financial market, specifically in the stock market, this research found that in Islamic countries trust may be determined by four determents: the availability of Islamic investment products, fast the processing speed, low transaction cost and secure property rights. **Fifth**, this study found that there is a positive relationship between all eleven factors and the enhancement of trust. **Sixth**, despite the lack of studies about the relationship between bureaucratic quality and financial markets, this research found that there is a direct relationship between the Libyan financial market and bureaucratic quality. **Seventh**, in the case of Libya, the State has a crucial role in creating a suitable environment for the new transition to the economy which should reflect on a clear strategic plan and working together.**Eighth**, in tribal cultures, personal relationships play a crucial role on trust in the financial market so the time aspect could be critical in order to build a trusting relationship. **Ninth**, this research provides a model for the development of the Libyan stock market. The object of this model is to categorize the eleven factors in order of importance on the development of the Libyan stock market. **Tenth,** this study identifies the need for further training for brokers and considers the need of teaching the operation of stock markets extensively in the education sector in Libya. **Eleven,** this is the first interpretive study on this topic that aims to emphasis the barriers to effect marketization in the very recent creation of the Libyan stock market where there is insufficient history, breadth and depth in the market to support a more quantitative study.

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CHAPTER ONE: INTRODUCTION

1.1 Background

Emerging stock markets have seen considerable development since the early 1990s and, according to an index published by Morgan Stanley, emerging stock markets rose by around 40 percent between 2002 and 2004. This growth has reflected the increased demand for such transactions and the lower cost of investing in international markets (Yartey, 2005, 2008). Therefore, as Kenny and Moss (1998, as cited in Yartey, 2005) state, the stock market is seen to be establishing the operation of the domestic financial system. Additionally, several studies such as those of Ajte and Jonanovic (1993) and Levine & Zervos (1996, 1998) suggest that the stock market is an essential component of any financial system because of its role in enhancing economies and growth.

However, the Middle East and North African (MENA) countries have not emerged as economic powers and most MENA countries have only begun to liberalize their stock markets since the 1990s, which may explain the lack of academic research on MENA capital markets (Ben Naceur, Ghazouani & Omran, 2007).

A number of different factors affect the development and success of stock markets in emerging markets. Previous research identifies factors such as, banking sector development, stock market liquidity, political risk, law and order, GDP per capita and bureaucratic quality as important determinants of stock market development in emerging markets (Yartey, 2008). Similarly, Garcia and Liu (1999) find that stock market liquidity is an important determinant of stock market success. Pagano (1993) suggests that regulatory factors may influence the efficient functioning of stock markets. Moreover, Treacartin and Jbantova (2003, p.5) state that "countries with the highest GDP per capita had stock exchanges before 1940." Foreign investment is seen as a good source for stock market development in emerging markets because it leads to liquidity, transparency, and so on (Yartey, 2008). Privatization, in addition, enhances stock market liquidity which also affects the development of the stock market (Bortolotti, Jong, Nicodano, & Schindele, 2007).

Recently, most MENA countries have adopted economic reform programmes where large-scale privatization and stock market liberalization have taken place (Ben Nacer, Ghazouani and Omran, 2008). Durham (2002) found that stock market development depends largely on the inclusion of higher income countries, and a low interest rate that minimized the cost of equity investing, and with the establishment of legal and regulatory stock market reforms. Legal and institutional environments have been found to matter for financial development (see, for example, Beck, Demirguc-Kunt, and Levine, 2003, 2001; and La Porta, Lopez-de-Silanes & Shleifer, 1997). Levine, Loayza & Beck (2000) also found that the development of financial intermediation affects growth positively, and that cross-country differences in legal and accounting systems largely account for different degrees of financial development. Such factors have led to further development of functioning stock markets in the region.

The influence of these structural determinants depends on the abilities of the Middle Eastern and North African (MENA) economies to absorb market economy principles and values, so they have to work to become active participants in the global financial community. This entails the transformation of economic and financial institutions, creating and moderating new laws, having less restriction for private ownership, and the introduction of up-to-date technology. In addition, the state will have to play a different role than hitherto in the governance of market systems (Ben Nacer, Ghazouani & Omran, 2008).

1.2 The Libyan Stock Market

Libya is one of the MENA countries, and it is still at the early stage of its financial liberalization and reform, following eleven years of political chaos and nearly three decades of central planning control. However, it is advancing as a result of the removal of UK and USA sanctions during the last few years, and there are signs of rapid development. Despite this advancement very few studies have been published in the case of the Libyan financial market (Masoud, 2009).

Libya is in a state of embracing economic liberalization, but key levers of power remain in the hand of vested interests in the bureaucracy and security services. The predominance of these factors is now subject to challenge. The entry of foreign banks as major players in the market could have a transformative effect (The Economist, 2007).

The Libyan government has indicated that it is prepared to grant a foreign bank the right to own a 51% stake in the country's largest, majority state owned, commercial bank, in a sign that the hitherto sluggish process of economic reform may be gaining fresh momentum. An invitation was issued to prospective strategic partners to submit expressions of interest in the privatization of Sahara Bank. Success for the privatization of Sahara Bank would provide an encouraging signal that some of this potential is at long last being realized (The Economist, 2007). Libya has the highest rate of debt financing in developing countries. Moreover, the vast majority of the debts are short-term, and the reason for this is the lack of a stock market in Libya (Oxford Business Group, 2008).

The Libyan stock market was established in June 2006, and the capital market is LYD 50,000,000. During the period 2006-2007 it was controlled by the Secretariat of the Economy. However, in July 2008 Libyan stock market control moved to the Social Economic

Development Fund which includes about 47 companies from various sectors of the Libyan Economy. In addition, the Libyan stock market has joined the Union of Arab Money Markets. Furthermore, the Libyan Stock market has established relations with international institutions such as the Securities and Exchange Commission (SEC) in the United States of America, London Stock Exchange, and all Arabic stock markets and financial institutions (Oxford Business Group, 2008).

So far, there has been a lack of research in the Libyan stock market. This novel research context concerns a newly formed stock market and examines ten factors which may affect the development of the Libyan stock market. the ten factors are: culture; religion; bureaucratic quality; banking sector development; foreign investment; political risk; privatization; stock market liquidity; per capita income level and law & regulations. The role of trust in the efficient operation of an emerging market and the importance of all the variables under the study in enhancing trust between market agents are also studied.

1.3 General Theory Relating to the Development of Financial Institutions

It is recognised that there are many ways in the literature of understanding and interpreting trust, in particular, behavioural economics, transaction cost economics and more general social process theory which lead to different understandings of the trust concept. In this thesis it is argued that transaction cost economy allied with social process theory provide useful insights.

TCT focuses in part on trust and is linked to rationality. As will become clear, trust is thought to be significant in the cultural context of Libya. Jones (as cited in Hoque, 2006) states that drawing on Coase, (1937) and Williamson (1979) transaction cost theory makes predictions on firm size based on the relative magnitudes of transaction costs arising in the switch from bureaucracy to market-based provision. Thus if the decision-makers choose to use the market, then they must determine the appropriate type of contract to use. This leads the decision-makers to weigh up transaction costs and the production associated with executing a transaction within their firms (in sourcing) versus transaction costs and the processes associated with executing the transaction in the market (outsourcing) (Aubert & Weber, 2001).

Jones (as cited in Hoque, 2006) argues that one major critique of transaction cost theory at an early stage is presented by Flynn (1987). Flynn identifies the potentially key initial role of trust as a major moderating variable.

In this thesis, trust is introduced as a major moderator of the ten factors; it is argued that a strong relationship exists between bounded rationality and trust. Therefore trust and commitment could direct upstream outsourcing relations between firms and their component contractors. In addition, trust could reduce problems associated with decision–making.

1.4 Motivation of this Study

There are various motivation factors that influence a graduate student's choice of research topic. In this case the choice was to explore the barriers to effective marketization of corporate equity in Libya.

When working at the first private bank in Libya (Trade and Development Bank Tripoli-Libya) at the beginning of its establishment over a period of seven years, there was no existence of the Libyan stock market. Investors faced the problem of how to sell and/or buy shares; consequently, they had to be listed on the waiting list, which increased transaction costs. During these years at the bank, the importance of creating a Libyan stock market for private companies became clear.

As a transition economy, the Libyan financial market is underdeveloped, and the Libyan stock market was established recently in 2006. This stock market, as in many emerging economies, was established in an unsuitable environment, where there is a lack of experience, lack of legal protection, paucity of knowledge, limited investment tools, and poor bureaucratic quality and so on. Such factors may tend to inhibit further development of the Libyan stock market. Not much is known about the fundamental factors which encourage or discourage the development of the stock market in such an environment.

The aim of this thesis is to fill this gap in academic research on MENA financial markets, by investigating the role of the ten selected factors on the development of the Libyan stock market, and to find out whether these factors can lead to trust as an important mediating variable in the efficient operation of an emerging market or not. Also, this study focuses on the crucial role of the State in the development of the stock market.

The following table (1.1) shows the key authors who have written about the key factors in, chiefly, emerging markets and particularly MENA countries. The authors were selected on the basis of the number of times their work has been cited; the work is published in English, mostly in the past decade (except for work on bureaucratic quality and privatization) and has appeared in high quality journals or is from trusted sources such as IMF.

Table 1.1: The Key Authors

No	Factor	Source	Context
1-	Culture	Hofstede (2001)	50 Different countries

		Twati (2001); Abubaker (2008)	Libya
2-	Religion	Marta et al (2004)	MENA
		Nasrabadi (2006)	Iran
3-	Bureaucratic Quality	Ouchi (1980)	Market, bureaucratic, clan
		Nee & Opper (2009)	State bureaucracy
4-	Banking Sector development	Ben Naceur et al. (2007)	MENA
		Yartey (2008)	Emerging markets
		Oxford Business Group (2009)	Libya
5-	Foreign Investment	Wang (2006), Yartey (2008)	Emerging markets
		Ben Naceur et al. (2008)	MENA
		Oxford Business Group (2009), The Annual reports of the Libyan Stock market (2007, 2008, & 2009)	Libya
6-	Political Risk	Yartey (2008)	Emerging markets
		Ben Naceur Et al. (2008)	MENA
		Oxford Business Group (2009)	Libya
7-	Privatization	Pagano (1993), Levine (1999) & Enricoc et al. (1999)	Emerging markets
		Ben Naceur (2007)	MENA
		Oxford Business Group (2009)	Libya
8-	Stock Market Liquidity	Yartey (2008)	Emerging markets
		Ben Naceur Et al. (2008)	MENA
		Oxford Business Group (2009), The Annual reports of the Libyan Stock market (2007, 2008, & 2009	Libya
9-	Per Capita Income	Yatey (2008)	Emerging Markets
		Ben Naceur (2008)	MENA
10-	Law & Regulations	Otman & Karlberg (2007)	Libya
		Yatey (2008)	Emerging Markets
		Ben Naceur (2008)	MENA

1.5 The Research Problem

The Libyan Stock Exchange was established in June 2006. As with any recently established stock market, it might face obstacles with which it does not have the experience to deal. The purpose of this research is to investigate the processes of marketization as an emergent market phenomenon or with the newly created Libyan Stock Exchange, and to place that investigation within a deeper theoretical narrative.

1.6 The Research Questions

The purpose of this study is to investigate the barriers to effective marketization of corporate equity in Libya, which is in the early stages of development of capital markets and a financial services industry. This investigation asks the following main research questions:

1- What are the factors which may affect the Libyan stock market development?
2- What is the relationship between trust and the main factors as it effects the Libyan stock market development?
3- What are the barriers to use of unwritten contracts in the Libyan stock market?
4- How can the Libyan State and market work together to improve the social economy and regulation of transaction cost on the capital resource of the Libyan stock market?

Question one attempts to identify a range of factors which are likely to affect the development of the Libyan stock market. This thesis focuses on the ten factors derived from previous literature, which may affect the development of the Libyan stock market. Some of these ten factors have arisen in the literature review from the particular context of studies concerning emerging markets. Two others (of the eight) come from broader studies concerned with the operation of capitalism. The main ten factors are: culture; religion;

bureaucratic quality; banking sector development; foreign investment; political risk; privatization; stock market liquidity; per capita income level; and law and regulation.

Question two aims to investigate the relationship between the ten selected factors and trust. This question focuses on perceptions; therefore we will employ a method which focuses on the perceptions of the key individuals working in the stock market in order to attempt to answer the question of what those perceived relationships between trust and the selected factors are. We argue that trust is an important mediating variable in stock market transactions and that these ten factors can lead to the enhancement of trust and consequently gain transaction cost efficiency.

Question three seeks to determine the availability of using informal contracts in such an environment. This question will be answered by focusing on perceptions as in question two. Therefore we will use a method which focuses on perceptions of key issues that stand against using unwritten contracts in the Libyan stock market. This issue has not been systematically addressed in the literature but will be pursued in the empirical phase of this research.

Question four investigates the relationship between the Libyan State and the Libyan stock market. As an emerging market, the Libyan financial market suffers from an unhealthy environment such as, an underdeveloped banking sector, low bureaucratic quality, high political risk, weak laws and regulation enforcement, and so on. Therefore, the State should play a crucial role in order to develop the financial sector and to consequently develop the Libyan stock market by having a clear strategic plan with the Libyan stock market. Such development increases the level of trust because without trust both the allocative and information efficiency of the market will be significantly impaired thus increasing contracting and other agency costs. This question will identify the critical issues that the relationship between the Libyan State and the Libyan stock market may face, and we derive those from previous research.

1.7 Methodology

According to Thietart et al (2001), the construction of knowledge has two central processes: exploration and testing. The interpretive accounting research (IAR) paradigm appears to be the most suitable for this research because it is a paradigm that philosophically embraces the use of ethno-methodology; hermeneutic and dialectic in order to explore and understand the situation of the Libyan stock market as a human construct; and the factors which may affect Libya and stock market development.

Therefore, this research will be a hybrid exploration which is "a method that permits the research to enrich or expand upon existent knowledge of subject" (Thietart et al, 2001). So, an interpretive methodology is followed in order to describe, understand and interpret values, beliefs and meanings of social phenomena since the Libyan Stock Market has opened recently and data is not available for quantitative analysis due to the lack of knowledge and research in this area.

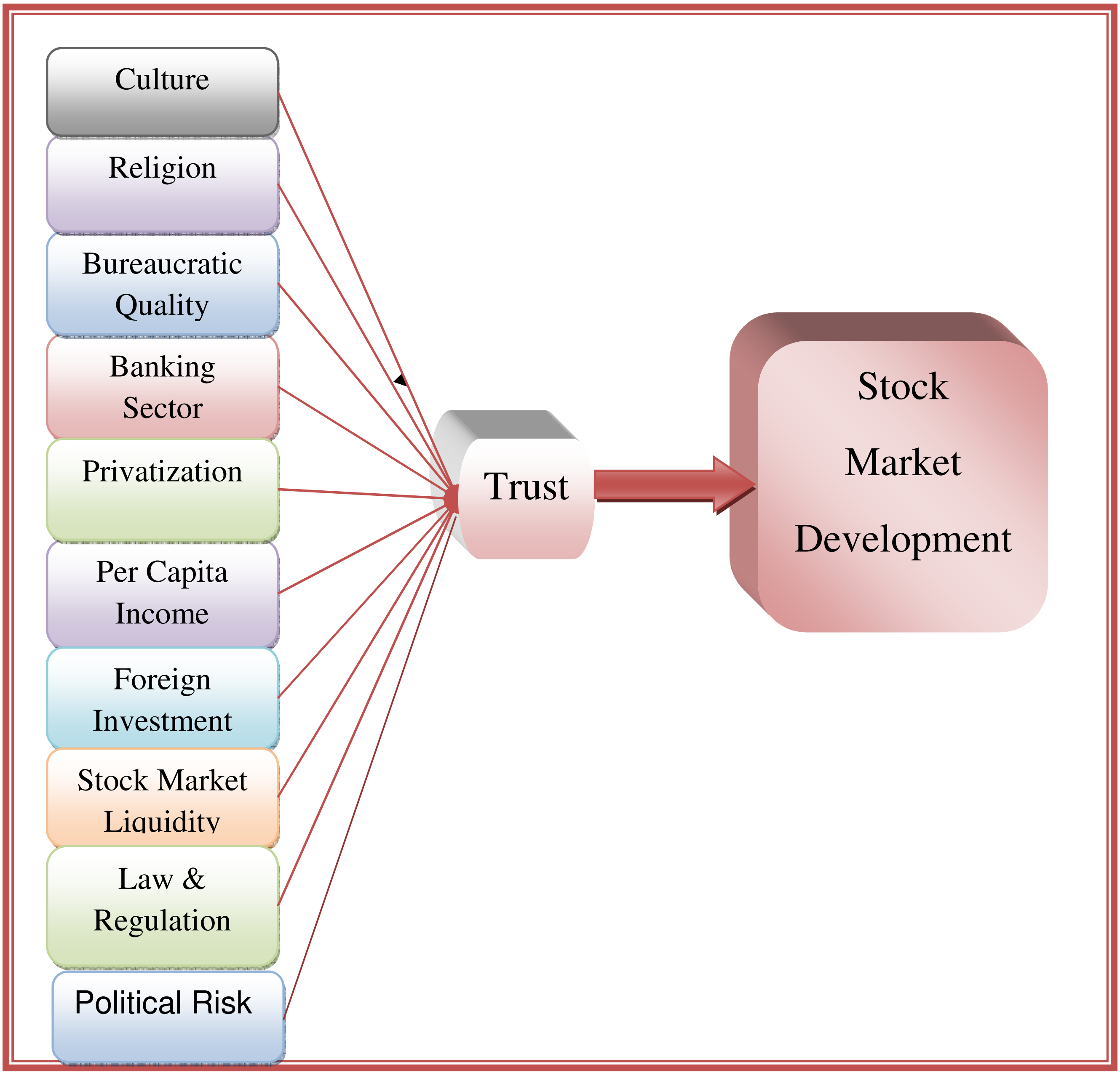
The interpretive paradigm underlies qualitative research. Thus this study uses qualitative method and mainly semi-structured interviews. Questionnaires are not used because many people do not answer them honestly and may mark answers without even reading them (Saunders, Lewis & Thornhill, 2009).

Moreover, using interviews, participants would pay greater attention as a result of face to face direct contact. Using semi-structured interviews provides opportunities for participants to present their views honestly; it is also a very good approach in projects where the researcher deals with mangers, bureaucrats, and elite members of a community where people use their time efficiently (Bernard, 2000). The researcher will interview resident experts, such as shareholders, to address the research questions in Libya.

This study is conducted within MRS guidelines. Interviewees have given their informed consent with their anonymity preserved and their right to withdraw emphasized. The conduct of the interview conforms to interviewees' requirements and wishes. The reporting of the data maintains the integrity of the study. The approach to this research is explained in more detail in Chapter 3.

The outcomes of this research are fundamental to understanding the key processes by which securitized markets have emerged in developing economies. Current research has not systematically investigated the social learning processes whereby emerging markets learn the process of marketization from sophisticated markets. The outcomes of this research could be useful in understanding how other developing markets emerge. Figure 1.1 illustrates the broad framework of the thesis.

Figure 1.01: The Framework



1.8 Structure of the Thesis

This thesis consists of six chapters and Figure 1.2 illustrates the structure. Chapter 1 explains the background introducing the Libyan stock market with general theory relating to the development of financial institutions, and the relationship between stock market and trust. It also provides the motivation for this thesis, discusses the research problem, research issues, and the methodology employed.

Chapter 2 presents behavioural economics and trust and financial market development, it also presents transaction cost theory and the relationship between trust and stock markets. In addition, this chapter synthesizes the literature discussing the ten selected factors that may affect the development of the Libyan stock market: culture; religion; bureaucratic quality; banking sector development; foreign investment; political risk; privatization; stock market liquidity; per capita income level; and law and regulations.

Chapter 3 highlights the methodology used in this thesis – qualitative. First, research paradigms are discussed to justify the interpretive research and the in-depth interview. Second, research design is discussed and justifies exploratory research design together with the semi-structured interview as qualitative method. Translation through triangulation is illustrated and justified as an appropriate process of translation validity. Then thematic analysis is discussed and justified as an appropriate process for encoding qualitative information. Finally, the research procedure is discussed: data making, pilot study, and ethical issues.

Chapter 4 consists of data analysis and discussion, which demonstrates the process of analysis and the barriers to the development of the Libyan stock market.

Chapter 5 presents a model for the development of the Libyan stock market in order to ensure and enhance its development.

Chapter 6 concludes the thesis. The conclusion deals with, the findings of the research questions, conclusions on model development, the contribution of this study, critical review and suggestions for further research.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to build a conceptual framework of this research to develop research issues and research propositions. Accordingly, this chapter is organized into 15 sections as shown in Figure 2.1. Following the introduction, section 2.2 considers behavioural economics, and trust and its role on financial market development. Section 2.3 illustrates the background theory of transaction cost theory. Section 2.4 explores the relationship between trust and stock market development. Section 2.5 demonstrates the role of culture of the development of the stock market. Section 2.6 discusses the relationship between religion and stock market development. Section 2.7 explores the role of bureaucratic quality and stock market development. Moreover, section 2.8 investigates the relationship between banking sector development and the development of the stock market. Section 2.9 demonstrates the impact of foreign investment on stock market development. Section 2.10 reviews the role of political risk on the development of the stock market. Section 2.11 illustrates the role of privatization on the development of the stock market.

In addition, 2.12 considers the relationship between stock market liquidity and stock market development. Section 2.13 analyses the important role of per capita income level on the development of the stock market. Section 2.14 explores the role of law, regulations and orders on the development of the stock market. Finally, section 2.15 gives an overview of the literature review chapter.

2.2 Behavioural Economics, Trust & Financial Market Development

The global financial crisis clearly shows that there is little doubt about the economic role of trust and confidence – social capital attributes which are difficult to incorporate in disembodied models of "rational" decision-making (McAuley, 2010). Furthermore, Bacharach; Guerra & Zizzo (2001, p.1) argue that:

> "Today few doubt the importance of trust and trustworthiness as explanatory factors in economic behaviour it is also held that they are fundamental to economic welfare: they allow saving on the costs of writing, policing and enforcing contracts, and are even preconditions for the existence of markets".

In addition, behavioural economists are increasingly recognizing that relationships may be affected by psychological factors, such as feelings of fairness and reciprocity, empathy, and trust. These feelings may affect the outcomes of negotiations and performance. Arrow (1974, cited in Berg, Dickhaut & McCabe, 1995) states, that in the face of transaction costs, trust is ubiquitous to almost every economic transaction. It is suggested that trust is an 'economic primitive'. Therefore, trust can be viewed as a 'behavioural primitive' that guides behaviour in any new situation; however, it may in some circumstances become extinct or it may be superseded by an individual's capacity to engage in self-interested decision making (Berg., Dickhaut & McCabe, 1995).

The main function of financial institutions is to improve allocation of funds within an economy; therefore, understanding economic behaviour matters (Mayer, 2008). Camerer (2003) cited in McAuley (2010) argues that societies with more experience of markets (what he calls market integration) have stronger propensities to trust and to share with one another.

This idea is contested, for example: ‘people in market societies have more experience with ‘sharing’. Empirically, this view is inconsistent with substantial anthropological evidence for intensive food sharing, especially in the smallest-scale societies’ (Baumard., Boyer & Sperber, 2010). Sharing (and potentially trusting) are not, in this view connected to market experience – the evidence suggests that the idea that ‘relationship between market integration with “cooperative relationships” and the “fidelity of reputations,” implies that in the smallest-scale human societies (such as foragers), long-term cooperative relationships have relatively less value than among Americans, and that reputations in these face-to-face communities have lower fidelity than among Western urbanites. Such a proposal runs contrary to all available evidence’ (Baumard et al., 2010). The weight of the evidence from anthropology, much of which concerns non-monetarized societies, has not yet been fully incorporated into the field of behavioural economics.

Behavioural economics integrates the formal study of psychology, including social psychology, into economics. Social psychology helps policy makers to understand how economic actors behave in response to incentives in market transactions and in response to policy interventions (McAuley, 2010). Additionally, Camerer and Lowenstein (2004) argue that behavioural economics enhances the explanatory power of economics by providing it with more realistic psychological foundations. However, psychology cannot explain all departures from ‘rational’ economic behaviour (McAuley, 2010).

The importance of trust on financial decisions is investigated by Guiso et al. (2007a) who argue that lower levels of trust toward citizens of a country lead to less trade, less portfolio investments, and less direct investments in that country.

> “The way in which people interpret information is important in behavioural economics with its concern for framing biases and statistical misinterpretations, and

even well-informed people do not necessarily use information *rationally*. Moreover, trusting strangers does not come naturally; therefore, much of what we have to do to survive and prosper in markets is not hard-wired" (McAuley, 2010, p.10).

In the case of the recently established Libyan stock market, the lack of trust between the Libyan people and the state may restrict the number of investors willing to deal with the market. Therefore, decision makers should work to increase trust and trustworthiness in relation to Libyan investors because by doing so this will increase the Libyan stock market liquidity which is an important indicator success and development of the stock market.

Moral hazard problems are usually met with complex venture capital (VC) contracts. Therefore, venture capital can be viewed as a transition between different governance and financing arrangements (Duffner, Schmid, & Zimmermann, 2009). Additionally, the venture capitalist sector provides an important source of economic wealth creation. Due to the high level of uncertainty, banks or the general public may be unwilling to provide such finance (Rajan and Zingales, 2002 cited in Mayer 2008). Consequently, venture capitalists specialize in investing in such risky ventures, with the expectation of making significant capital gains at the time of exit (Fairchild & Mai, 2006). Thus, venture capital financing is characterized by riskiness and uncertainty (Duffner, Schmid, & Zimmermann, 2008).

Mayer (2008) argues that in giving money to stock markets and financial markets, it is quite reasonable to have written contracts requesting repayment on certain terms because the specific nature of the action makes contracting straightforward and trust is required where contracting is complex or impossible. The existence of financial contracting models assumes that entrepreneurs and venture capitalists maximize utility based on narrow self-interest. As all entrepreneurial financing relationships, venture capital financing is affected by large information asymmetries between the VC firm and the entrepreneur of the portfolio company (PC), and by moral hazard problems (Gompers, 1999; Denis, 2004 cited in Duffner., Schmid, & Zimmermann, 2009).

A market economy, building on voluntary transactions and interactions with both friends and strangers within the predictability provided by the rule of law, entails both incentives and mechanisms for trust to emerge between people (Berggren & Jordahl, 2006). However, there is a debate about the role of the strength of the legal system on the performance of the venture. For instance, Bottazzi, Rin & Hellmann (2005) argue that the performance of the venture increases with the strength of the legal system. Whereas Fairchild & Mai (2006) argue that a stronger legal system may be value-reducing because it destroys empathy between the venture capital and the entrepreneur, reducing their incentives to exert cooperative efforts, which may be affected (either enhanced or destroyed) by mutual feelings of trust, fairness, empathy and spite. Additionally, Gambetta (2000) views contracts as weak forms of commitment that do not entirely exclude certain actions. It only makes them more costly. When contracts fail to regulate relationships, trust between the parties becomes crucial. Fairchild (2010, p.5) argues that "the ability to achieve the first-best contract is affected by the players' relative bargaining powers and value-adding abilities".

Herold (2010, p.180) argues that when trust is important in some non-contractible part of the relationship, a principal may prefer to leave the contract incomplete rather than to signal distrust by proposing a complete contract. Contractual incompleteness arises endogenously due to asymmetric information about how much one partner trusts the other side.

Spier (1992), cited in Herold (2010), argues that the signaling of trust can cause contractual incompleteness. 'Trust' refers to the knowledge that the agent has a high ability or low costs (Bénabou & Tirole, 2003, cited in Herold, 2010). According to Bacharach, Guerra & Zizzo

(2001) the truster's confidence that the trustee will fulfil their side of an agreement, and the trustee's belief about the truster's confidence after the trustee receives evidence is relevant to this. Trust responsiveness depends on a 'pro' attitude to trusting; which may be produced by the perceived need to trust, and by the perceived kindness of trusting.

Guiso et al. (2007a) analyse the influence of trust on stock market participation based on data from a Dutch household survey. They find that trusting individuals are more likely to buy stocks, and provided they do so, they invest more the more trusting they are. Berggren and Jordahl (2006) investigate how generalized trust is formed and find that legal structure and security of property rights increase trust. Shleifer and Wolfenzon (2002, cited in Bottazzi & Da Rin, 2005) claim that the strength of a legal system affects the willingness to go public, and thus the equilibrium size of the capital market. According to Demirgüç-Kunt & Maksimovic (1998) cited in Bottazzi, Rin & Hellmann (2005), there is evidence on the link between legal origin, financial institutions and company growth.

Also, Lerner & Schoar (2004), cited in Bottazzi & Da Rin (2005), argue that there are statistically significant relationships between the legal origin and the type of securities and contractual covenants used. Investors from countries with strong legal traditions make more extensive use of securities that afford downside protection. Such evidence also foregrounds the role of contracts as a basis for relationships.

Al-Najjar & Masanell (2002) find that one main function of *agency* contracts is to protect the agent from possible opportunistic behaviour of the principal. The effect of the legal system operates not only directly through individual contracts and actions, but also more broadly by affecting the way financial intermediaries develop their own skills and capabilities. In the case of the Libyan stock market, as a new market, there is a lack of experience that relates to a weakened propensity to trust and to share with one another.

Rabin (1993) however, states that people's notions of fairness are heavily influenced by the status quo and other reference points. Fehr, Klein & Schmidt (2004) argue that fairness concerns may have a decisive impact on both the actual and optimal choice of contracts in a moral hazard context.

> "A trust contract offers a (generous) fixed wage to the agent and asks him to return this favour by choosing a high effort level. Presence of fair type does not automatically provide a solution to every contracting problem and may sometimes even exacerbate incentive and contracting problems" (Fehr, Klein & Schmidt, 2004, p.2 & p.33).

Bottazzi, Rin & Hellmann (2005, p1-2) state that

> "In a double moral hazard framework, optimal contracts, corporate governance and investor actions are depend on the legal system. With better legal protection, investors give more non-contractible support, demand more downside protection, and exercise more governance. Investors in better legal system develop stronger governance and support competencies. Better legal systems tend to be associated with more investor involvement, more downside protection for the investors, and more governance. The legal system affects financial outcomes not only directly, but also indirectly by affecting the extent to which financial intermediaries develop competencies".

The legal system affects not only the contractual, but also the non-contractual aspects of the financing relationship. Not only does the company's legal system matter, the investor's legal system matters too. Moreover, evidence on the importance of legal systems for the structure of venture capital relationships also has important policy implications (Botazzi et al., 2005). The researcher's view' is that dealing with the Libyan stock market through the use of contracts is a signal of trust, as their legal protection will increase confidence and trust in the stock market due to the lack of trust between the State and Libyan people.

Camerer (1997) describes an approach called behavioural game theory, which aims to describe actual behaviour, and he argues that people normally reject profitable bargains they think are unfair, do not take full advantage of others when they can (exhibiting surprisingly little moral hazard) and contribute substantially to public good. Therefore, behavioural game theory aims to replace descriptively inaccurate modelling principles with more psychologically reasonable ones, expressed as parsimoniously and formally as possible.

Game theory provides a language to describe the structure of multi-person decision making at three levels of detail: extensive form, coalitional from and strategic form. However, game theory ignores the role of expertise and experience (Shubik 1999). Game theory has also been criticized for using samples that are not representative of broad groups – frequently students on university campuses in the West (Baumard et al., 2010). In other areas of work, the influence of behavioural (and game theory) approaches has yet to be incorporated.

In this thesis, trust is introduced as a major moderator of the ten factors; it is argued that a strong relationship exists between bounded rationality and trust. Therefore trust and commitment could direct upstream outsourcing relations between firms and their component contractors. In addition, trust could reduce problems associated with decision–making. Trust is set in a community where *distrust* appears, when dealing with the Libyan financial market. The response to this is an emphasis (by respondents) on the need for a contract basis that does not rely on 'trust' as a key ingredient, i.e. they operate with the notion that contracts should be 'complete' in many respects. This may be because the cultural and social norms that support trust in such circumstances (of stock market development) elsewhere are absent. This is potentially strongly influenced by Islamic principles relating to the centrality of a formal contract in business dealing. Consequently, people in Libya view legal protection and complete contracts as enhancing trust in the financial market and encouraging people to deal with its products. Therefore, this research will use the transaction cost theory to examine this situation and hopefully provide a model that could logically speed the development of the Libyan stock market.

2.3 Transaction Cost Theory

Silverman (2000, p.77) defines theory as "A set of concepts used to define and / or explain some phenomenon". Silverman states that, theory provides both a framework for critically understanding phenomena and a base for considering how what is known might be organized.

Coase (1937) was the originator of transaction cost theory. He allowed for the possibility of incomplete contracting and enforcement. According to Coase, firms exist because of the need to mediate additional information costs associated with the purchase and subsequent monitoring of inputs provided from the market (Jones cited in Hoque, 2006). Coase (1960) as cited in North, 1998, p.28) states that "only in the absence of transaction costs did the neoclassical paradigm yield the implied allocative results; with positive transaction costs, resource allocations are altered by property rights structures"

Moreover, Aubert & Weber (2001, p.5) cites Williamson (1985), who emphasizes that "transaction cost theory has been developed to facilitate an analysis of the comparative costs of planning, adapting, and monitoring task completion under alternative governance structures". Therefore, the unit of analysis in TCT is a transaction, and according to Jones (2006 cited in Hoque, 2006, p.84), Williamson (1981) suggests that "transaction costs occurs when a good or service is transferred across a technologically separate interface".

Furthermore, Aubert & Weber, (2001, p.5) argue that "Transactions costs arise for ex ante reasons (drafting, negotiating, and safeguarding agreements between the parties to a transaction) and ex post reasons (maladaption, haggling, establishment, operational, and bonding costs)". If the decision-makers choose to use the market, then they must determine the appropriate type of contract to use, and this leads the decision-makers to weigh up transaction costs and the productions associated with executing a transaction within their firms (insourcing) versus transaction costs and the productions associated with executing the transactions in the market (outsourcing) (Aubert & Weber, 2001).

Aubert & Weber (2001, p.5-6) quoting Williamson (1985) ideas state that the existing of two human and three environmental factors lead to transactions costs arising. The two human factors are:

1. **Bounded rationality**: Humans are unlikely to have the abilities or resources to consider every state-contingent outcome associated with a transaction that might arise.

2. **Opportunism**: Humans will act to further their own self-interests.

The three environmental factors are:

1. **Uncertainty**: Uncertainty exacerbates the problems that arise because of bounded rationality and opportunism.

2. **Small numbers trading**: If only a small number of players exist in a market-place, a party to a transaction may have difficulty disciplining the other parties to the transaction via the possibility of withdrawal and use of alternative players in the marketplace.

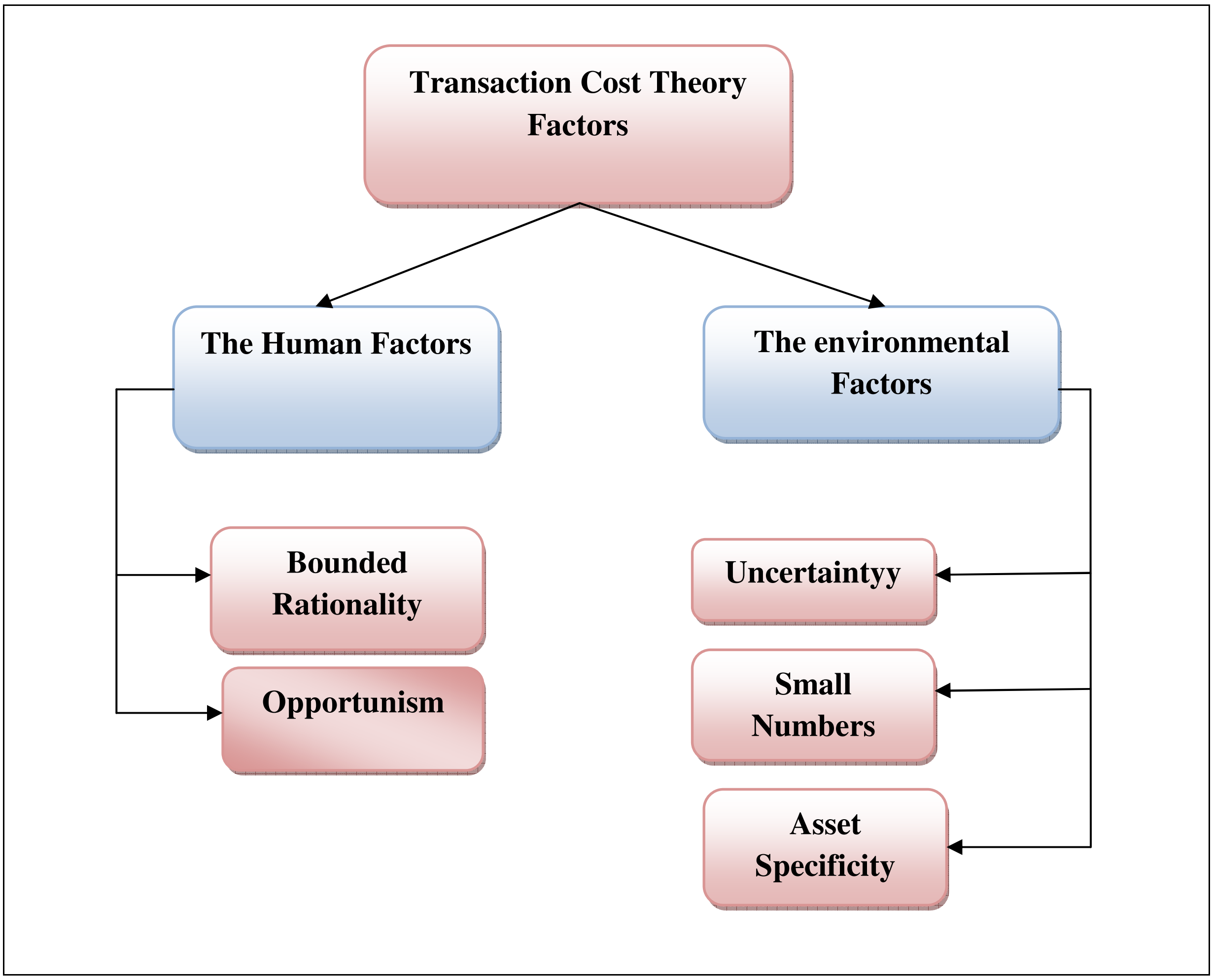
3. **Asset specificity**: The value of an asset may be attached to a particular transaction that it supports. The party who has invested in the asset will incur a loss if the party who has not invested withdraws from the transaction. The possibility (threat) of this party acting opportunistically leads to the so-called "hold-up" problem". Figure (2.1) shows transaction cost factors.

North states that:

> The transaction cost will reflect the uncertainty by including a risk premium, the magnitude of which will turn on the likelihood of defection by the other party and the consequent cost to the first party, throughout history the size of this premium has largely foreclosed complex exchange and therefore limited the possibilities of economic growth (North, 1998, p.33).

North (1998, p34) argues that "institutions provide the structure for exchange that (together with the technology employed) determines the cost of transacting and the cost of transformation". The degree of complexity in economic exchange is a function of the level of contracts necessary to undertake exchange in economies of various degrees of specialization. Non-specialization is a form of insurance when the costs and uncertainties of transacting are high. Jones cited in Hoque (2006) states that drawing on Coase, (1937) and Williamson (1979) transaction cost theory makes predictions on firm size based on the relative magnitudes of transaction costs arising in the switch from bureaucracy to market-based provision. However, Arrow (1974, cited in Berg., Dickhaut & M,cCabe, 1995) argues that in the face of transaction costs, trust is ubiquitous to almost every economic transaction and suggests that trust is an economic primitive. Therefore, Van der Meer-Kooistra and Vosselman (2000) argue that Williamson dismissed the view that trust, once established, could be actively deployed to curtail opportunism. Flynn (1987) argues that a strong relationship exists between bounded rationality and trust. Drawing on Flynn, trust and commitment coulddirect upstream outsourcing relations between firms and their component contractors. Also, trust could reduce problems associated with decision–making.

Figure 2.1: Transaction Cost Factors



Van der Meer-Kooistra and Vosselman were not concerned with 'bureaucracies' or 'markets' per se, but the conditions under which transactions that encompass trust-based patterns of control emerge (Table 2.1).

In the contract phase, dealers are selected on the basis of reputation of trustworthiness. As these relations are largely socially embedded, contracts are far from detailed and payments not directly correlated with activity outputs. Since both share risks and rewards, control is achieved via the facilitation of competence trust (certification, education, reputation or through investments by contracting parties) and goodwill trust (open commitment, reciprocity and exceeding expectations) (Sako, 1992 cited in Hoque, 2006). The table (2.1) summarizes the various factors of the relationship and the accompanying transaction cost explanation.

Table 2. 1: Transaction Characteristics / Control

Contingency Factors	Market Based Pattern	Bureaucracy Based Pattern	Trust Based Pattern
Transaction characteristics	Low asset specificity; high reputation; measurability of activities and output; short to medium term contract	Medium to high asset specificity which can be protected by contractual rules; low to medium repetition; measurability of activities or output based on contractual rules; medium to long term contract	High asset specificity; low repetition; activities or output cannot be measured well; long term contract
Transaction environment characteristic	Many potential transaction parties; market price contains all the market information; social embeddedness and	Future contingencies are more or less known; medium to high market risks; institutional factors influence the	Future contingencies are unknown; high market risks, social embeddedness; institutional factors

	institutional factors are not relevant	contractual rules	influence the relation
Party characteristic	Not important, because there are many parties with the same characteristics due to which switching costs are low	Competence reputation; medium risk sharing attitude; asymmetry in bargaining power	Competence reputation; experience in networks; experience with contracting parties; risk sharing attitude; no asymmetry in bargaining power

(Source: Van der Meer-Kooistra and Vosselman, 2000, p.62)

Table 2.2: Characteristic of Trust based Contracting

Element	Transaction Cost Explanation
Vandor provides management services while client retains ownership of IT hardware	Contains fears of losing control, and recourse in the event to opportunism
Contract specified broad expectations, not precise contingent claims contract	Contains information costs at contract and control stage of outsourcing development
The environment	Much uncertainty; greater reliance on social embeddedness through competence trust in IT provision, regular meeting, personal relations; open-book transactions
Characteristic of transaction	Mixed transactions: idiosyncratic and standard
Transaction frequency	Mix of programmable/non-programmable, increasing in programmability over time, no explicit performance

	measures indicating trust-based, exploratory/emergent control
Asset specificity: Physical assets owned by Central Vendor located on-site, High human specificity	Guard against dependency/opportunism High switching costs
Cost allocation: difficulty in selecting overhead recovery rate	Rates emergent over-time; exploratory control

(**Source**: Jones cited in Hoque, 2006, p.98)

2.4 Stock Markets and Trust

In the development of stock markets, trust has often been recognized as significant to its operation. A clear example of this is the motto of the London stock exchange, 'Dictum meum pactum', officially adopted in 1923, which means 'My word is my bond'. In many transition economies, the issue of 'trust' in relation to the development of stock markets has been of importance, for example Taiwan, Hong Kong, France, and Italy (Fukuyama, 1996). As Friedman (2007, as cited in Covey, 2008, p.21) says:

> Without trust, there is no open society, because there are not enough police to patrol every opening in an open society. Without trust, there can also be no flat world, because it is trust that allows us to take down walls, remove barriers, and eliminate friction at borders, trust is essential for a flat world….

Stock markets – as secondary capital markets – have a particular place in the efficient operation of capital based economies. In order to efficiently allocate capital resources between users, the capital market must be technically 'perfectly competitive', which entails *inter alia* zero transaction costs and zero barriers of entry and exit.

However, in such markets where very high volumes of transactions occur on a daily basis, market mechanisms for managing default risk between counterparties must also be highly efficient. In situations of high trust, market transacting can occur through oral commitments rather than being evidenced and, as in the transfer of real estate, noted and sealed. Without the ability to engage in oral contracting, the cost burden of transacting would be deadweight on the efficiency of the market and sufficient in practice to remove the advantageous market mechanism in favour of alternative methods of resource allocation.

Covey (2008, p.5) asserts that "you know trust when you feel it". At its simplest, the word 'trust' means 'confidence' and the opposite of trust is distrust or 'suspicion'. Experience, however, tells us that trust is also a principle or an inherent quality in the character of individuals, teams, and the workplace. It is shown in how people treat others, in how they conduct their work, and in how businesses treat their customers (Marshal, 2000). Just as with culture, there are many definitions of trust. For example:

Marshal (2000, p47), uses *Webster's dictionary* definitions of trust as follows:

- Assured reliance on the character, ability, strength, or truth of someone or something.
- One in whom confidence is placed.
- A charge or duty imposed in faith or confidence, or as a condition of some relationship.

- Something committed or entrusted to one, to be used or cared for in the interest of another.

Trust is a core psychological and interpersonal issue. Trust building activities help people to develop mutual respect, openness, understanding, and empathy, as well as helping to develop communication and teamwork skills (Neill, 2009, online at http://wilderdom.com/games/TrustBuildingActivitiesAbout.html) [accessed on 24/06/2010].

Guiso (2007) argues that people care about trust because its presence or absence can have an effect on what we *choose* to do and what we *can* do. Also, he points out that there are two concepts of trust. First, 'personalized trust' which means the trust placed in someone or something well known to the individual. Second, 'generalized' trust which is that given to a person who is unknown, but s/he is a member of a well identified community.

Laszlo Zslnai (2004) cites Sako (1992), who described trust as a state of mind or anticipation held by an economic agent about another, that the other responds or behaves in an expected and mutually acceptable manner. Also, Zslnai (2004) distinguishes between three different kinds of trust.

The first kind of trust is called contractual trust, which is based on the expectation that by written or oral agreements parties upholding a universal ethical standard, keeping a promise. A second type of trust is that where an individual expects a partner to work competently, hence competence trust. A third type of trust refers to expectations of open commitment to each other. This trust in open commitment is labelled good will trust.

Guiso, (2007) argues that the lack of trust may lead to first order losses, although he points out four factors that influence trust:

- Religious beliefs of the trusting person affect how much a person trusts another.
- The social behaviour of the area where individuals were born.
- Social psychology shows that individuals trust more people who have a similar ethnic background to themselves.

Marshal (2000) argues that trusting another reflects our confidence in their character, our faith in their capacities, and our dependence on their taking care of something that is important to us. Trust needs to be thought of in at least three ways:

First, it is a principle expression of what we value most in ourselves and others, and it is a frame of reference or way of looking at things.

Second, trust is a measure of our self-esteem-that is how we feel about ourselves. Without trust, we may give up hope.

Third, trust comes from the inside out. We must first be trustworthy, which means clarifying our values.

Covey (2008), argues that, as a global society, we have a crisis of trust on our hands: a lack of trust is everywhere, it permeates our personal lives, our relationships, our organizations, our market place, our global society. A recent Harris Poll (2005, as cited in Covey, 2008) states that in the United States 22% of those surveyed tend to trust the media, 8% trust political parties, 27% trust the government, and only 12% trust big companies.

According to Covey (2008, p.11)

David Halpern found that only 34% of Americans believe that other people can be trusted. In Latin America, the number is only 23%, and in Africa the figure is 18%. Halpern's research also shows that, four decades ago in Great Britain, 60% of the population believed other people could be trusted; today it's to 29%. However, 68% of Scandinavians (Denmark, Sweden, and Norway) and 60% of the people in the Netherlands believes others can be trusted, which indicated that, those countries are higher-trust societies. Also he found that Mexico's figure, though a low percentage 31%, but it is up from 19% in 1983, which means that it is possible to increase societal trust. The same study found that trust within organizations has also declined. It showed that, about 51% of employees have trust and confidence in senior management, 36% of employees believe their leaders act with honesty and integrity, over the past 12 months of his study, 76% of employees have observed illegal or unethical behaviour on the job conduct which, if exposed, would seriously go against the public trust.

Covey (2008) argues that trust usually affects two outcomes: speed and cost. When trust goes down, speed will also go down and costs will go up, and vice versa. As John Whitney (1994, as cited in Covey, 2008, p.18) says "Mistrust doubles the cost of doing business.

Trust $\downarrow$ = Speed $\downarrow$ Cost $\uparrow$

When trust goes up, speed will also go up and costs will go down.

Trust $\uparrow$ = Speed $\uparrow$ Cost $\downarrow$

Covey (2008) argues that trust is one of the most powerful forms of motivation and encouragement. People respond to trust, they want to be trusted, and they flourish on being trusted. Trust is a function of two things: competence and character. Competence includes capabilities, skills, results, and track record. Character includes honesty, motivation, and intention with people, and both are crucial.

The common view of trust as expressed through capabilities is fast becoming the price of entry in the new global economy because of the increasing focus on ethics in society. However, the differentiating and often ignored side of trust, competence, is equally fundamental. People trust those who have skills make things happen.

Trust is equal parts character and competence; both are absolutely necessary. The increasing worry about ethics has been good for society. Ethics, which is a part of character, is fundamental to trust, but by itself is insufficient. Trust cannot appear without ethics, but ethics can be viewed without trust. Trust, which includes ethics, is the bigger idea.

Covey (2008), established a model he calls “5 Waves of Trust” which defines five levels which help establish trust as follows:

1- Self Trust

This first wave deals with the confidence we have in ourselves, and in our skills to set and achieve goals to keep commitments, and also that with our ability we can encourage trust in others. The main idea is to become, both to ourselves and to others, a person who is worthy of trust. The outcome of good character and high competence is judgment, credibility, and influence.

2- Relationship Trust

This wave deals with how to establish and increase the “trust accounts” we have with others. The whole idea underlying this wave is “consistent behaviour”. The consequence is a significantly increased ability to create trust between all involved, in order to enhance relationships and achieve better results.

3- Organizational Trust

Organizational trust explains how leaders can create trust in all kinds of organizations, including government entities, businesses, not for profit organizations, educational institutions, and families, as well as in micro-units within organizations. The main point underlying this wave alignment, is that it helps leaders create structures, systems, and symbols of organizational trust that decrease or eliminate costly organizational trust taxes, and create organizational trust dividends.

4- Market Trust

Market trust, explains the level at which almost everyone clearly understands the impact of trust. The underlying opinion behind this wave is “reputation”. It is about company brand as well as personal brand, which reflects the trust investors, customers, and others in the marketplace. Brands strongly affect customer behaviour and loyalty as they are trusted. With a high-trust brand, customers buy more, refer more, stay with the brand longer, and give up doubt. This helps to not only improve brand and reputation as an individual, but also improve an organization’s brand and reputation in the marketplace.

5- Social Trust

Societal trust deals with creating value for others and for society at large. The key principle underlying social trust is contribution. By contributing, suspicion is decreased low-trust inheritance taxes within society. This also encourages others to create value and contribute as well.

Tyler (2003) argues that the key issue which enables co-operation is trust. Tyler (2003, p.544) says that “trust is a key to organizational performance because it enables voluntary cooperation. This form of cooperation becomes increasingly important when command and control styles of management are no longer effective”. Similarly, Bijlsma and Koopman (2003) argue that hierarchical relationships are used to govern the framework of relations. Further, organizational performance becomes more and more dependent on behaviour such as that contributing to organizational learning processes and helping colleagues to develop their performance, scanning the environment to discover opportunities. In addition, Creed and Miles, (1996 cited in Bijlsma and Koopman, 2003) note that trust and control both contribute to the level of cooperation needed in a relationship. For that reason, they should be seen as complementary phenomena.

In addition, Tyler (2003) points out that the multilevel hierarchies, which facilitate traditional command and control, are often flattened, so people will be more likely to work as teams of equals, without designation of a leader. Instead of this, group members’ responsibilities are shared, and leadership may be different for varying responsibilities. Also, Tyler & Blader, (2000, cited in Tyler, 2003) state intellectual labour is not easy to monitor, and it is necessary to rely heavily on willing engagement in work. So, since it is harder to monitor their behaviour, the leader must trust that workers are making an effort to work well, to shift increasing attention to extra-role behaviour, the voluntary behaviour that workers perform in work settings.

Moreover, Tyler (2003) says that the key issue of social control is the informal relationships of family and friends that has a power to embed people in their social groups. However, traditional social control mechanisms are being lost because the network of extended family and long-term work associates is becoming weaker, since people are more separate from others, more mobile, and they do not think of their relationships as necessarily continuing over time. Additionally, Guinnane (2005) argues that, the family trust structure is useful if your family holds capital growth or income-generating assets. Tyler and Lind (1988); Tyler et al (1997); Tyler and Smith (1997) all cited in Tyler (2003) suggest that the two aspects of social motives whether internal or socially generated, are trust and procedural justice. They run from inside the person, rather than being related to incentives or sanctions. Social trust is based on attributions about the motives of others. People deduce whether they trust others who are motivated to be ethical and fair, and whether they have the intention to do what is good for them (Tyler, 2003).

Tyler (2003) argues that motive-based trust is important for extra-role behaviour, positive attitudes, and acceptance of decisions made by superiors. Experience of motive-based trust that are found include shared socials bonds, quality of treatment by management, understandable actions by management, and quality of managerial decision making.

Drawing on Luhmann (1988), trust is an attitude that allows for risk-taking; therefore trust is a solution for particular problems of risk in relations between people. Schoorman, Maye and Davis (2007) argue that trust would lead to risk taking in a relationship "willingness to take risk", and the level of trust is an indication of the total of risk that individual is willing to take. A control system is an alternate mechanism for dealing with this risk in relationships. The existence of a very strong system of controls in an organization will tend to reduce the development of trust (Strickland, 1958 cited in Schoorman et al, 2007). Trust is influenced by past experience and chances of future connections, together related within organizations. Therefore, such behaviour will enhance the expectations of others' beneficial actions (Schoorman et al, 2007). Williams (2001) cited in Schoorman et al (2007) states that effective responses influence how people evaluate their level of trust in another party which means trust also involves emotion. In the same way, Jones and George (1998, also cited in Schoorman et al, 2007) note that moods and emotions provide people with information on how they are experiencing trust.

In Libya, the general perception is of a high contact culture. Culture is a tool that allows people to understand the advantages of the role of the stock market in increasing market efficiency. This means that, generally, trust is needs to be considered as one factor of many which make up culture.

2.5 Culture

Culture is an important factor affecting the development of financial markets. Culture can be defined as "collective programming of the mind; it manifests itself not only in values, but in more superficial ways: in symbols, heroes, and rituals" (Hofstede, 1984, p.21). As a complex concept, culture has previously been defined in many ways. The following two definitions illustrate the complexity of definition borne by the term:

Kluckhohn (1951, as cited in Hofstede, 2001, p.9) argues that:

> Culture consists in patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artefacts; the essential core of culture consists of traditional (i.e historically derived and selected) ideas and especially their attached values.

Hall (1969, cited in Abubaker, 2008, p.2) states that "Culture is the way of life of people; It is the sum of their learned behaviour patterns, attitudes, and material things".

Hofstede (2001) explains how national culture affects the values of the organizations in society. He examined the approach of employees in IBM branches in fifty countries (including Libya). On the basis of his analysis of national culture, he defined four dimensions as follows:

High versus low power distance

This dimension illustrates “the extent which the less powerful members of organization and institution accept that power is distributed unequally”. Organizations from high power distance cultures rely deeply on hierarchy.

Individualism versus collectivism

Individualism refers to societies in which everybody is expected to look after themselves and their immediate family. However collectivism illustrates societies in which people from birth onwards are integrated into strong, cohesive in-groups, often extended families who offer protection and a degree of social insurance in exchange for unquestioning loyalty.

Masculinity versus femininity

This dimension describes the distribution of roles between genders. The masculine culture refers to the assertive pole and the feminine culture is referring to the modest caring pole. In feminine countries women and men share caring values; therefore they have the same modest approach. However, in the masculine countries there is a gap between men and women’s values. For instance, women are somewhat competitive and assertive, but not as much as men.

Uncertainty avoidance

Uncertainty avoidance cultures represent the extent to which members of a society respond to unstructured situations. In high uncertainty avoidance cultures people have lower tolerance for innovations, while in low uncertainty culture which has been called uncertainty accepting, people are more likely to accept different opinions from which they are used to.

According to Hofstede, Libyan culture is characterized by high power distance, low individualism, and high uncertainty avoidance. This description meant, in the context of his study of IBM, that all these dimensions negatively affected communication among employees in the corporate decision making process. However, he did not include the third dimension in his study - masculinity versus femininity - when describing Libyan culture. Abubaker (2008) however characterizes Libyan culture as one with high power distance, low individualism, high uncertainty avoidance and masculine in nature. Twati in contrast (2006) found that Libyan culture retains strong power distance, uncertainty avoidance, and masculinity. Both differ from Hofstede's earlier findings. The following table (2.3) shows the comparative study between the three authors' findings.

Table 2.3: The Comparative Study of Libyan Culture between Hofstede (2001), Twati (2006) & Abubaker (2008)

Dimension	Hofstede (2001)	Twati (2006)	Abubaker (2008)
High power distance	√	√	√
Low Individualism	√	-	√
Masculinity	-	√	√
Uncertainty	√	√	√

avoidance			

Moreover, Hofstede suggests that the convergence between economic liberty and national culture is the one that creates positive effects for the business environment in general, and companies in particular. Herciu (2006) studied the influence of culture on economic freedom and the internationalization of business, and he found that there is no possible mixture of Hofstede's cultural dimensions, which when applied, can assure a country's development. Thus, each culture seems to have its own characteristics, which lead to various studies and approaches to communication. Therefore, there is no one cultural model that can assure success. Moreover, Hofstede suggests that the convergence between economic liberty and national culture can create positive effects for the business environment in general and companies in particular. Additionally, El-Kot (2007) cited in Abubaker (2008) notes that Hofstede has generalized the result of his sample of one company (IBM) to all companies in Arabic countries.

2.5.1 Organizational culture

Kluckhohn & Strodtbeck (1996) argue that organizational culture contains a mixture of practices or artefacts, beliefs and values and hidden assumptions that organizational members have in common about suitable behaviour. Also, Krumbholz & Maiden (2000) agree that organizational culture has been seen as holistic, traditionally decided, and socially built. Culture involves values, beliefs and behaviour, lives at a different levels, and is apparent in a wide range of characteristics of organizational life.

As such, organizational culture indicates a set of shared belief, values, practices and assumptions that form and guide members' attitudes and behaviour in the organization

(Hofstede, 2001, 2005). However, as Munro et al (1997) and Fey & Beamish (2001) point out, there has been a relatively shorter history of studies considering organizational culture that take a cultural perspective in organizations. Such studies only began to appear in the late 1970s and early 1980s.

In addition, Cameron and Quinn, (1999) suggest that many of the managerial failures to implement planned organizational change occur because of the neglect of the culture of the organization concerned. Schneider (2000) develop this point claiming that organizational culture is a key to organizational success, and effective leadership is the means by which culture is created and managed. An important activity for managers is to understand organizational culture because it affects productivity, strategic development, and learning at all levels of management.

Further research by Cameron and Quinn, (1999) suggest that organizations dominated by a hierarchical culture present a structured and formalized workplace, managed by formal rules, procedures and policies, with efficiency-minded leaders valuing smooth organization and coordination, and where stability, predictability, dependability, and employment security are highlighted. Twati (2006) notes that the public sector and the government themselves share the same attitudes, beliefs, and values.

Drawing on Fukuyama (2000), one could argue that the information age has led to a breakdown in hierarchy and authority. In principle, formal hierarchies reduce transaction costs by reducing the number of effective command and control relationships required to achieve given organizational outcomes (Williamson, (1967). They are less information rich and less dependent upon trust than other forms of organization design. The degree of trust and social capital in the broader society are the determinants of the ability of companies to move from formal and extensive hierarchies to flexible networks of smaller firms. Fukuyama (2000) argues that trust is not necessary for cooperation; legal mechanisms like contracts and self-interest together can compensate for an absence of trust and allow strangers jointly to create an organization that will work towards a common purpose and hence minimize the costs of transacting. He also argues that contract and self-interest are important sources for organizations but the most effective organizations rely on communities of shared ethical values which do not require wide legal regulation and contract of their relations due the basis for mutual trust. The same point was made by Ouchi (1980) and is expressed by Marshal (2000) who said that "without trust we may give up hope".

The 1990's was a decade of chaos and fear, a time when major structural changes and massive layoffs resulted in broken covenants, lost loyalty, and distrust. To have a successful organization, the workforce should be trusted, respected, and given an opportunity to learn and grow, to contribute, to win, and to be acknowledged (Marshal, 2000). He goes on to claim that trust comes from the inside and goes to the outside. The development of 'trust competence' is perhaps the most critical challenge we face as individuals, teams, and organizations. If we are trustworthy, others will trust us. With trust, teams will exceed expectations, risks will be taken, and breakthroughs in operating efficiencies will occur. Speed will be achieved. When the risk in a situation is greater than the trust a control system can bridge the difference by lowering the perceived risk to a level that can be managed by trust. However, if there is a very strong system of controls in an organization, it will inhibit the development of trust (Fukuyama, 1996).

Distrust in a society imposes on all forms of economic activity a pernicious tax that is absent in high trust societies. The prevalence of trust does not facilitate the growth of large-scale organizations. Indeed quite the reverse – trust enables productive relationships to emerge that do not require formal contracting to achieve their outcomes. Trust, supported by modern information systems and technology can enable large hierarchies to evolve into networks of smaller companies (Marshal, 2000), and by so doing break the dominance of managerialism, bureaucracy and surveillance, which are characteristic of the absence of trust.

Fukuyama (1996) argues that in the early stages of economic development, firm size and scale do not appear to have serious consequences for society's ability to grow and prosper. Small firms are easier to establish, more flexible and adjust more quickly to changing markets than large corporations. However, certain sectors of the global economy are affected by the size of companies. Large firms are necessary to create the marketing organization that stand behind brand names. Moreover, Fukuyama suggests that social capital needs to be factored into a nation's resource endowment. A society with a high level of trust can organize its workplace on a more flexible and group-oriented basis, with more responsibility delegated to lower levels of the organization, while low-trust society must constrain their workers with a series of bureaucratic rules. He argues that social capital is the crucible of trust and critical to the health of an economy that rests on cultural roots. Moreover, to survive in the global market, businesses must be able to increase efficiency and lower costs that depend upon an evolution from a culture of fear to one of trust (Marshal, 2000).

The Islamic religion may play a crucial role on the influence of Libyan investors to invest in the Libyan stock market. Also, as any religion, Islam enhances trust between people which may enhance the development of the Libyan stock market.

2.5.2 Libyan Culture

Libya is an Arabic country and the dominant religion is Islam. Libya shares a common language, religion, cultural values, and other social values with other Arabic countries.

Vandewalle (2006 as cited in Abubaker, 2008) claims that the impact of Islam upon Libyan cultural values is as significant as in any other Arabic country. Yousef (2001) says that according to the Islamic work ethic, social relations at work must rely on diligence, honesty, and respect for colleagues. Akbar (2003) sates that according to the Qur'an, God created people from different nations and tribes to know one another. Thus, Muslim people know the importance of good relationships with other people of other nationalities or religions. Twati (2006) pointed out that Libyan society has strong social, tribal and familial bonds. It is by its nature an intensely family oriented society.

In Libyan organizations, employees care about the reputation of their names, families and tribes, stemming from their strong family orientation. Social reputation becomes important for societal relationships in Libyan society (Twati, 2006). In Libyan culture most people unintentionally use facial expressions to express sadness, happiness, fear, and surprise (Twati, 2006). Therefore, the face saving strategy is one of the main approaches in Libyan communication.

Fukuyama (1996) argues that because unrelated people have no basis for trusting one another, family oriented societies typically have weak voluntary associations. This shows itself as relatively low levels of trust between unrelated (non family) individuals. The state, he argues, must aid the development of large-scale businesses in such low trust societies by supporting them through subsidies, guidance, and even outright ownership. The cost will be state-owned companies that are inevitably less efficient and well managed than their private sector counterparts.

In Libya centrally planned communist public systems are adopted in many sectors, such as business, health, education, media, and other social and political organizations (Abubaker, 2008). However, organizational success in developed countries leads many organizations in developing countries to adopt Western models without considering local cultural values. This is the case with Libya. This leads to conflict between organizational values and national values (Al–Hamadi, Budhwar & Shipton, 2007). Therefore, the allure of globalization has affected most organizations in Libya. It has also created huge debate about organizational values and the methods of dealing with social issues in Libyan organizations.

2.6 Religion

Religion is one of the most important aspects of cultures, which may affect the stock market. It plays a significant role in most societies. Max Weber (1905) was the first to identify the significant role that religion plays in social change (Guiso, Sapienzad, & Zingales, 2003). In general, religious beliefs are related to 'good' economic attitudes, where good is defined as encouraging higher per capita income and growth (Guiso et al, 2003). However, Usmani (2010) argues that although every dollar bears the statement "In God We Trust", the modern economy is outside the domain of religion, and God is seen as irrelevant to economic activities.

Religion affects not just the personal life of the individual, but it also affects different aspects of human social life, including the cultural, economic, and the political. The effects of religion on different aspects of society can be seen especially in Islamic countries, where a Muslim as a person and as a member of society, has specific duties and responsibilities. Generally speaking, Islam affects all aspects of Muslims' lives in these societies (Nasrabadi, 2006).

There are many references in the Qur'an to good and proper behaviour. In the sections that follow, these statements are presented from a number of Qur'anic verses and also from the

Hadith, where such advice appears. Arab people have had a long history with commerce and even before Islam they were extensively involved in trading. The Prophet Mohammad (Peace Be Upon Him) himself was a trader before he was acknowledged as The Prophet. The rules of trading are discussed in the Qur'an many times. So, there has been a special relationship between Islam and commerce (Shaari, Russell & Frank, 1993). Furthermore, according to Nasrabadi (2006) Islam is linked to economics in two ways:

Firstly, Islam has a set of rules about ownership, taxes, transactions, charities, inheritance, financial punishments, and the effect of wealth on proper behaviour.

Secondly, Islam demonstrates a relationship to economics through ethics and morality. A good example of this is that there are recommendations and rules, such as trust, justice, and charity as well as some prohibitions such as theft, mischief and corruption.

Generally, Islam encourages business, as the Qur'an states "God has made business lawful for you". Also the Prophet Mohammad (Peace Be Upon Him) said that nine out of ten livelihoods are from trade. Thus, Muslims are keen to trade according to Islamic principles, for example lawful (halal) and unlawful (haram) (Shaari, Russell & Frank, 1993). Sadeghzadeh (1995, as cited in Nasrabadi, 2006) states that three different kinds of control mechanisms can be distinguished in Islam to ensure that Muslims perform their duties. The three mechanisms are:

1- **Self-control**; this comes through a Muslim recognizing himself or herself as a human, whose being is always before God at any time.

2- **Public control**, which encourages people to behave well, and help them avoid doing any bad deeds.

3- **Government control**, which demonstrates that managed social behaviour is an important duty of an Islamic government, so people do not become involved in incorrect actions and desist from incorrect behaviour.

According to these beliefs, when Muslims understand this control system they try to act according to God's requirements at all times and in all aspects of this life. They do this due to self-control and also due to the pressures of public and government control.

Islamic principles recognize three different kinds of ownership; private, public, and state. However, Sadeghzadeh (1995, as cited in Nasrabadi, 2006) says that there are specific obligations regarding private ownership in terms of acquisition, use, and removal of property based on God's rules. Ethics is one of the influential factors in reaching social justice. Nasrabadi (2006) cites Taheri (2005) who concluded that the economy in Islam is considered to be related to ethics and, ethics is related to religion. Consequently, Islam requires Muslims to follow the path of justice, goodwill and honesty and recognize profit in business activities as a secondary outcome (Shaari, Russell & Frank, 1993).

Islamic rule dictates that Muslims are not allowed to harm themselves or others by any action, including business activities. Also, Islam requires Muslims to organize their business relationships in accordance with Islamic principles. Islamic traditions impact on business relationships. For instance; Islam has ethical rules and recommendations about business touching upon the individual's commitment to trust and justice (Shaari, Russel, & Frank, 1993). Furthermore, according to Nasrabadi,(2006), and Motahhari (1991), Islam requires Muslims to follow the path of justice, goodwill and honesty. Islam recognizes profit in business activities as only a secondary measure of efficiency. In Islam people, in general, are seen as trustworthy, unless proved to the contrary. In addition, Islam encourages social interaction and group activities (Nasrabadi, 2006).

Attia et al (1999, as cited in Marta, Singhapakdi, Attia, and Vitell, 2004) make the point that "the Arabic cultural environment encompassing religion, language, customs, social etiquette and laws constitutes a strong barrier toward conducting research" (i.e. the way it is conducted in the western societies).

In the Middle East & North Africa (MENA), Islam is the main source of written laws and most of the legal environment surrounding business transactions (Marta et al, 2004). In the same way Saeed et al (2001, cited in Marta et al, 2004) state that:

> Islamic teachings are extremely rooted in the principles of equity and justice in business practices and offer a structure that creates values and raises the standard of living of all parties involved in the exchange, while holding to these principles and guidelines.

This ethical framework has realistic applications in different Muslim countries where sales training guidelines, marketing, and codes of ethics are consistent with Islamic values. It provides a useful and common in the framework of the Middle East and North Africa (MENA), not just "an American approach" (Marta et al, 2004, p.55).

However, Attia et al (1999) also observe that participants in Middle-Eastern markets are not as likely to perceive ethical content in doing business. According to Shaari et al (1993), social justice in Islam comes from ethical behaviour and it should be evident in the kindness and integrity of corporate managers. Muslims who believe in the rule of Islam are not allowed to harm themselves or others, or should refrain from causing harm to themselves or others.

Therefore, the level of trust is increased when people behave in accordance with Islamic rules and ethical principles.

There are differences between capital markets in developing countries and capital markets in developed countries. These differences are related to the nature of emerging markets; they usually suffer from: a lack of shareholder and creditor protection, a lower level of market efficiency, a lack of implementation of the existing rules and legislations, and cultural factors such as religion, which may influence the relationships between financial analysts and corporate managers. For instance, Islam may strongly influence business relationships in Iran as a country which is overwhelmingly Muslim (99%) (Vishny, 1998., Walczak, 1999., & Gomes, 2000, as cited in Nasrabadi, 2006).

Islamic investors may be worried about a different set of ethical criteria from Western ‘green’ or ethical investors, but the issues of screening techniques and stock selection are of mutual interest. Arguably both Islamic and Western investors can learn from each other, especially with respect to investment techniques even though the underlying moral value systems are very different, and there is no question of importing or exporting cultural standards or religious beliefs (Wilson, 1997). In addition Wilson (1997, p. 1331) also argues that:

> Islamic investors have a variety of choices when constructing a financial portfolio. These choices includes; riba (interest free) bank deposits, investments in Islamic unit trusts and investment companies, private placements in Muslim businesses and investments in conventional institutions and businesses which undertake to deploy funding from Islamic investors on a halal basis. Options regarded by many as haram (forbidden) include conventional bank savings and investment deposits, the purchase

of interest yielding bonds, and the acquisition of shares in companies involved in alcohol production or distribution or in pork products.

In that case, what matters is the main business activity of companies - whether these companies are involved with riba-based banks (interest) or not. If company accounts could be dissected, and halal separated from haram, a Muslim fund could be concentrated on the former.

In organizing such business relationships, there is a contractual basis. The Qur'an distinguishes between two different kind of trust; contractual trust, and relationship trust. Contractual trust takes the form of a contract written between traders to ensure that everyone has his/her rights defined as "not all people can be trusted" Fukuyama (1996) says, therefore, this kind of contract is used to keep the rights of all parties safe. Although, if there is no way to write down the contract for any reason, traders should use instead, two witnesses to at least to prove the rights of each party. This means that people can use any kind of contract which can be proved, and therefore it can keep the rights of all parties safe. The second type of trust is the relationship trust; the Qur'an also encourages people to be honest and trustworthy.

Furthermore, The Prophet Mohammad (Peace Be Upon Him) said, "who cheats is not anymore one of us". Thus Muslim people are required to have a good and trustful relationship. As a result, an Islamic stock market should include both contractual trust and relationship trust to work successfully. The Qur'an encourages effort and improvement; however, the underdevelopment of many Islamic countries cannot be attributed to Islam per se, but as Guiso et al, (2003) point out, the reason for this situation is possibly due to the development, somewhere in between the 9th and the 11th century, of inflexible legal and political institutions in the Islamic world intended to discourage growth and aimed at preserving the status quo.

As a result, Platteau (2008) points out that the development of a modern economy has not taken place in Muslim lands without organizational change. Lydon (2007) as cited in Platteau (2008) states that the essential flaw in Islamic legal systems is their failure to invest paperwork with legal personality; therefore he has given further support to the Qur'an's thesis. Paradoxically, while the Qur'an verses place great emphasis on the importance of writing and documenting credit transactions, written documents such as debt contracts and even Fatwas have no value in and of themselves and cannot therefore be used as legal evidence in a court of law. This lack of faith in paper stems from the belief that documents can easily be tampered with or simply forged, whereas oral testimonies given under an oath by witnesses are more reliable. This limitation constitutes a serious obstacle to the modern development of Muslim economies because it inhibits the growth of 'paper companies', such as joint-stock companies or corporations as well as the development of complex and large-scale enterprise in commerce, industry, and the key sector of banking (Platteau, 2008).

There has been some discussion over the intrinsic worth of having specifically Islamic stock exchanges. Malaysia is predominantly Islamic and it has the biggest stock market in the Islamic world. In spite of the size of the Malaysian stock market, this stock market exhibits considerable volume and price volatility (Nasrabadi, 2006). In an imperfect Arab world and in particular MENA countries, where most financial markets do not function according to the Islamic law (Shariah), pragmatism may be considered the most appropriate way of serving Muslim interests (Marta et al, 2004).

2.6.1 Islamic religion & the Libyan stock market

During the period from 1970 to 1990, Libya adopted a socialist-oriented economy, which established full dominance of the public sector and its institutions in all economic activities. Since 1992 Libya has adopted a market-based economy, and implemented a privatisation strategy, which clearly requires new organizational systems (Twati, 2006). However, the Libyan economy operated under economic sanctions from 1992-1998, which affected the privatization process. The Libyan financial market is dominated by conventional banks (interest based banks). In 2006 the Libyan stock market was established. Due to a general lack of knowledge of dealing on the stock markets, the Libyan stock market may face barriers from a culture of fear and distrust. Therefore, the Libyan stock market should work at two levels: building trust inside and outside the stock market to achieve its development. The lack of trust could explain the limited participation on the stock market (Guiso et al., 2007a and 2007b). Also, as trust is fostered through the operation of tribal and clan systems, there is often a clear 'chieftain' to whom service is 'owed', but from whom protection flows. This typical reciprocal bond is based on trust. Market and clan organizations exist because each of them, and, under certain conditions, offers the lowest transactions cost (Ouchi, 1980).

The Libyan government allows its companies and banks to deal normally in western financial markets without considering the culture and religious aspects, which means that Libyan people have no other choice, but to accept or decline dealing with these banks and companies. Libya is a developing country with an emerging economy and the capital market, which has started to transfer some public areas of economic activities to the private sector (privatization). As a result, the number of private investors in the Libyan stock market has increased. This development of the stock exchange is an important factor in business investment decisions. However, most Libyan people are also religious. Therefore this may affect investment decisions in the Libyan Stock Market, which has only listed banks and insurance companies which do not conform to the Shariah law because they contain the haram elements of interest (Riba), uncertainty (Gharar), and gambling (Maisir). For this reason, the Libyan Stock Market may face difficulty in increasing the number of investors.

The following section illustrates the role of bureaucratic quality as one of the factors that may considered as a barrier of the development of the Libyan stock market.

2.7 Bureaucratic Quality

The word ‘Bureaucracy’ means the power of the office, and has French roots meaning the cover used for the office. Max Weber, who is well known for his study of “bureaucratization of society”, was the first person who saw bureaucracy in a favorable light (Brzeziński, 2009). Max Weber was the developer of the modern concept of bureaucracy. He defined authority as, “A set of rules and regulations and a specification of tasks in an impersonal climate” (Roodenburg, 2008, p11). Bureaucratic organization is based on basic characteristics which are: specialization, a hierarchy of authority, a system of rules, and impersonality. Recently, a collaborative approach has been developed by businesses to structure mixing the strength of bureaucracy with the flexibility of autocracy. Although several theories exist as the best structure for businesses, there is no particular best structure of organization. This is because each business has different variables, including goals and size that need to be considered. The majority of larger organizations tend to choose a bureaucratic system, mainly because it helps to achieve a set of objectives well in such environments. Organizations that are beginning or aim to complete certain tasks then dissolve tend to select an autocracy system which gives them certain freedoms to discover their methods and markets. Bureaucracy and autocracy are both only theoretical structural designs, and therefore they are not complete structures within themselves. Nee and Opper (2009) have studied the crucial role of state bureaucratic performance and pointed out that a direct analysis of the relationship between bureaucratic quality and the development of financial markets has not yet been undertaken.

Weber (1978), as cited in Nee and Opper (2009), argues that, “Today, it is primarily the capitalist market economy which demands that the official business of public administration be discharged precisely, unambiguously, continuously, and with as much speed as possible”. Whitley (1999), cited in Nee and Opper (2009), stated that owner separation and securities markets usually develop when the state-firm interface is characterized by routinely performed, calculable, impersonal and rule-based transactions. In contrast, family-owned and owner management firms predominate in the context of relationship-based state structure.

The crucial role of the state and trust in stock market development have been demonstrated by several studies, such as those of North and Thomas (1973); Gelderblom and Junker (2004); Park (2005); and Greif (2006). The latter, as cited in Nee and Opper (2009), argues that the history of the old commodities markets, for instance Bruges, Genoa, and Venice or the early stock markets like Amsterdam, Brussels or London, shows that all these stock markets developed in an atmosphere of trust and supported by public governance.

Several studies, such as those of North (1981), Wlson (1989), Barro (1999), Nee (2008), and Rodrick et al (2004) as cited in Nee and Opper (2009) argue that a central role of government in providing an institutional function for modern capitalism is to provide in a routine and reliable manner essential public goods in return for tax revenue. Rauch (1995), as cited in Nee and Opper (2009), argue that the quality of government bureaucracy can be measured by examining its ability to deliver public goods.

Entrepreneurs in developing countries overcome deficiencies in public goods provision through their personal networks (Nee, Opper, 2006). At the same time, however, strong and often unpredictable state-firm relations lead investors to have limited trust in owing securities (Nee & Opper, 2009). Nee & Opper (2006) argue that personalized rather than impersonal power structures may affect the weakness of bureaucratic decisions. Additionally, lean bureaucratic procedures and timely delivery of bureaucratic decisions are significant features of a firm's business environment.

Weber (1978), cited in Nee & Opper (2009), argues that the best bureaucracy guarantees equity and fair treatment of all performers regardless of personal relationships. Moreover, the quality of a state's bureaucratic performance extends to the quality of the market economy's regulatory structure. Therefore, without effective and fair regulation, competitive pressure can be reduced, leading to weak external corporate governance.

However, Brzeziński (2009) argues that the modern bureaucrat has got the power as she/he *knows* the rules, procedures and contacts. Brzeziński deals with bureaucracy from a cultural point of view, a Bureaucracy is not only the system in social and economic terms but also it becomes a model of life and the psychological mechanism. So, Weber's principle may work in one cultural environment, but it may not make sense in the other. Impersonal treatment is preferred rather than rules in some cultures. As a result, bureaucracy exists everywhere in the world as a part of its social and economic aspect processes and also the cultural face.

Ouchi (1980) argues that markets, bureaucracies, and clans are distinct mechanisms which may be present in different degrees in any real organization; market exchanges and transactions consist of contractual relationships. Bureaucratic hierarchy has the legitimate authority to provide mediation. When it is difficult to determine the value of the service or goods, transaction costs will rise principally. Such difficulties can arise from the underlying nature of the service, goods or from a lack of trust between the parties. Leaving such a contract incompletely specified is an option, but that will succeed only if each party can trust the other and they can understand the uncertain future in a way that is acceptable to each other. Ouchi also argues that when the costs of completing transactions become unbearable, markets will fail. There are two principal advantages of bureaucratic organization over the market relationship:

1- Bureaucratic organization uses the employment relation, which is an incomplete contract.

2- Bureaucratic organization can create an environment of trust between workers much more readily than a market can between the parties to an exchange.

By placing an emphasis on technical expertise, bureaucracies are characterized, because they provide some skills training and some socialization into expertise or professional principles. Ouchi (1980) argues that, if there is no trust between employees and employer, the employees will require contractual protection, such as union representation and the transactions cost will rise. The critical aspect in the efficiency of market versus employment relations has to do with the congruence of the employer's and employees' goals, and the ambiguity of the measurement of individual performance. Moreover, market relations are efficient when there is little ambiguity over performance, and bureaucratic relations are efficient when both goal incongruence and performance ambiguity are moderately high. So, due to extremely ambiguous performance evaluation, a bureaucracy fails, and the clan remains.

Blau and Scott (1962) as cited in Ouchi (1980) state that in a bureaucracy, legitimate authority will commonly take the form, whereas in a clan it may take the "traditional" form. The members of the organization will share personal goals that are compatible with the goals of the organization and this will happen if all members of the organization have been exposed to an apprenticeship or other socialization period. This means that auditing of performance is unnecessary except for educational purposes, since no member will attempt to depart from organizational goals. A norm of reciprocity is universal and legitimate authority is accepted, though in varying degrees, in most formal organizations, and common values and beliefs are relatively rare. The informational requisites of each form of control are rules, prices, and traditions. Prices are a highly complicated form of information for decision making (Ouchi, 1980).

A clan relies upon creating goal congruence. Clans may use a system of legitimate authority, often the traditional rather than the rational-legal form, which is different basic from bureaucracies, and as a result, they do not require explicit evaluation and auditing. In a clan, there is sufficient information which promotes effective production and learning, that information however cannot withstand the scrutiny of contractual relations. Therefore, any tendency toward opportunism will be destructive. A clan fails when goals are incongruent and performance evaluation is ambiguous (Ouchi, 1980).

Van and Schein (1978) cited in Ouchi (1980) argue that, in clans and tribal societies, traditional rules play a very important role in governing behaviour. As traditions are not specified, they are not easily accessible, and a new member will not be able to function effectively until he or she has spent a number of years learning them. In terms of the precision of the performance evaluation they permit, traditions may be the crudest informational prerequisite, since they are ordinarily stated in a general way which must be interpreted in a particular situation. On the other hand, the set of traditions in a formal organization may produce a unified, although implicit philosophy or point of view, functionally equivalent to a theory about how that organization should work. Denison (1978), as cited in Ouchi (1980, p.11) argues that net productivity declined in the United States between 1965 and 1975 due to changes in "the industrial and human environment within which business must operate".

Ouchi (1980) points out that exchange relationships are generally focused on so much informational ambiguity that they can never be governed completely by markets. As a result, they have been supplemented by clan mechanisms and culture. He also observed that the conditions necessary for a pure market, bureaucracy, or clan are rare.

Parsons and Shils, (1951), as cited in Ouchi (1980) argue that all work organizations are institutionalized in the sense that fundamental purposes of all viable organizations must mesh at least somewhat with broad social values. This institutionalization permits organizations to survive even under conditions that severely limit their capacity for rational control. Ultimately, organizational failure occurs only when society deems the basic objectives of the organization unworthy of continued support.

2.7.1 Libyan Stock Market Bureaucracy

After the adoption of economic openness, Libya still faces serious bureaucratic administrative problems. Chairman, Shokri Ganem as cited in John (2010) describes Libyan bureaucracy as complicated and slow procedures acting because it is not as fast as the decision makers in Libya. The International Monetary Fund (2009) posted that, it is important to improve the performance of state administration in Libya and improve the regulatory framework in order to improve the business environment, improve economic, and financial and accounting standards in line with international Practices.

In addition, Qablawi (2010) quotes the French Economic Mission in Tripoli who said that "there is still considerable work to be done in the area of daily performance of the state, which is still slow and has a lot of procedures". This inefficient bureaucracy may lead to reduce trust and increase transaction costs in the Libyan stock market. Additionally, in my view, Weber's principle of bureaucracy is not successful in Libya. Libyan people overcome the obstacles of a bureaucratic system by using contacts with their family, friends, clans or tribes. In order to do business, who you know is more important than what you know, so personal relationships play a very important role in a successful business So far, no research has been published on the bureaucratic quality in the Libyan stock market due to the short period of its establishment. However, the Libyan stock market as a financial institution in Libya may be affected by Libyan bureaucratic quality in general. The state and the Libyan stock market must work together in order to increase transaction efficiency and achieve trust by improve its bureaucratic quality.

The following chapter investigates whether the relationship between banking sector development and the development of the Libyan stock market is considered to be a competitive or complementary relationship.

2.8 Banking Sector Development

Prolific research already exists concerning the issue of the relationship between banks and stock market development. As both banks and stock markets are intermediate savings towards investment projects, so the relationship between banks and stock markets can be complements or substitutes. Boyd and Smith (1997) suggested that banks and stock markets may behave as complements rather than as substitutes. Demirgüçc-Kunt and Levine (1996) argued that the degree of stock market development is positively related to the development of banks, therefore, countries with well-developed banking sectors tend to have well-developed stock markets. Additionally, Demirgüçc-Kunt and Levine (1996) stated that with developed stock markets, companies are less dependent on bank financing, and, this can reduce the risk of a credit crunch. Yerty (2008) states that the development of a well-developed banking sector is one of the critical issues which leads to stock market development in emerging markets. He argues that in emerging markets, at the early stage of establishing the stock market, the banking sector is a complement to the stock market rather than a substitute in financial investment. But, as they both develop, the relationship between banks and the stock market is converted to compete with each other as vehicles for financing investment. Bank-based systems, particularly at early stages of economic development and in weak institutional settings, do a better job than market-based financial systems at allocating capital, mobilizing savings, and exerting corporate control (Levine, 2002). Levine (1991) and Bencivenga, Smith & Starr (1995) argue that well-functioning financial systems ease information and transaction costs and thereby enhance resource allocation and economic growth.

On the other hand, Groenewold, Tang, Wu (2003) found evidence in China which showed that efficiency of liquidity and information transmission suffered when banks were excluded from the stock market in 1996, and efficiency improved when they were re-admitted in early 2000. Garcia (1986) as cited in Ben Naceur et al (2005) suggested that central banks may have a negative effect on the correlation between stock market development and bank growth. Trading volume, as the indicator of stock market development, has strong influence on economic growth while bank credit does not. Arestis et al. (2001) as cited in Ben Naceur et al (2005) show that even though the banking sector and stock market development explain subsequent growth, the affect of bank sector development is much larger than that of stock market development.

Ben Naceur et al (2005) argue that stock markets and banks work as complements instead of substitutes. Also, they point out that in many MENA countries, the financial sector is dominated by banks, and stock markets are only a small part of the financial system. The financial systems in the Maghreb countries have shared some characteristics such as a heavy public sector; bank-dominated; public banks burdened with inefficiencies; a high level of nonperforming loans (NPLs)in certain countries; limited financial sector openness in some countries; still embryonic fixed-income and equity markets, with the exception of Morocco and Tunisia; nascent institutional investor industry and generally underdeveloped microfinance; shortcomings in the legal, regulatory, and supervisory frameworks despite tangible progress; and a largely cash-based payment system that is being modernized (Tahari, Brenner, Vrijer, Moretti, Senhadji, Sensenbrenner, and Solé, 2007).

Tahari et al. (2007) argue that to make banking systems strengthen their soundness in all Maghreb countries, it is important to restructure state-owned banks, to reduce the high level of NPLs, and to secure compliance with prudential rules. They argue that the extensive state ownership and restrictions on foreign bank entry causes the stifling of competition and financial deepening in the countries. Generally, Tahari et al. (2007) find that financial markets — money, interbank, foreign exchange, equity, and securities markets — are nascent or low in most countries, and nonbank financial institutions are underdeveloped. The overall weakness of financial sector supervision is reflected in the limited performance of related international standards and codes in some countries which insure the improvement of financial sector infrastructure, such as accounting and auditing practices, transparency and governance, the legal and judicial framework, and the need for payment systems to be strengthened. The main issues facing increased financial integration in the Maghreb countries are the restrictions on capital movements including barriers to foreign bank entry.

2.8.1 Libyan Banking Sector

In order to understand the relationship between the Libyan banking sector and LSM it is necessary to highlight the situation of the Libyan banking sector. As Tahari et al. (2007) confirm, the Libyan financial sector was dominated by five state-owned commercial banks, all of which were previously international banks nationalized in 1971. The Libyan public banks accounted for over 90 percent of banking sector assets. The nonbank financial sector is very small, comprising of one offshore investment company and two state-owned nonbank finance companies. The majority of Libyan banks were owned by the Central Bank of Libya (CBL).

There are also four private banks, three of which have entered the market since 2001, regional banks owned by the citizenry and capitalized through mandatory deductions from salaries; and three state-owned specialized banks. Three state banks were recapitalized by the Central Bank of Libya (CBL) in 2005 and one was partially divested; the authorities' plans call for the eventual privatization of all state banks, however there was no equity market (Tahari et al, 2007). The Monitory Group (2006) states that the vast majority of payment transactions are carried out in cash, and the banking system in Libya has failed to provide its clients with products and services comparable to developed economies.

The Oxford Business Group (2008) argues that with the support of international advisors, the Central Bank of Libya has developed a strategy and a vision to modernize the Libyan banking system by introducing a new law for the central bank in 2005. Opening the Libyan banking sector to international banks is demanded as a large part of the new strategy, and in order to develop the current performance of public commercial banks, organizational restructuring has been taking place in conjunction with training programmes. This will make the new organization structures more decentralized in terms of authority. In addition, standardized lending processes are being introduced and a sales-oriented mentality being instilled in bank staff. Tahari et al. (2007) and Oxford Business Group (2008) confirm that the banking system has been characterized by high liquidity with low loan availability to the private sector, and the majority of commercial banks' assets are in short-term deposits or cash.

The Central Bank of Libya (CBL) with Mackinsey and IMF have been building the regulatory, technological and institutional infrastructure needed to turnover its bank holdings so it can work exclusively as a regulator. Despite the high liquidity of Libyan banks, it has extended somewhat limited loans to the private sector, especially to the small and medium-sized enterprises (SMEs) that will be the backbone of the new economy, leaving many commercial bank assets in cash or short-term deposits at the CBL. (Oxford Business Group, 2009). In my view, this may help Libyan stock market development by increasing the number of small and medium-sized enterprises which might be encouraged to be listed on the Libya stock market. The banking sector has grown quickly over the past five years in line with increased economic activity overall. Banking activity is largely covered by the wholly CBL-owned, or formerly wholly owned, in the cases of Wahada Bank and Sahara Bank-commercial banks, which have seen a sharp rise in assets and retail sectors. Two formerly 100% CBL-owned banks, which are now commercial enterprises, have undergone partial privatization through the Libyan stock market. Sahara Bank, which has large lending and trade financing operations but is starting to focus more on retail; and Wahda Bank, which is also a major lender and is giving its retail operations extra attention of late. The Commerce and Development Bank is the first completely private bank which was established in 1996 and also it has been listed on the Libyan stock market. Since 2001, four completely privately held banks have received licenses from the Central Bank of Libya. These are Aman Bank, Alejmaa Al Arabi, Waha Bank and Wafa Bank (Oxford Business Group, 2009). The Libyan stock market was first established by the LCB and then it was separated from LCB because, as the head manager of the Libyan stock market said, the Central Bank of Libya failed to make the Libyan stock market as an active market. However, four banks were listed in the Libyan stock market at an early stage in 2007, 2008, 2009. This confirms that the relationship between the banking sector and the Libyan stock market is complementary as most studies suggest because both banks and the Libyan stock market are still under development.

The Next chapter shows the role of foreign investment on the development of the Libyan stock market.

2.9 Foreign Investment

There are several studies which have concluded that foreign investment is a good source for stock market development in emerging markets because it leads to liquidity, transparency, and so on. Other researchers however see foreign investment as an evil that cause crisis such as what happened in the 1997 of Asian stock market crisis (Wang, 2007).

Ajte and Jonanovic (1993), show that trading volume (stock market development indicator) has a strong incidence on economic growth while bank credit does not.

Similarly, Levine and Zervos (1996, 1998) and Singh (1997) find evidence of a positive relationship between stock market development and long-run economic growth. In addition, Levine and Zervos (1996) show that stock market liquidity is positively and robustly associated with long-term economic growth

Stulz (1999) as cited in Rhee and Wang (2009) shows that large foreign financial institutions would help to enhance market liquidity by more active trading and better information disclosure. Also, Choe, Kho, and Stulz (1999) discovered that during the period of financial crisis in1997 in the Korean stock market, there is no evidence of destabilization being effected by foreign investors.

Studies such as those of De Santis and Imrohoroglu (1997), Bekaert and Harvey (2000), and Kim and Singal (2000) find stability in emerging markets after liberalizations. Also, Errunza (2001) added that concern about foreign investors as an aspect of destabilization is "largely unwarranted". Wang (2007), however, argues that this was the case before 1997 because all these studies were based on data prior to the 1997 financial crisis. Additionally, Dvorak (2001) as cited in Wang (2007) argues that U.S. investors who trade in emerging markets increase volatility after controlling the total trading volume in local markets.

Drawing on Yarty (2008) foreign investment is related to several factors such as; institutional, regulatory reform, listing requirements, adequate disclosure, and fair trading practices. Emerging markets need to increase informational and operational efficiency to encourage and inspire greater confidence in domestic markets, which leads to an increase in the investor base and participation and therefore leads to more capital flows in local markets.

Hearna, Piessea & Strangea (2009), state that emerging markets show that the cost of equity for listed domestic companies is increased by a risk premium, which discourages foreign investors. Kenny & Moss (1998) as cited in Hearna et al. (2009) say that overseas international investors are concerned about risks associated with liquidity. However, Bortolotti et al. (2004) argue that share issue privatization (SIPs) may reduce the risk premium by stimulating the participation of foreign investors since they are sold at substantial discount.

Hearna et al. (2009) comment that low levels of development in small emerging markets, may attract large well-known domestic companies that have been privatized. Thus, these companies are considered as safer investment opportunities with reliable dividend payouts. Wang (2007) points out that trading foreign investment which is based on low foreign investment after market liberalization may not immediately have a strong impact on the market. Rhee and Wang (2009) find that foreign investment has a negative impact on future market liquidity. They also demonstrate that foreign institutions are the large traders in emerging markets. However, they state that higher foreign ownership tends to reduce liquidity in emerging markets. Bekaet et al. (2007) as cited in Rhee and Wang (2009) show that in emerging markets there is a positive correlation between the level of openness to foreign investment and liquidity.

Several studies such as Brennan & Cao (1997) and Shukla & Van Inwegen (2000) cited in Ciner and Karagozoglu (2008) demonstrate that domestic investors have an advantage from superior information about local companies and economic conditions over foreign investors. However, Froot, O'Connell and Seasholes (2001) suggest that in emerging markets there is a significant forecasting power by foreign flows for equity returns.

Ciner and Karagozoglu (2008) find that in the Istanbul Stock Exchange (ISE) foreign investors have superior information and priori expectations which impact on their trades. Ciner and Karagozogu (2008) state that speculation in ISE is more important for large firms, which may be related to minority shareholders abuses which could potentially be a problematic case in emerging markets. Also, they find there is a positive correlation between foreign traders and private information based on speculation on the ISE. Rhee, Wang (2009, p6) argue that "If foreign investors in Indonesia adopt a buy-and-hold strategy, their lack of active trading, together with their perceived information advantage, may reduce liquidity".

Low levels of development in small emerging markets may attract large well-known domestic companies that have been privatized from state-owned which are considered as safer investment opportunities with reliable dividend payouts (Hearna et al., 2009).

Wang (2007) argues several points. First, after market liberalization when the number of foreign investors is low, foreign trading may not have a strong impact immediately. Second, he shows that there is a positive relationship between foreign selling and same-day market volatility. His third point is that during the Asian crisis, foreign purchases provide liquidity to local market, when local investors are under stress to sell, and this case therefore, helped to reduce volatility and helped to stop local markets from dropping further than they actually did.

Mishkin (2001) cited in Yarty (2008) said that by adopting financial liberalization, the cost of borrowing in the stock market will be reduced which will lead to an increase in the liquidity and the size of the stock market due to the improvements of accountability, transparency, and reducing moral hazard and adverse selection. However, Yarty (2008) argues that the rapidity of emerging market development does not mean they are mature. This because emerging markets have serious weaknesses in the transparency of transactions.

> The existence of an equity market is important because it provides investors with an exit mechanism, it attracts foreign capital inflows, it provides important information that improves the efficiency of the financial system and it provides the valuation of companies. Not until recently has the focus increasingly shifted to stock market indicators, due to the increasing contribution of financial markets in economies (Ben Naceur et al, 2005, p 481).

Yarty (2008) states that recently, emerging markets have been used as a major channel for foreign capital flows. Samarakoon (2009) argues that foreign and domestic investors as institutional and individual investors are positively related with past returns. This, however, is not the case during a period of crisis. Dahlquist and Robertsson (2004) as cited in Samarakoon (2009) show that foreign investors increase their net holdings in companies that have recently performed well.

2.9.1 Foreign investment and the Libyan stock market

Foreign investment is a key issue for Libyan stock market development, because foreign investors have much knowledge and experience of dealing with stock markets. Increasing foreign participation is a crucial issue for Libyan efforts to boost transparency in financing development, and in reforming the way small family-owned firms operate, and, also the manner of large state-owned companies. This transparency should be spread throughout the business environment in Libya, stabilizing regulatory volatility and gradually lowering the risk of doing business, thus increasing entrepreneurship opportunities. And, therefore, it should help bring people out of the grey economy to share in wealth creation, which is one of the government's stated main aims for privatization. Libya has been opened to foreign investors since a regulatory change in 2005 (The Report, Oxford Business Group, 2008).

According to the Libyan regulations, foreign investors cannot participate and invest in the Libyan stock market unless they are residents (Libyan Stock Market, Annual Report, 2008). The Central Bank of Libya has taken major steps to encourage foreign investment by partially privatising major state-owned commercial banks and adding two more commercial banks to its privatization agenda. Sahara Bank has been partly privatized since the end of 2007, by selling 19% of its shares to BNP Paribas. Also, Wahda Bank has been privatized since 2008 by selling 19% of its stakes to Arab Bank of Jordan. Both BNP Paribas of France and Arab Bank of Jordan have the right to increase their percentage of stakes to 51% in three to five years. (The Report, Oxford Business Group, 2008).

There is a lack of information about the number and the nationality of foreign investors in the Libyan stock market from 2006 to 2007. Also there is no information discovered by the researcher on this period because it was said to not be available. However, the Libyan Stock Market (LSM), Annual Report (2008) has information on t the trading value of eight different nationalities on the Libyan stock market. These are six Arabic countries, one European Country, and one Asia Country. In 2009, the LSM Annual Report shows that the number of different nationalities as investors decreased from six to three Arabic nationalities: Sudan, Suria and Jordan investors are out of the Libyan stock market, whereas, the trading value of foreign investors is increased. Foreign investors have traded in shares of Commerce and Development Bank, Al Sahara Bank, Al Wahada bank, Libyan Insurance Company and the Libyan Stock Market.

Although the trading value has increased, which may lead to increased liquidity and therefore lead to development, there is a question mark as to why these three different nationalities dropped out. The Libyan stock market should find out and cure the problem if there are any, in order to enhance trust and increase the number of investors, which would lead to increased liquidity and decreased transaction costs. Table (2.4) is the foreign trading value by different nationalities in 2008 and 2009.

Political risk may be considered as one of the barriers to the development of the Libyan stock market. Therefore, the following section illustrates how political risk level affects the development of the Libyan stock market.

Table 2.4: The Foreign Trading Value by Different Nationalities (2008, 2009)

No	Nationality	Trading value 2008	The Percentage	Trading value 2009	The Percentage
1	Egypt	120,336.000	% 39.77	211,768.95	% 43.13
2	Palestine	67,586.000	% 22.33	174,395.82	% 30.02
3	Tunisia	44,685.000	% 14.77	456.25	% 0.09
4	Italia	33,660.000	% 11.12	128,128.99	% 26.10
5	Sudan	23,200.00	% 7.67	-	% 0
6	Syria	9,682.000	% 3.20	-	% 0
7	Jordan	2,968.00	% 0.98	-	% 0
8	India	489.000	% 0.16	507.50	% 0.10
9	Algeria	-	% 0	2,251.25	% 0.45
	Total	302,606.000	% 100	490,508.76	

Source: The Libyan Stock Market Annual Report (2008, 2009)

2.10 Political Risk

Several studies suggest that there is a close association between political risk and stock markets. For instance, Stringham., Hammond, Nolan, Wooten, Mammen, Smollon, et al. (2008) find that most problems in the Czech stock market are due to government policies rather than a lack of securities regulation. Yartey (2008) also finds that political risk and institutional quality are strongly associated with the development of the stock market. Yartey's study suggests that the resolution of political risk (the development of good quality institutions) can be an important factor in the development of stock markets in emerging economies. As political risk is an important factor in investment decisions, it strongly affects the local cost of equity, which may have important implications for stock market development. So, according to Yartey, political risk is one of the main barriers in emerging stock markets, and the resolution of political risk can encourage investor confidence and propel the growth of stock markets in emerging markets. Thus, a country with good quality institutions (and therefore a low level of political risk) can have a well developed stock market. Moreover, Erb., Harvey & Viskanta (1996) argue that in developing and developed countries, the lower the level of political risk, the lower is required returns. Therefore, expected returns are related to the magnitude of political risk.

Smimou & Karabegovic (2010) suggest that changes in economic freedom, legal structure and security of property rights have a crucial impact on stock market development. Moreover, they give investors in the developing stock market a chance to reduce their portfolio by diversifying investments. Thus the level of economic freedom is associated with stock market returns.

Several studies, such as those of Bekaert & Harvey (2000), Stulz, (1999), Ahimud et al. (1997), Funke (2001), Henry (2000a) and Bekaert et al. (2001, 2005), all cited in Ben Naceur et al., (2008), state that stock market liberalization leads to increased equity prices, a decrease in the cost of capital, a reduction in equity risk premium, and an increase of the size and liquidity of domestic stock markets. Moreover, such liberalization leads to increased investment, and higher economic growth.

Conversely, Shleifer & Vishny (1986 as cited in Devereux & Smith, 1994), argue that improvement in stock market liberalization may weaken corporate governance by reducing the incentives for shareholders to monitor managers, leading to a less efficient allocation of resources. However, even if a liberalized financial sector gives better protection against future uncertainties, this may lower the need to save for the future, which might lead to a better stock market without an increase in investment and savings (Ben Naceur et al., 2008). Additionally, Eichengreen (2001, cited in Ben Naceur et al., 2008) argues that stock market liberalization may trigger financial instability as well as misallocation of capital detrimental to economic growth.

Equity market liberalization permits foreign investors to invest in domestic markets. And according to Bekaert et al. (2003 cited in Smimou & Karabegovic, 2010, p.3), argue that equity liberalization means “allowing inward and outward equity foreign equity investment without restrictions”. Moreover, Henry (1999, p.2) defines liberalization as “a decision made by a country’s government which allows foreign investors to purchase shares in that country’s stock markets”. Ben Naceur et al. (2008) argue that a more developed stock market prior to liberalization, less government intervention and not fully opening the economy to foreign trade reinforces the positive impact of liberalization on stock market development.

Henry (2000b) cited in Ben Naceur et al (2008) argues that stock market liberalization reduces the cost of equity through the decrease of interest rates and equity premium. This fall in the cost of equity stimulates capital accumulation since some investment projects that had a negative net present value before liberalization become profitable after liberalization.

Levine (2001) cited in Ben Naceur et al., (2008) argues that stock market liberalization may lead to improved corporate control by allowing foreign investors to put performance pressures on managers. Furthermore, El-Wassal (2005) investigates the relationship between stock market growth and economic growth, financial liberalization, and foreign portfolio investment in forty emerging markets between 1980 and 2000. This results show that financial liberalization, economic growth, government policies, and foreign portfolio investments were the leading factors of emerging stock market growth.

Most MENA countries revenues from financial systems have been used to finance government needs, state-owned enterprises (SOEs), and priority sectors. (Ben Naceur et al. 2008).

Creane et al. (2004) find that most MENA countries have poor quality institutions, including the judicial system, bureaucracy, and property rights. This suggests that such countries will (probably) fail to develop attractive stock markets.

Stock market development has been central to the domestic financial liberalization programme of most of the emerging markets. Apart from their role in domestic financial liberalization, the stock markets have also been very important in recent years as a major channel for foreign capital flows to emerging economies.

Ben Naceur et al. (2008) state that in the last decade of the last century and the first decade of this century the majority of emerging markets embarked on a series of reforms, including liberalization of domestic stock markets. There was a major improvement in the performance of the financial system after the liberalization decision in the MENA stock markets. Although stock market liberalization may have an immediate negative effect on the development of the stock market, this negative impact turns positive and significant in the long run. So, as a result, before fully opening the domestic economy to foreign investment, reforms should first and foremost start in the domestic economy (Ben Naceur et al., 2008). Smimou &

Karabegovic (2010) suggest that the MENA stock markets should increase the level of economic freedom, the legal structure, security of property rights, and the role of government institutions in regulation.

In the majority of MENA countries, property rights enforcement tends to be weak. Also, the Heritage Foundation's index of private property protection shows that only Bahrain has a rating of very high protection, and only the United Arab Emirates and Kuwait have a rating of high protection. The Heritage Foundation also observes a significant government involvement in banking and finance regulation in the region (Creane et al., 2004, p11-12).

Ben Naceur et al. (2008) state that the MENA economies are classified as bank-based economies, since the MENA financial market is dominated by banks. The reform agenda in the MENA countries started in the 1990s and included a plan to establish stock markets in some countries and revitalize stock markets in others. Many MENA countries issued new laws for the capital market which aim to increase investor protection, encourage private investment, and enhance the banks' role in stimulating capital markets through the establishment of mutual funds. Specifically, their core provisions include establishing a new legal framework to govern specialized capital market companies, strengthening financial disclosure, giving foreign investors full access to the market, and increasing investors' rights through provisions prohibiting unfair market practices.

2.10.1 Libyan political risk

The Oxford Business Group (2008) state the Libyan government has started to overhaul the socialist economy with the help of prominent international advisers, and the Libyan government's plan is to distribute wealth from the government to the private sector through the privatization process of state-owned enterprises. Moreover, the Libyan government is working to increase the level of economic freedom, legal structure, security of property rights, and the role of government regulation.

> Libya has long enjoyed stability and a high level of political participation, though not through the traditional representative democratic process. Rather, the country's political institutions take the form of consultative bodies at the local, regional and national levels. The government has acted successfully to avoid the troubles of its neighbours, many of which have been battling extremism and social unrest for decades, by encouraging open discourse about social issues, allowing religious freedom and avoiding dependence on foreign powers (The Oxford Business Group, 2009, p16).

In March 2008, Qaddafi himself called for faster reform. He declared the old system of distributing wealth through the government's General People's Committees a failure and stated that oil wealth should go to the population directly through a business community driven by private initiative. In his speech, Qaddafi stated that:

> You have been wondering where all the oil money went. The public sector and its management were charged with the distribution of profits, but corruption and inefficiency have rendered this system unviable (The Oxford Business Group (2009, p18).

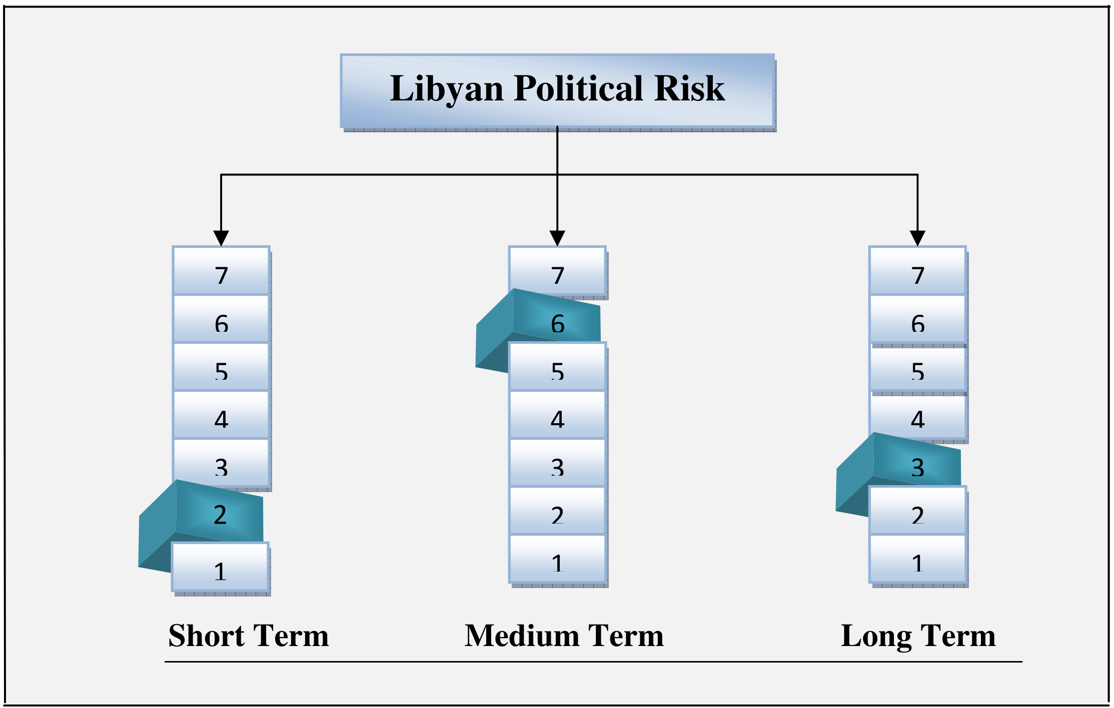
Success for the Sahara Bank privatization would provide an encouraging signal that some of this potential is at long last being realized. This also can be a positive signal showing that the level of political risk can be reduced in future, which will promote foreign investors to invest in Libya. According to The Economist, (Dec 30th 2009, p.18), "The domestic stability that has prevailed for decades adds to the country's competitiveness". The overall business environment in Libya can be considered as highly attractive in a regional context, because of the low level of short-term economic risk, a moderate political risk profile, and the country's abundant oil and gas resources that are being developed and produced in partnership with IOCs (*The Economist,* Mar 9th 2006). Despite the country's international rehabilitation in recent years, foreign investors still consider Libya as a country with high level of political risk. According to Office National Du Duducroire (ONDD, which is an autonomous public body whose mission is to promote international economic relations by covering risks related to exports of goods and services, imports, direct investments abroad and short, medium and long-term credits), the Libyan political risk is ranked: low, two out of seven for short term transactions; high, six out of seven for medium long term transactions, and it has medium level of political risk (three out of seven) for special transactions, which are mainly contracting works and projects with long realization periods, but payable in cash as the work progresses, see figure (2.2).

Furthermore, Oxford Business Group (2010, P32) states that:

> Foreign and private participants confirmed that the business environment in Libya has improved dramatically in the last few years, with a number of important new pieces of legislation to be adopted in the near future that will ease the fiscal and administrative pressures on businesses. The main hope expressed by private sector participants is of greater legislative stability, which is essential to long-term planning.

Privatization has a positive influence on the stock market expansions and promotes wider ownership, and affects the financial position of many investors who have limited wealth. Privatization brings the important players who have a strong incentive to buy shares from the privatized firms and expect to gain income over the long term. Therefore, the following section demonstrates the role of privatization on the development of the Libyan stock market.

Figure 2.2: Libyan Political Risk



Source: Office National Du Duducroire (ONDD, 2010)

2.11 Privatization

Such an influence has appeared on stock market capitalization and trading during the privatization procedures. Total market capitalization grew. As well as the value and the volume of shares traded. An examination of the historical evaluation of the non American stock markets since 1980 suggests that large share issue privatization (SIP) played a key role in the growth of capital markets almost everywhere. A new share listing may straight away bring some new wealth, through liquidity and opportunities of new jobs; an economic pay off from increasingly efficient and liquid capital markets, which comes from the financing opportunities and monitoring possibilities (Megginsion & Netter, 2001).

Privatization sales are a significant determinant of foreign direct investment because of the concentration of sales in specific industries such as communication, which may be particularly attractive for foreigners. Openness to foreign investment in privatization is also a good predictor of foreign direct investment and privatization is an instrument to strengthen institutional rules and protect equity investment and prove over time that they intend to continue doing so (Perotti, & Oijen, 2001).

Privatization is an ideal test for political commitment to market oriented reforms, as it severely tests the determination of policy makers to resist the political heckles after the sale is completed (Perotti, 1995). It values a retreat of political forces from the governance of economic activity. In this shift of control, the right to private ownership lays an important cause of improved performance of firm (Perotti, & Oijen, 2001). The main factors that lead to efficient schemes of privatization are institutional changes with influence significantly the strengthening of the legal framework; and equity investment. In the early stage of political transition, private control and policies reforms must exist to reach market deeping which takes place as an "efficient instrument" as a result of the real progress of privatization, where may contribute to having confidence in institutions, investment and trading.

Privatization contributes to the development of stock markets as follows:

1. Due to the positive externalities generated by listing decisions; privatization initial public offerings (IPO) may jump-start an economy's stock market by improving investor's diversification opportunities (Pagano, 1993).

2. Moreover, share issue privatization (SIP) involving the floating of shares in both domestic and international exchange, (SIP with cross listing) reduce informational barriers to foreign investment and enlarge a firm's share holder base (Chiensa & Nicodano, 2003) by boosting liquidity in the domestic market.

3. Share issue privatization positively affect stock market liquidity, the effect of privatization is robust to the inclusion of several other possible determinants of liquidity identified by country-specific and time- varying factors (Bortolotti, Jong, Nicodano & Schindele, 2007).

4. There is an externality effect associated with privatization: SIPs, both domestic issues and cross listing, enhance the liquidity of private companies as well (Bortolotti et al, 2007). This positive cross-asset externality is a primary implication of liquidity theories that imply that privatization may bring along both risk reduction and improved risk sharing (Chiensa & Nicodano, 2003., Pagano, 1993).

5. The new domestic privatization IPO allows for better diversification opportunities for local investors, while cross listed ones may enlarge the share holder base to foreigners and reduce informational barriers. At the same time SIP affects market liquidity and isolates spillovers in liquidity and turn over to non-privatized firms (Bortolotti et al, 2007, p299).

6. A deeper secondary market allows companies to raise capital at lower prices by reducing the investor's required return (Amihud & Mendels, 1986). Furthermore liquidity rather than capitalization provides incentives for information acquisition to financial analysts; this in turn stimulates the use of stock-based managerial incentives

schemes which may enhance corporate performance and growth. (Holmstrom & Tirole, 1993).

7. The new share listing can directly create some net new wealth and a handful of new jobs, but the principal economic pay off from increasingly efficient and liquid capital market comes from financing opportunities and the monitoring possibilities they provide (Bortolotti et al, 2007).

8. Privatization deserves credit for whatever direct role it has played in promoting stock market development through new share offerings and for the indirect role it has played in bond market development (Bortolotti et al, 2007).

9. One of the distinctive aspects of SIP programmes is the tendency of government to sell shares to large numbers of citizens, often one million or more. Individual stock holders are created in a sample of large privatization share offerings as well as low; these highly atomistic ownership structures evolve overtime (Bouchkora & Megginson, 2000).

SIPs may reduce illiquidity by improving an investor's diversification opportunities; due to a coordination failure among firms and investors, stock markets are trapped in long liquidity-high risk premium equilibrium (Pagano, 1993).

Investors have opportunities to diversify their portfolio only if many firms go public. Investors require a lower risk premium, because their information enables them to forecast a firm's payoff more accurately, which increase liquidity. However, the equilibrium number of private IPO's may be lower than optimal, this is because each

> entrepreneur bears the full listing cost, but does not internalize the diversification benefits arising from an additional listing. (Bortolotti et al, 2007, p.300).

A privatization policy, aiming at increasing the number of IPOs of state owned enterprises, can move away from equilibrium reducing the under-development trap benefiting the liquidity of private companies (Bortolotti et al, 2007). A similar effect on stock market liquidity arises when agents receive on the job costless information concerning their own company's payoffs (Subrahmanian & Titman, 1999).

> SIP may reduce the spread by stimulating the participation of foreign investors. Privatization has typically been associated with cross-listings involving, the issue of the shares of a state owned enterprise in both the local and at least one foreign exchange. (Bortolotti et al, 2007, p.300).

The rapid evaluation of capital markets in developing countries has emerged as a major event in recent financial history. This remarkable development followed a crisis period when foreign debt and large government deficits had undermined confidence in these economies (Perotti & Oijen, 1999). As result of this, those countries that have adopted certain policies have enhanced the establishment of huge privatization programmes. The main objectives of their policies are reduction in public debt; and improved efficiency and sustaining the rate of capital market by advertising and marketing their shares to the public by assembling and assessing information about enterprises prospects and providing opportunities for risk diversification for small private investors. Sales to the private sector have led to an inflow of foreign capital and led to more integration of local firms in international trade patterns (Sader, 1995).

A privatization sale through offering on a local stock exchange in developing countries is an instrument to increase market capitalization (Perotti & Oijen, 1999). Privatization sales may produce significant indirect benefits for local stock market development, because the large privatized companies provide substantial impact on trading liquidity while at the same time increasing investment chances for local investors to increase their portfolio diversification; their effects have a positive impact on the risk sharing function of the market and lead to market deepening (Perotti & Oijen, 1999).

Pagano (1993) asserts that firms seeking listings create an externality for other firms because their shares increase diversification for all investors. Successful privatization results in a strengthening of property rights and institutional reliability, which broadens the appeal and confidence in equity investment lacked most stock markets of developing countries and need to work harder to reach. Privatization sales may having indirect benefit for local market development through listing large privatized companies providing substantial impact on trading liquidity at the same time as raising investment chances for local investors to enhance portfolio diversification. Privatization motivates authority to establish a solid regulatory frame work and to reduce ambiguity concerning private rights (Perotti & Oijen, 1999). By the use of the stock market to sell state owned enterprises, the government also has incentives to facilitate stock market transactions.

Paretti (1995) has asserted that privatization sales need to be gradual, so that confidence in a stable policy toward privatized companies can be firmly established. Proceeds from privatization increase over time, suggesting that gradual selling calibrated to build investor confidence is useful. As policy credibility increases, larger initial sales become more common .Underpricing may also serve as a complementary signal of commitment (Perotti and Guney, 1993).

Ben Naceur et al, (2007, p.478) state that “stock exchange in MENA countries and other emerging countries has become very important to the world’s economy and their role in the international financial system witnessed a significant increase”.

2.11.1 Privatization in Libya

Bennelt (2003, p1) argues that "Libya and Syria still have a large state-owned sector. The share of the state in the economies of the region is, on average, one of the highest in the world even surpassing that of the former Soviet Union and Eastern Europe". After three decades of adopting social–oriented economy the Libyan government has stated it aims to move towards market–based economy, which indeed leads to starting the privatization process.

To stimulate the private sector and make the business environment more attractive to investors, the Libyan government has decided to transfer ownership of 360 enterprises to the private sector. Its objectives are to improve business performance, widen the economic ownership base, reduce the burden on the national budget and activate the Libyan stock market. In order to achieve these objectives, privatization is taking several forms, including having a public auction for shares, joint ventures with foreign firms, direct negotiation with investors, employee stock ownership, and the listing of companies on the stock market (Oxford Business Group, 2008).

According to the Libyan Stock Market Annual Report (2007), the Libyan stock market had only six listed companies in 2007 which were four banks and two insurance companies. In 2008, according to the Libyan Stock Market Annual Report (2008), the number of listed companies had increased to seven companies, four banks and three insurance companies. The year after, in 2009, the Libyan stock market had listed its shares as one of the Libyan listed companies. Then in 2010, the number of listed companies increased to ten companies. Al Sahari Bank is the second largest commercial bank in Libya and it was the first Libyan bank to be privatized, and listed on the Libyan stock market, and sells its shares to the public. It sold 19% to BNP Paribas in 2007. Wahda Bank is the second bank that has been privatized and listed on the Libyan stock market, and it sold 19% to Arab Banking Corporation.

According to Oxford Business Group (2008, p52)

> Following the positive Al Sahari Bank and Wahda bank privatizations, the Central Bank of Libya announced that two more wholly state-owned commercial banks will be privatized in initial public offerings (IPOs) on the Libyan stock market in 2009.

Therefore, successes privatization process in Libya may enhance trust and encourage more investors to buy shares which will increase stock market liquidity and provide transaction cost efficiency.

Stock market liquidity is seen as the indicator of stock market development. Stock market liquidity is the ability to buy or sell shares quickly and at low cost. This means that the level of trust needs to be considered as one factor in many which go to make up good level of stock market liquidity.

2.12 Stock Market Liquidity

Market liquidity is a fundamental aspect of stock market development (Bortolotti, Jong, Nicodano, and Schindele, 2004). Yartey (2008) states that stock market liquidity has a positive effect on stock market development, and stock market liquidity can be another approach to achieve development of emerging stock markets.

Chordia, Sarka and Subrahmanyam (2001, p.1) identify stock market liquidity "as the ability to buy or sell large quantities of an asset quickly and at low cost". Crockett (2008, p14) represents market liquidity as “the ability to undertake transactions in such way as to adjust portfolios and risk profiles without disturbing underling prices”.

Jun, Maratheb and Shawkyc (2003) find evidence that stock market liquidity positively predicts growth, capital accumulation and productivity improvements, and that liquid equity markets provide important requisites for economic growth. Moreover, Jun et al, (2003) find in emerging markets that stock returns are positively related to market liquidity as measured by turnover ratio, turnover–volatility multiple and trading value. Rousseau & Wachtel (2000), cited in Ben Nacer, Ghazouani and Omran (2005) that both the highly capitalized equity market and development of liquidity have increased the speed of growth.

Ben Nacer et al. (2005) argue that stock market liquidity in emerging markets is positively correlated to liberalization policies, economic growth, and the level of global integration. Also, a market with a higher level of aggregate liquidity may have higher stock valuations relative to other markets.

According to Jun et al. (2003) there are six emerging markets which rank among the top twenty markets in the world in terms of capitalization. Malaysia, Taiwan, and Korea were among the ten most active markets during 1998. In addition, in these three markets, trading is determined in a large number of domestic companies as in many emerging stock markets. On the other hand, many emerging markets are still very intense, with low trading volume and high trading costs. Butler, GruHon & Weston (2005) argue that liquidity of the stock market is a significant determinant of the cost of raising external capital. Stock market liquidity may be an important determinant of a firm's ability to access external capital markets. They also suggest that to lower the cost of raising capital, firms may have incentive to promote improvements in their stock market liquidity.

The highly significant and direct relationship between liquidity and equity returns in emerging markets should encourage policy makers to implement policies that will enhance liquidity and promote growth. However, as portfolio managers consider their global portfolio allocation strategies, they should incorporate the liquidity characteristics of individual markets (Jun et al, 2003).

Ben Nacer et al. (2005) suggest that in order to promote stock market development in MENA markets, it is important to encourage savings by appropriate incentives which improve stock market liquidity, and, as a result, to develop financial intermediaries and control inflation. Bekaert, Rogge, Strauven, Kooning & Walle (2002) found that financial markets tend to be more liquid after regulatory changes that enhance market integration.

The migration of a major share of market capitalization and value traded abroad has had adverse consequences for the liquidity of the remaining companies' securities. On the contrary, costs, terms, and liquidity can improve with increased migration to exchanges with better rules and greater transparency. Given the increased remote access to trading systems, domestic investors need not give up on their ability to trade stocks, even when they are listed abroad (Claessens, Klingebiel, and Schmukler 2002).

There are two reasons for the price impact when investors trade. The first is that markets are not completely liquid. A large trade can create an imbalance between buy and sell orders, and the only way in which this imbalance can be resolved is with a price change. This price change that arises from lack of liquidity will generally be temporary and will be reversed as liquidity returns to the market. The second reason for the price impact is informational. A large trade attracts the attention of other investors in that asset market because if might be motivated by new information that the trader possesses (Benveniste, Capozza and Seguin 2001).

Harris (1990) cited in Bortolitti et al. (2004) said that a perfectly liquid market is one where any amount of a given security can be instantaneously converted to cash and back to securities at no cost. In a less than perfect world, a liquid market is one where the transaction costs associated with this conversion are minimized.

Yartey (2008) argues that a liquidity market is important because it enables initial investors to invest their savings for the duration of the investment project without losing access to their savings during the investment project, and because they can sell their stake in the company quickly, easily, and cheaply. Therefore, more liquidity market could help investment in the long term easily, probability of more profitable projects, therefore improving the allocation of capital and enhancing prospects for long-term growth. The more stock market liquidity, the larger the amount of savings that are passed through the stock market. Thus Yartey (2008) points out that stock market liquidity have a positive effect on stock market development, by improving stock markets, emerging markets will develop.

Ellul and Pagano (2004) cited in Bortolotti et al. (2004) that a deeper secondary market allows companies to raise capital at a lower price. Naceur, Ghazouani, and Omran (2007) state that stock market liquidity allows investors to modify their portfolios cheaply and quickly, therefore, this leads to stock market development. Amihud and Mendelson (1986), Brennan and Subrahmanyam (1996), Jacoby et al. (2000) all cited in Jun, Maratheb, Shawkyc (2003) that there is a direct link between liquidity and corporate cost of capital. Liquidity, marketability or transactions costs influence investors' portfolio decisions.

In addition, Atje and Jovanovic (1993) and Levine and Zervos (1998), state that well-functioning stock markets enhance the liquidity of capital investment and thus promote long run economic growth. The role of stock markets is emphasized more strongly in developing countries, where the need for funding profitable long-term investments is stronger than in developed countries.

Jun et al, (2003) argue that trading value provides a measure of market liquidity by aggregating over the whole market. Also, emerging stock markets imply that they are achieving quality and efficiency as time goes by. They study twenty seven emerging equity markets from 1992-1999, and they found that there was a positive correlation in emerging markets between stock returns and both market liquidity as measured by turnover ratio, and turnover–volatility multiple.

Ying (1966) and Gervais et al. (2001) cited in Jun et al, (2003) argue that rises or falls in daily trading volume tend to be followed by increases or decreases in the stock price, and trading activity includes new information about the future evolution of stock prices.

Bernstein (1987) argues that liquid and efficient markets require a large number of interested and active investors. The larger the number of interested investors leads to the smaller number of shares that each investor will own. The investor who owns too small a share to influence management policies in the corporation will be prepared to buy more shares only if an exit exists to sell these shares whenever a sale serves the investor's needs. Therefore, the easier the exit from ownership of a corporation, the more attractive its ownership becomes, which means that the cost of capital is a direct function of the character of the market in which the common shares trade. Stock markets attract large numbers of buyers and sellers. They provide market makers to buy and sell when outside buyers and sellers are lacking, they make transfers remarkably simple, and they keep transaction costs low. The expectation is that stocks with larger market values should be able to absorb large transactions more readily than stocks with smaller market values (Bernstein, 1987).

A company whose primary concern is providing a liquid facility for the owners of its shares will want to see a relatively steady price with changes as continuous as possible. This is also likely to be the case where a company is buying in its own shares or seeking to acquire the shares of other companies.

At the same time, however, excessive attention to liquidity at the expense of proper handling of corporate information can lead to a loss of trust and credibility of investors. A company planning to sell new shares will focus on the ability of a market to price its stock as close to equilibrium value as possible. That way the financing can be maximized without exposing the buyers of the new shares to subsequent disappointments. Simultaneously, however, liquid market conditions around that equilibrium price are a necessary condition for holding down the cost of capital, or investors' required returns. The uncomfortable conclusion of all this is that liquidity and efficiency are often incompatible characteristics of a market, desirable as each of them may be for economic efficiency and rational allocation of resources (Bernstein, 1987).

Drawing on Benveniste, Capozza and Seguin (2001) the cost of illiquidity is the cost of remorse. In the case of publicly traded stock in a heavily traded company, this cost should be small. It will be larger for stock in a small, over-the counter stock and will escalate for a private business, where there are relatively few potential buyers. It can also vary for different types of assets, with higher costs for real assets and lower costs for financial assets. Bortolotti

(2004) describe illiquid market is when “sell orders are filled at a lower price than buy orders.”

Transaction costs include both explicit and implicit costs. The explicit costs include brokerage commissions and government taxes. These costs are usually easy to quantify but remain outside the direct control of the exchange and therefore are not considered (Bortolotti, et al. 2004).

Benveniste et al, (2001) argue that there are some investors who undoubtedly operate under the misconception that the only cost of trading is the brokerage commission that they pay when they buy or sell assets. While this might be the only cost that they pay explicitly, there are other costs that they incur in the course of trading that generally dwarf the commission cost.

When trading any asset, they are three other ingredients that go into the trading costs. The first is the spread between the price at which investors can buy an asset (the dealer’s ask price) and the price at which investors can sell the same asset at the same point in time (the dealer’s bid price). The second is the price impact that an investor can create by trading on an asset, pushing the price up when buying the asset and pushing it down while selling. Benveniste et al, (2001) cite Jack Treynor’s proposal for the third transaction cost as being the opportunity cost associated with waiting to trade. While being a patient trader may reduce the first two components of trading cost, the waiting can cost profits both on trades that are made and in terms of trades that would have been profitable if made instantaneously but which became unprofitable as a result of the waiting. It is the sum of these costs, in conjunction with the commission costs that make up the trading cost on an asset.

2.12.1 The Libyan Stock Market Liquidity

Trading takes place daily by a central electronic book entry system, and is limited to the floor of the exchange between 10:00 a.m. and 12:00 p.m. Settlement is through a central depository on a rolling contractual basis of trade date plus three working days (T + 3). Settlement Guarantee Fund (which is composed of ten financial intermediation companies) work to ensure that the implementation of all the obligations of the financial settlement or paper resulting from trading operations is handled correctly and at the right time. And, if any one of the members of Settlement Guarantee Fund is delayed for any reason in implementing one or more of the obligations of the financial settlement, at this time the Settlement Guarantee Fund intervenes to make the settlement on time which reduces risk and increases trust in the Libyan stock market.

However, the capital of the Settlement Guarantee Fund was increased by 500,000.000 L.D in September 2009 from 320,000.000 L.D in April 2008. Therefore, this limited amount of money cannot cover higher obligations of the financial settlement or paper resulting from trading operations, which might be acceptable at this stage of Libyan stock market development, but it might be not suitable for the future stage (www.lsm.gov.ly).

According to the Libyan Stock Market Annual Report (2007) the Libyan stock market had only six listed companies in 2007, four banks and two insurance companies. The value of trading operations from 1 January 2007 to 31 December 2007 was 254,560,705 L.D, with a trading volume of 4,943,283 shares. The following table (2.5) shows the trading process in 2007 of the three companies showing trading value and volume. In addition, there was a subscription operation (new shares to sell) of the Libyan Insurance Company. The number of shares for allotment was 4 million at 7 L.D per share see table (2.6). In the event, 3,365,327 shares were allotted. This suggests some large requests were scaled back, particularly as the number of applicant was likely to below.

Table 2.5: The Trading Process in (2007)

No	Issuing company	Number of Shares	Value in L.D
1-	Al Sarai Bank For Commercial & Development	295	2,950
2-	Al Sahari Bank	4,938,949	254,053,665
3-	United Insurance Company	4,039	504,090
	Total	**4,943,283**	**254,560,705**

Source**:** The Libyan Stock Market Annual Report (2007)

Table 2.6: Subscription Operations

Company	Offered value	Subscribed shares	Share's price in L.D	Value
Libya Insurance Company	4,000,000	4,603,250.000	7	32,222,750.000

Source**:** The Libyan Stock Market Annual Report (2007)

In 2008, according to the Libyan Stock Market Annual Report (2008), the number of listed companies increased to seven companies, four banks and three insurance companies. The trading value was 29,276,065.600 L.D and the trading volume was 1549216 as showed in the following table (2.7):

Table 2.7: The Trading Value & Volume (2008)

No	Issuing company	Trading Volume	Value in L.D
1-	Al Sarai Bank For Commercial & Development	2710	273,191.900
2-	Al Sahari Bank	816645	15,759,977,940
3-	United Insurance Company	56485	627,623,550
4-	Wahda Bank	415506	9,136,396.490
5-	Bank of Commercial & Development	222195	2,982,912.620
6-	United Insurance	2468	450,625.000
7-	Sahara Insurance	33207	45,338.100
	Total	1549216	29,276,065.600

Source**:** The Libyan Stock Market Annual Report (2008)

In 2009 the number of listed companies was increased to ten companies divided as follows; five banks, three insurance companies, one investment and financial institution and one industrial company. The trading volume increased to 6,166,718 shares and the trading value also increased to 72,304,109.600 L.D. The following table (2.8) is a comparative trading value and trading volume between 2007, 2008 and 2009.

Table 2.8: Trading Value & Volume in (2007, 2008 & 2009)

Year	The number of issuing companies	Trading Volume	The value in Libyan Diner
2007	6	4,943,283	254,560,705
2008	7	1,549,216	29,276,065.600
2009	10	6,166,718	72,304,109.600

Source: The Libyan Stock Market Annual Reports (2007, 2008, and 2009)

From the above table, it is obvious that the number of listed companies has increased by only four companies. However, the trading volume decreased from 2007 to 2008, while the trading *value* is increased which indicated that the price of shares has increased during this period of time (from 2007-2008). However, in 2009 both trading volume and value increased due to the increase in the number of listed companies. The type and the number of investor are not available for the year 2007. However, the following table illustrates the type and the number of investors in 2008 and 2009. Based on the lack of liberalization policies, economic growth and the level of global integration, the liquidity of the Libyan stock market can still be seen as being at a low level. Jun et al, (2003) suggest that many emerging markets tend to be very intense with low trading volume and high trading cost, but this is not the case in the Libyan stock market. The issue price of shares is low and this kind of price an ordinary person in Libya could think about buying some shares.

Table 2.9: The Type & the Number of Investors (2008, 2009)

No	Type of Investors	Number of investors in 2008	Number of investors in 2009	Percentage Change
1	Companies	65	134	%106
2	Associations	7	9	%28.5
3	Members	18617	70073	%98.8
4	Families companies	29	29	%0
5	Funds	9	14	%55.6
6	Low-income	0	182544	
	Total	**18727**	**219737**	

Source: The Libyan Stock Market Annual Reports (2008, 2009)

The following section shows the role of per capita income level on the development of the Libyan stock market.

2.13 Per Capita Income Level

"Per Capital Income (PCI) is measured by dividing the real GDP of a particular year by the population of the country" (Sule, 2009, p82). So, per capita income is the average income for each person in a particular group. Rault, Caporale, Sova & Sova (2009) state that Goldsmith's paper (1969) was the first to show empirically the existence of a positive relationship between financial development and GDP per capita. Levine and Zervos (1996) also find a positive partial correlation between both stock market and GDP per capita growth and banking development.

The relationship between financial deepening and per capita income in the transition economies, have been studied by several researchers. Rault et al, (2009) note that the transition economies showed the fastest growth in consumer credit resulting from an increase in public confidence in the banking sector as well as in per capita income. GDP per capita has a positive effect on private credit, increasing financial depth. Additionally, Cottarelli et al, (2005, cited Rault et al, 2009) argue that there is a positive relationship between credit to the private sector and per capita income in the transition economies.

Levine and Zervos (1996) argue that after controlling the initial income, initial investment in education, political stability, fiscal policy, openness to trade, and macroeconomic stability, stock market liquidity is a robust predictor of real per capita GDP growth. Atje and Jovanovic (1993) find evidence that shows the level of stock market activity helps to explain growth in per capita output. Greenwood and Jovanovic (1990) argue that income per capita helps determine membership in an information-processing intermediary that in turn improves investment decisions and economic growth.

Yartey (2008) uses the log GDP per capita in US dollars to measure the income level, and he finds that real income is highly correlated with the size of the stock market. Also, Ben Naceur et al (2008) find the same result: that high income has a positive incidence on the size of the stock market. Durham (2002) finds evidence in his study which indicates that stock market development has a more positive impact on growth for greater levels of per capita GDP.

Jamil (2010) argues that foreign direct investment does not contribute significantly to the level of per capita income. Similarly, Torre, Gozzi, and Schmukler (2006) find that there is a shortfall in domestic stock market activity (market capitalization, trading, and capital raising in Latin America after controlling for many factors, including per capita income, macroeconomic policies, and measures of the legal and institutional environment.

However, Ben Naceur et al, (2008) state that foreign direct investment (FDI) has been regarded in the last decades as an effective channel to transfer technology and foster growth in developing countries. FDI may affect not only the level of output per capita but also its rate of growth. A higher savings level means that more local resources are available to be invested in the domestic financial system and therefore may be associated with a higher stock market development (Garcia and Liu, 1999; Ben Naceur et al., 2007).

Trecartin & Jbantova (2003) argue that there is a positive, strong, and significant correlation between GDP per capita and many of the stock exchange "maturity" variables examined.

> "Countries that had operational stock exchanges prior to 1940 have a significantly higher standard of living as measured by GDP per capita. The same can be said for stock exchanges that have a larger number of trades, have a larger dollar value of trade, and trade the most units (shares etc.). When the market capitalization variable is scaled by its proportion of the economy the variable becomes significant and explains 49% of the country variation in GDP per capita. The number of listed companies on the exchange, the number of exchange memberships, and the exchange turnover ratio for each country are not significant variables for predicting" GDP per capita (p4).

Trecartin & Jbantova (2003, p5) state that:

> "The countries with the highest GDP per capita had stock exchanges before 1940. These countries include Slovenia, Poland, the Czech Republic, Hungary, Estonia,

> Russia and Bulgaria. The rest of the stock exchanges do not report any prior existence or previous operations. Countries with prior stock exchanges also have acquired the highest level of imports and exports and managed to attract the most foreign capital in comparison to the rest of the countries".

According to Trecartin & Jbantova (2003) the establishment and nurture of a local stock market appears to be one of the important building blocks necessary to spur economic growth, and they find that there is a strong relationship between variables that represent stock exchange maturity and GDP per capita.

2.13.1 The Libyan per capita income level

Drawing on Alfetory (2004, p151) the low level of per capita income in Libya is affects directly the financial capacity of the sector. The level of per capita income in Libya decreased from $10,981.00 in 1980 to $5141.00 in 2001 (Alfetory, 2004).

In 2008 the average per capita income increased to D.L 9,332.00, which is roughly $6221.00, and inflation was 10.4% in 2008. This low average of per capita income may play a crucial role in the development of the Libyan stock market because it prevents a significant number of Libyan people from investing in it.

The following section illustrates how important the existence of law and appropriate rules and regulations of the stock market are in order to enhance stock market development.

2.14 Law & Regulations

Law and finance scholars argue that corporations and financial market development depend on the effective legal protection of shareholders and creditors (Shleifer & Vishny, 1997). Corporate laws provide shareholder protection against insider expropriation and thereby reduce agency costs that are naturally connected with a separation of ownership and control (Nee & Opper, 2006). Creane Goyal, Mobarak & Sab (2004, p.9) observe/state that “The legal and political environment, within which the financial system operates is an important determinant of the range and quality of services offered by financial institutions”. Creane et al. (2004) argue that in several countries, the judicial system is susceptible to political pressure and long delays, resulting in poor legal enforcement of contracts and loan recovery.

Comparative studies of corporate law extend the view that the origin of a legal system is closely correlated with the extent of shareholder protection in empirical analyses of financial markets (Demirguckunt and Maksimovic, 1998). But the development of legal protection is not in line with the pattern of historical security of market developments worldwide. For instance, in Amsterdam, home of the world’s first stock market and stock company (the East India Company founded in 1602), formal share holder rights were largely absent (Stringham, 2003).

Another view point is that the confidence of economic actors, individuals and firms in the credible commitment of government in enforcing contract, protecting property rights and facilitating markets (North, 1981, Olson 2000 as cited in Nee & Opper, 2009). Rathinam & Raja (2007, p3) argues that:

> “The law and finance theory holds that in countries where legal systems enforce private property rights, support private contractual arrangements, and protect the legal rights of investors are more willing to finance firms; there would be more savings as lesser premium required to part with the savings in a less risky environment thus financial markets flourish”.

Also, Lerner & Schoar (2004), cited in Bottazzi & Da Rin (2005), argue that there are statistically significant relationships between legal origin and the type of securities and contractual covenants used. Investors from countries with strong legal traditions make more extensive use of securities that afford downside protection. Such evidence also suggests that there is a role for contracts as a basis for relationships.

In modern capitalism the legal system and the bureaucracy enables extant predictability and calculability of decisions (Weber, 1988 cited in Nee & Opper, 2006, p 4). Demirguc-Kunt and Maksimovic (1998) cited in Yartey (2008) show that firms in countries with high ratings for the effectiveness of their legal systems are able to grow faster by relying more on external finance. Compared with the highly organized and properly regulated stock market activity in the US and the UK, most emerging markets do not have such a well-functioning market.

Bekaert et al. (2002) as cited in Gao and Kling (2006) find that after regulatory changes, financial markets tend to be more liquid because it enhances market integration. China has made many regularity changes to improve the legal framework and reduce barriers to trade in the Chinese stock market. For example buyer and seller have to pay stamp tax for every transaction, so this kind of transaction was reduced many times (Gao and Kling, 2006).

According to Seguin (1990) lower margin regulation levels are associated with lower return volatility and larger trading volume. The International Finance Corporation Investable Index is composed of a select few stocks that have a "legal and practical availability to foreign institutional investors and must meet the more stringent … size and liquidity screens" (Stringham, Boettk & Clark, 2008, p547).

Petra Wendelova of Ernst & Young as cited in (Stringham, Boettk & Clark 2008, p.546) "You cannot do an IPO if you are putting into your prospectus that the shares will be available once the court registers them, which can take three months".

Stringham et al. (2008) argue that the low number of IPOs in the Czech Republic is because of an over burdensome government rather than the lack of regulations.

In addition, there is a huge debate about whether or not regulators who are not experts would do a poor job, and what matters is that if regulators have the ability to enforce the rules (Stringham et al., 2008). Stigler (1964 as cited in Stringham et al. 2008, p.557) states that "in the past, regulators have implemented many questionable regulations that do not benefit investors". Similarly, Stringham et al (2008) find that the Czech Republic is no exception.

Zemplinerova, (2000 cited Stringham et al., 2008, p.557) argues that:

> "Many people simply assume that government has the ability to assist investors, but the reality is often different. It is fairly well accepted that judges in former communist countries have little experience enforcing complicated financial contracts and so are not completely knowledgeable".

Green et al. (2000, p.595) suggest that "regulators must pay attention to the overall implications of market structure and regulation for private brokerage and other costs, and not just to those directly regulated costs such as transactions taxes.".

Creane, Goyal, Mobark, & Sab (2004, p.6) state that the financial markets in most of MENA countries are thin and tightly regulated, market forces play a limited role, and government ownership is prevalent. Elhage & Fedelino (2001) as cited in Creane et al. (2004) find that the financial reform progress in most of the Arab countries is still at an early stage in the process, the financial sector is dominated by banks, in some, by public banks; and the development of capital markets is hindered by legal, financial, institutional, and economic factors. Ben Naceur et al. (2008) argue that most of the MENA stock markets are limited by several structural and regulatory weaknesses. Most of the MENA stock markets are characterized by large institutional holdings, a small number of listed companies except in a few countries such as; Egypt, Israel, Iran, and Turkey, and therefore narrow floats. This means that the MENA stock markets make progress in building their capital market institutional and legal framework contract compliance, bankruptcy laws, and tax reforms into healthy investment opportunities (Ben Naceur et al. 2008).

The development of MENA markets is complicated by legal limitations on ownership, the need for a clear and stable legislative framework, weak investor confidence, and inactive or non-existent secondary markets for financial instruments. In much of the MENA region, the quality of institutions, including the judicial system, bureaucracy, and property rights, is poor. This hinders banking and commercial activity as well as investment, and hence growth (Creane et al., 2004, p10-11). Ben Naceur et al. (2008) argue that the MENA emerging markets recently have had more attention from international investors. However, a lack of the rule of law is one of the reasons that prevented foreign institutional investors from investing in MENA markets (Erb et al., 1996). Also, Smimou & Karabegovic (2010) suggest that in order to enhance stock market development the MENA stock markets should improve the legal structure.

2.14.1 Law & Regulations in Libya

Ben Naceur et al. (2007, p.480) state that in their sample of 12 MENA countries are "embarked on institutional setting and regulations such as establishing security market regulation, investors productions, trading rules based on shared regulatory responsibility, etc”.

Drawing on Creane et al. (2004) most of the MENA countries perform relatively well in the areas of regulation and supervision as well as in financial openness. But more effort is needed in order to reinforce the institutional environment and promote non-bank financial sector development (Creane et al., 2004). Smimou & Karabegovic (2010) suggest that the MENA stock markets should increase the level of economic freedom and also they have to increase legal structure and security of property rights and size of government.

> “Property rights enforcement tends to be weak in the MENA region. On the Heritage Foundation's index of private property protection, only one country in the region (Bahrain) has a rating of very high protection, and two (the United Arab Emirates and Kuwait) have a rating of high protection. Similar to the results presented above, the Heritage Foundation notes significant government involvement in banking and finance in the region. Its index (which weighs government ownership, restrictions, influence over credit allocation, regulations and freedom to offer services in the financial sector) rates only one country (Bahrain) as having very low government restrictiveness in the financial sector for 2002, and two (Jordan and Lebanon) as having low government restrictiveness” (Green et al., 2000, p.11-12).

Green, Maggioni, & Murinde (2000) state that transaction cost in emerging markets is an important factor in share market volatility and regulatory regime. Transaction costs in the emerging market can be divided into transaction taxes and brokerage changes which derive directly from regulation. Emerging markets rely on stamp duty or other transaction taxes as a regulatory tool. The regulatory regime is a key determinant of transactions costs, directly through taxes or regulatory changes on market participants, and indirectly through the institutional and competitive structure of the market.

Green et al. (2000, p.595) state that regulators should know that changes in stamp duty is not the only way to reduce transaction costs. In addition, they state that “regulators in emerging markets need to consider the balance of the regulators regime as between market structure and directly regulated costs”.

Creane et al. (2004) find that in comparison to other MENA countries in 2002/03, Libya had the lowest average of financial development index which includes the banking sector, nonbank financial sector, regulation and supervision, monetary sector and policy, financial openness, institutional environment. Otman & Karlberg (2007, p.374) state that:

> “although there exists in Libya a body of law to deal with the environment, environmental health, and pollution issues, it is apparent that for many reasons, some related to administrative and legal impasses, these existing environmental laws are not being applied rigorously, although without having access to actual court proceedings and decisions it is difficult to determine how poor the enforcement of existing environmental legislation really is”.

Otman & Karlberg (2007) suggest that comprehensive environmental legislation must be drawn up. This lack of environmental legislation may cause distrust in the financial market which affects transaction costs and therefore the development of the Libyan stock market. The following section is the summary of the literature review chapter.

2.15 Summary

It is recognised that there are many ways the literature contributes to understanding and interpretation of the concept of trust. In particular, behavioural economics, transaction cost economy and more general social process theory lead to different understanding of the trust concept. In this thesis it is argued that transaction cost economics allied with social process theory provide useful insights as follows:

1- Transaction cost theory makes predictions on the size of the firm based on the relative magnitudes of transaction costs arising in the switch from bureaucracy to market-based provision.
2- Given the recent development of the Libyan stock market, decision-makers must determine the appropriate type of contract to use, and this leads them to weigh up transaction costs associated with executing a transaction within their firm versus transaction costs associated with executing the transactions in the market. The within firm allocation is very much a form of politics rather than a form of economic behaviour as portrayed in standard textbook theory.
3- Game theory tends to ignore the role of expertise and experience that are important in financial transactions. This leads the researcher to the view that in this context transaction cost theory is appropriate and will provide useful insights.
4- Transaction cost theory could provide a good explanation for the development of the new Libyan stock market; since transaction cost theory relies on human and environmental factors that are crucial in dealing with stock markets.
5- A strong relationship exists between bounded rationality and trust.

Moreover, beside transaction cost theory this thesis uses Covey's (2008) equation which explains how trust affects the two outcomes: speed and cost. The researcher has decided to use Covey's equation because transaction speed and transaction cost are both considered as essential to the development of trust, which can rapidly increase stock market liquidity and enhance the development of the Libyan stock market. In addition, the researcher will use Covey's model as a trust building strategy to build a model of Libyan stock market development.

The one recent study in Libya broadly concerning the stock market and economic reform was conducted by Masoud (2009). His focus was on the determinants of economic reform and stock market performance. His study had a different focus from this study; being concerned more with *how* the development of the stock market might be supported and the factors that would be significant in this. Masoud, for example, discussed the concept of trust only as a minor element in his work; it appears on only three occasions in his thesis and he dealt with trust in terms of deregulation. While in this research, it seems clear that trust is central in the minds of the Libyan respondents as a requirement for the development of an efficient stock market. In general Masoud does not focus particularly on trust as a *determinant*. A core issue with 'trust' as a determinant of economic relations is that, as emerged in this study, it operates at the level of the individuals involved in trading. It therefore does not surface as a particular issue until consideration is given to the individual traders that are necessary for a functioning stock market.

In this study, Masoud's initial ideas relating to trust are developed much more fully. This is as a result primarily of the empirical underscoring to 'trust' as a significant factor behind many of the factors in the model.

The setting of these particular research questions for this thesis requires the consideration of a wide number of factors. However, in more recent times there has been little research that specifically addresses these problems directly in Libya. The broader literature on each of these factors can be extensive in contexts outside Libya. For the purposes of this thesis, in relation to the ten factors considered from the literature, the researcher can summarize as follows:

In the case of culture there is a widespread literature which describes the way national culture affects the more specific culture of financial markets. This literature gives us a perspective that suggests that culture plays an important role in relation to the financial markets. In the case of Libya, there is far less available in the literature to provide direct evidence. However, those who do write on Libyan culture suggest that Libyan culture can be considered an important factor that affects the business environment in general and companies in particular. Religion is considered in the literature as a crucial factor in relation to good economic attitudes. However, there are limited studies on the relationship between religion and financial markets specifically in the case of Libya. Therefore, this research will update the literature in order to provide a more general platform for the consideration of religion in relation to the development of financial markets in developing countries, particularly Islamic ones, using the experience of Libya.

Bureaucratic quality is addressed in the literature as a mechanism that affects transaction costs in the market, particularly in its relationship to trust. The literature suggests that good bureaucratic quality can reduce transaction costs and may increase the level of trust. In the case of Libya, the literature suggests that the Libyan bureaucratic quality is characterized as poor, being complicated and slow procedurally, in general. To date there is a gap in the literature of bureaucratic quality specifically in the Libyan stock market. This thesis highlights the issue of bureaucratic quality as an important factor in the development of the Libyan stock market. In the case of the banking sector's development, there are many studies that addressed the role of the banking sector's development in relation to stock market development particularly in developing countries. These studies suggest that at the early stage of establishing the stock market, the banking sector is a complement to the stock market rather than a substitute in financial market investment. Although there are several studies on the Libyan banking sector, the literature on the role of the Libyan banking sector on the development of the Libyan stock market is limited. So, this study will fill the gap in the literature by emphasizing the relationship between the Libyan banking sector and the development of the Libyan stock market.

A number of studies have addressed the role of foreign investment on stock market development. Most of these studies suggest that there is a positive impact of foreign investment on the development of the stock market in developing countries. However, those who do write on this topic, particularly in the MENA countries, suggest that opening the door fully to foreign investment is risky. With regard to the Libyan stock market, this study will provide knowledge on the role of foreign investment on the development of the stock market.

Several studies in the literature suggest that there is a close association between political risk and stock market development. In the case of Libya, the literature suggests that political risk effects the whole business environment in Libya. This thesis adds knowledge to the literature on the role of political risk in the development of the Libyan stock market. [The recent turmoil and civil war have demonstrated the repressed though underlying tensions and concerns in this area. One of the key economic aims of the new National Transitional Council relates to the establishment of effective capital markets and the stimulation of foreign investment]. Moreover, there is a widespread literature on the way in which privatization has proceeded, particularly in relation to the ex-communist economies. This literature gives us a perspective and suggests that privatization has a positive relationship with stock market development. In the case of Libya there is less available in the literature concerning evidence of this kind. However, those who do write on this topic seem to suggest that beginning the main process in Libya may well be similar to that followed in other MENA countries. This study will update the literature in order to provide a general platform for the consideration of privatization in developing economies such as Libya and those who have similar characteristics.

In the literature there are a wide range of studies that address the role of stock market liquidity in the development of the stock market in emerging markets. All these studies suggest that stock market *liquidity* is an indicator of the level of development of the stock market in emerging markets. In the case of Libya this study will fill the gap in knowledge concerning the relationship between stock market liquidity and the development of the Libyan stock market.

Many further studies suggest that the level of per capita income may have a positive relationship with stock market development in emerging countries. However, in the case of the Libyan stock market, there is far less available in the literature as evidence. Thus, this thesis will expand the literature in order to provide a general platform for the consideration of per capita income level and its role on stock market development in Libya (and those economies which have similar characteristics).

Law and regulations are considered in the literature as crucial to stock market development. In terms of Libya, the literature suggests that comprehensive environmental legislation must be drawn up, which gives us a perspective to suggest that the lack of legislation may affect the development of the Libyan stock market. This thesis will fill the gap in understanding more clearly of the role of law and regulations on the Libyan and similar stock markets.

In drawing these threads together in the context of this thesis, what is significant is that it presents an updating of some of the literature concerning specific applications and factors, in a particular place (Libya), which has not previously been analysed in this way.

In the literature the majority of researchers used quantitative methods because they looked at the existing and well formed market. In that situation, questionnaires represent a different choice in conducting this type of research. However, given the very recent creation of the Libyan stock market, there is insufficient history, breadth and depth in the market to provide sufficient analytical data to satisfy a quantitative study. As a result, the choices are restricted to the wide range of qualitative methods that are available for empirical research of this type. The qualitative approach followed in this research is considered in chapter three.

Chapter 3: Research Design and Methodology

3.1 Introduction

The present research seeks to explore the barriers to effective marketization of corporate equity in Libya. This question requires an interpretive philosophy which seeks to describe, understand and interpret how the Libyan stock market could be developed, since the Libyan stock market has been created recently and there is insufficient history, breadth and depth in the market. Therefore, this research has been conducted using qualitative methods, which are underpinned by an interpretive paradigm. Further, in-depth face-to-face interviews were carried out to obtain preliminary data. The purpose of this chapter is to describe and justify the methodology of this thesis.

This chapter is divided into seven parts. Following this introduction, part two discusses the research paradigm. Part three deals specifically with the research design. Part four explains the translation through triangulation. Part five demonstrates thematic analysis as a process for encoding qualitative information. Part six, discusses the research procedure. Finally, Part seven concludes the chapter.

3.2 Research Paradigms in the Financial Disciplines

There are a number of competing paradigms that can be adopted by researchers. For example, in accounting the streams flowing from this competition are often labeled 'mainstream', 'interpretive' and 'critical'. Baker and Bettner (2007, p.1) suggest that "In a general sense, interpretive research [in accounting] attempts to describe, understand and interpret the meanings that human actors apply to the symbols and the structures of the settings in which they find themselves." Baker and Bettner view the absence of studies exhibiting an interpretive or critical stance from the main journals in accounting, for example, as disturbing. The explanatory power of some behavioural research in accounting does not incorporate insights from interpretivist research. Therefore, this narrow positivistic tradition forfeits some potentially valuable insights. However, to date the integration (or reconciliation) of these two traditions has not been achieved in an effective manner.

This thesis is in the interpretive stream of research within accounting, and follows in the tradition established by Chua (1986). According to Chua (1986, p.613), "interpretive research is derived from Germanic philosophers who emphasize the role of language, interpretation, and understanding in social science". Chua provides a table (3.2) that lays out the dominant assumptions in interpretive research.

Table 3.1: The Dominant Assumption of the Interpretive Perspective

A. ***Beliefs About Knowledge***

Scientific explanations of human intention sought. Their adequacy is assessed via the criteria of logical consistency, subjective interpretation, and agreement with actors' common-sense interpretation.

Ethnographic work, case studies, and participant observation encouraged. Actors studied in their everyday world.

B. ***Beliefs About Physical and Social Reality***

Social reality is emergent, subjectively created, and objectified through human interaction.

All actions have meaning and intention that are retrospectively endowed and that are grounded in social and historical practices.

Social order assumed. Conflict mediated through common schemes of social meanings.

C. ***Relationship Between Theory and Practice***

Theory seeks only to explain action and to understand how social order is produced and reproduced.

Source: Chua (1986, p.615)

It is interesting to note that Chua does not discuss beliefs about physical reality under (B) in the table. Within much of this discussion the notion of 'paradigm' is not made clear.

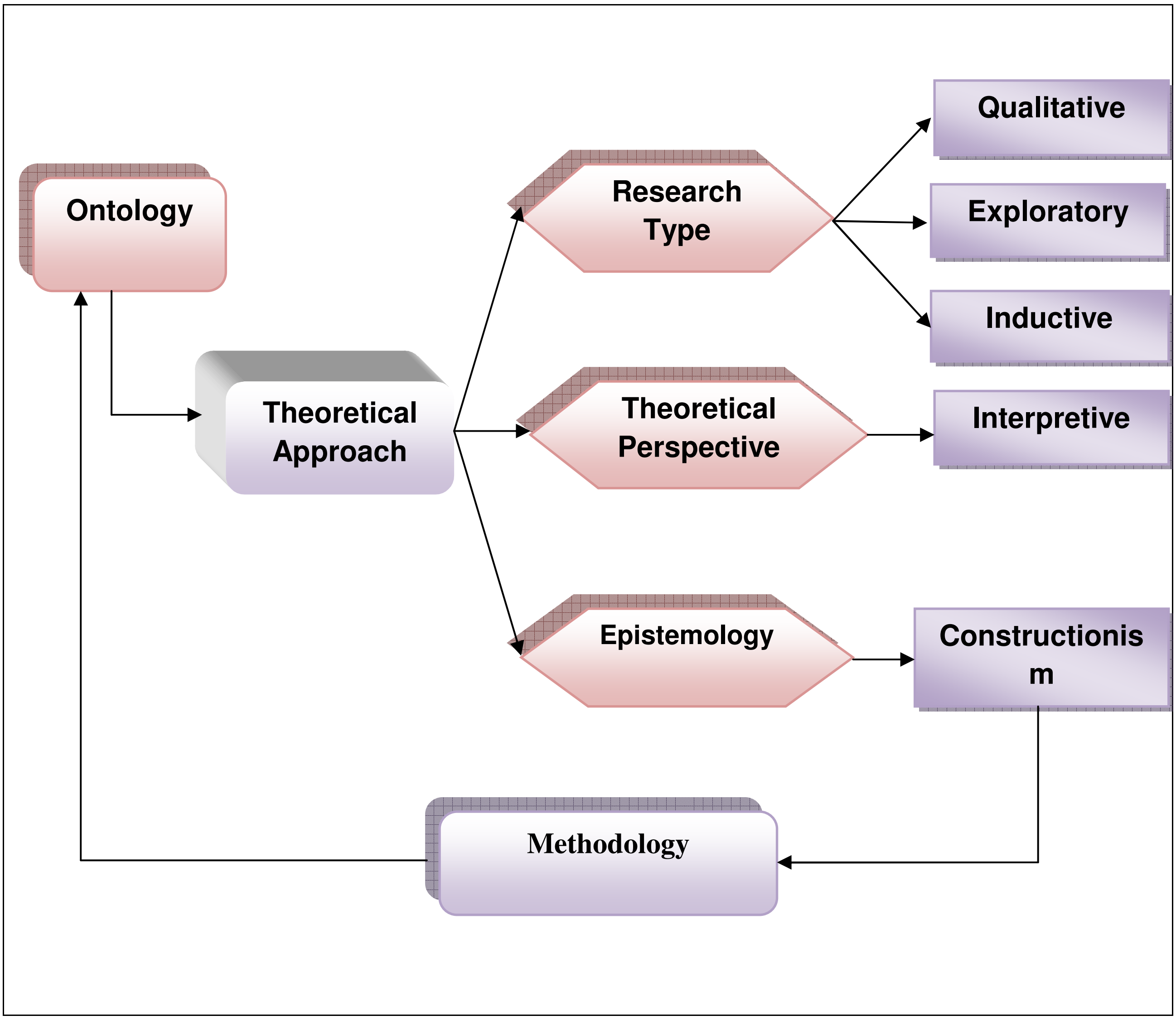
Guba and Lincoln (1994, p.140) define a paradigm as:

> "the worldview or belief system that a researcher needs to provide guidance about the nature of reality in the world, to specify the relationship between the investigator and the reality to be investigated, and to indicate appropriate research methods to be employed in the inquiry".

Denzin & Lincoln (1998) and Guba & Lincoln (1994) argued that there are three basic elements of paradigms: ontology, epistemology, and methodology (Figure 3.1).

Ontology is concerned with the nature of knowledge or the nature of reality. What is the nature of the knowledge or reality? Epistemology raises the question of how we know the world or what the relationship is between the inquirer and the known. Methodology focuses on how we gain knowledge about the world and or how the inquirer should go about finding out knowledge. Burrell & Morgan (1979) and Hopper & Powell (1995) as cited in Ryan., Scapens., & Theobald, (2002) added a fourth element, which is human nature. Human nature, according to these researchers, focuses on the relationship between the human being and their environment. Figure (3.1) illustrates the justification for this theoretical approach.

Figure 3.1: Theoretical Approach Justification



3.2.1 Interpretive Accounting Research

Chua (1986) argued that interpretive researchers seek to make sense of human actions by appropriating them into a determined set of individual aims and a social structure of meanings. According to Rosmila (2009), several researchers such as Burrell and Morgan (1979); Hopper and Powell (1995); Laughlin (1995); and Ryan et al. (2002) are the key authors who have explored alternative methodological approaches from an accounting research perspective.

Ryan, Scapens and Theobald (2002) argue that some *critical* accounting researchers believe that interpretive research does *not* seek to promote fundamental change and provide a social critique, though interpretive research *is* focused on making sense of the social character of daily life.

Ahrens (2008) discusses how social reality emerges from subjective understanding and is objectified through interaction which lies at the heart of interpretive management accounting research. Armstrong (2008, p.878) argues that "interpretive research has a great deal to contribute to our understanding of how accounting is actually performed".

Rosmila (2009) argues that the interpretive approach is increasingly adopted by researchers to overcome the weaknesses of the positivist approach.

However, as might be expected, the use of interpretivism in the field of accounting and finance research is more limited. The key stance taken is related to Interpretive Accounting Research (IAR). Ahrens (2008) says that IAR enables interpretive researchers to adapt their theories, methodologies and methods to highly specific research areas and questions. A greater emphasis on the potential for cumulative IAR could usefully go hand in hand with an overall more constructive outlook. Chua (1986) states that IAR is about understanding the everyday practice of accounting and this involves close contact analysis of human interaction. Moreover, Ahrens (2008) suggests that the "polycentrism" of IAR represents a significant resource for coming up with something new.

The recent study by Masoud (2009) employs the positivistic paradigm and selects a deductive approach. However, the present study is the first interpretive study in this topic that places emphasis on the barriers to effect marketization of the very recent creation of the Libyan stock market where there is insufficient history, breadth and depth in the market. This led the researcher to take a position of interpretivist as an appropriate philosophy since this exploratory study seeks to *understand* how the Libyan stock market could be developed.

Given all these considerations, the interpretive paradigm appears to be the most suitable paradigm for this research because it is a paradigm that philosophically embraces the use of a range of strategies of inquiry in order to explore and understand the situation of the Libyan stock market (which is a human construct) and the factors which may affect Libya and stock market development.

3.3 Research Design

"The research design is the framework through which the various components of a research project are brought together: Research questions, literature review, data, analysis and results" (Thietart et al. 2001). Research design is necessary before data collection or analysis can commence. "The function of the research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible" (Vaus & David, 2001, p.9). Ryan et al. (2002, p.136) confirm that, "When standard research designs are employed to study particular phenomena, this will make interpretation of research more straightforward. Thus, the actual research design employed can be compared with the standard design, and any disappearance from established practice can be considered in depth". Ghauri and Grønhaug (2002) argue that the research design is the overall plan for relating the conceptual research problem to relevant and practicable research. The quality of empirical research is greatly influenced by the underlying research design. Strategic choice of research design should come up with an approach that allows for answering the research problem in the best possible way within the given constraints. Choice research design can be conceived as the overall strategy to get the information wanted.

Yin (2009) argues that research design is identified as exploratory, explanatory and descriptive. One fundamental distinction between exploratory and explanatory design is whether the research seeks to answer exploratory questions or explanatory questions. This study employs on exploratory research design because it seeks to explore the barriers to effective marketization of corporate equity in Libya since the Libyan stock market has been only recently created and there is insufficient history, breadth and depth in the market.

3.3.1 Exploratory Research

Exploratory research requires skills such as the ability to observe, obtain information, and give an explanation, i.e. theorizing (Ghauri, Grønhaug, 2002). The aim of exploratory research is to provide tentative understanding of a research problem and it should be used to further research (Malhotra, 1993). In this study, the exploratory research includes a review of relevant literature and in-depth interviews to gain insights into the research problem and discover the main barriers which affect Libyan stock market development.

Denzin and Lincoln (2003, p.3) have defined qualitative research as follows:

> “Qualitative research is a situated activity that locates the observer in the world. It consists of a set of interpretive, material practices that makes the world visible. These practices...turn the world into a series of representations including field notes, interviews, conversations, photographs, recording, and memos to the self. At this level, qualitative research involves an interpretive, naturalistic approach to the world. This means that qualitative researchers study things in their natural settings,

attempting to make sense of, or to interpret, phenomena in terms of the meanings people bring to them".

It is in this sense that the approach here is 'qualitative'. Data collection methods have been identified with exploratory research, such as observational methods, narrative, in-depth individual interviews, focus group, and analysis of documentary evidence. However, it is important to note that practitioners of exploratory qualitative research vary considerably in the extent to which they rely on particular methods of data collection (Silverman, 2000).

The methods used by exploratory researchers exemplify a common belief that they can provide a deeper understanding of social phenomena than would be obtained from purely quantitative data (Silverman, 2000). Qualitative researchers of social worlds use observational and related methods to identify and construct the perspectives and patterns of action and interaction that organize diverse social worlds (Silverman, 1997). Ritchie and Lewis (2003) confirm that the distinctive characters of qualitative methods include the following:

- Aims which are focused on providing an in-depth and interpreted understanding of the social and material situations, their experiences, perspectives and histories.
- Samples that are small in size and purposively selected on the basis of most important criteria.
- Data collection methods which usually engage close contact between the researcher and the research participants, which are interactive and developmental and allow for developing issues to be explored.
- Data which is very detailed information, rich and general.

- Analysis which is open developing concepts and data which may create full description and organization, recognize patterns of organization, or develop typologies and explanations.
- Outputs which tend to focus on the understanding of social meaning through mapping and representing the social world of research participants.

Qualitative research has four functions; contextual, explanatory, evaluative, and generative. Contextual research describes the form or nature of research; explanatory examines the reasons for/or relations between, what exists; evaluative shows the efficiency of research; and generative aids the development of theories, strategies or behaviour. Several studies such as those of Denzin & Lincoln (1998) argue that the factors that determine whether qualitative methods should be used as the principle are centrally related to the objective of the research.

There are six main reasons which lead to qualitative research. First, qualitative research is used when the subject matter needs to be more clearly understood or defined before it can be measured, such as newly developing social phenomena. Second, qualitative research offers deeply rooted understanding of phenomena that needs to be deeply set within the participants' personal knowledge or understanding of themselves, for example, beliefs about personal autonomy. Third, the researcher should use qualitative research when the subject of study is complex and where there is need to understand phenomena which are naturally complicated or theoretically difficult to relate. Fourth, qualitative research is suitable when the researcher uses a specialist approach to collect the information from individuals or groups that have a singular or highly specialized role in society.

Fifth, in some subjects of social research, the researcher faces difficulty in capturing factors because they are so fragile in their manifestation, which leads the researcher to use qualitative research to help participants uncover and relay the delicacy of their perceptions and responses. Sixth, any subject matter could raise sensitivities depending on the person, situation or experiences; in this case, qualitative research will require lightly-tuned questions that are responsive to the particular situation of the individual and sensitive facilitation to help people to describe feelings or emotions that may be very stressful or have previously been unexpressed.

According to Miles & Huberman (1994, p.1) “Qualitative data are more likely to lead serendipitous findings and to new integrations; they help researchers to get beyond initial conceptions and to generate or revise conceptual frameworks”.

Myers (2000) argues that “the ultimate aim of qualitative research is to offer a perspective of a situation and provide well-written research reports that reflect the researcher’s ability to illustrate or describe the corresponding phenomenon. One of the greatest strengths of the qualitative approach is the richness and depth of explorations and descriptions”.

Kuzel (1992) and Morse (1989) both cited in Miles & Huberman (1994, p.27) argue that “qualitative researchers usually work with small samples of people, nested in their context and studied in-depth-unlike qualitative researchers, who aim for larger numbers context-stripped cases and seek statistical significance”.

As discussed in section (3.2.1) this thesis adopts an interpretivist philosophy in order to answer the following research questions:

1- What are the factors which may affect the Libyan stock market development?
2- What is the relationship between trust and the main factors as it effects the Libyan stock market development?

3- What are the barriers to use of unwritten contracts in the Libyan stock market?

4- How can the Libyan State and market work together to improve the social economy and regulation of transaction cost on the capital resource of the Libyan stock market?

Therefore, this study uses qualitative research because its aim is to explore and understand the real barriers that may affect the development of the Libyan stock market as a new financial institution in Libya. Qualitative methods, mainly semi-structured interviews provide opportunities for participants to present their views honestly; it is also a very good approach in projects where the researcher deals with managers, bureaucrats, and elite members of a community where people value their time (Bernard, 2000). The researcher will interview resident experts, such as shareholders, to address the research questions in Libya. Questionnaires are not used because many people do not answer them honestly and may mark answers without even reading them (Saunders, Lewis & Thornhill, 2003), and more importantly, because questionnaires will not satisfy the research questions of this study.

3.3.2 Qualitative Method: Semi structured interview

In order to answer research questions, the methodology required qualitative approach to the inquiry. Silverman (1997) argues that information about the social world is obtainable through in-depth interviews. The reason for choosing the qualitative interview method is because it provides the means for exploring the points of view of our research subjects, while granting these points of view the culturally honoured status of reality. Face-to-face semi-structured interviews can be used to obtain information and answers to research questions. In this section, the researcher describes and justifies the overall design of the research and methodology in which qualitative data was collected to help build the conceptual framework and models for the research.

Moreover, Hessler (1992) identifies interviews as a method of gathering information one-to-one either directly face -to- face, or indirectly over the telephone. The interview is a conversation, the art of asking questions and listening. The interview is one of the most common and powerful ways in which we try to understand our fellow human beings (Denzin & Lincoln, 2000).

In-depth interviewing is often a very appropriate method in qualitative research and the nature of the research is the main determinant of whether or not the use of in-depth interview is advisable. Additionally, it usually seeks 'deep' information and knowledge, as a way to check out theories that a researcher has formulated through observation, to verify independently, knowledge they have gained through participation as members of particular cultural group, or to explore multiple meanings of, or perspectives on some actions, settings, or events (Gbrium & Holstein, 2001). This deep understanding has several meanings according to Gbrium & Holstein as follows:

1- Deep understanding is held by the real-life members or participants in some every day activity, events, or place. So the interviewer seeks to obtain the same level of knowledge and understanding as the members or participants.

2- Deep understandings go beyond common-sense explanations for and other understanding of some cultural form, activity event, place, or artefact. In-depth interview is an irremediably inter-subjective enterprise.

3- Deep understanding can reveal how our common-sense assumptions, practices, and ways of talking partly constitute our interests and how we understand them.

4- Deep understanding allows to grasp and articulate the multiple views of perspectives on and meaning of some activity, event, place, cultural object (2001, p.106-107).

This study uses semi-structured interviews because, although questions are normally specified the researcher has more freedom to investigate beyond the answers and thus it provides the need to understand the context and content of the interview. The interviews have been recorded by the researcher in order to seek both elaboration and clarification on answers given, which enables the researcher to have more latitude to investigate and explore beyond the answers and thus enter into dialogue with the respondents.

This exploratory study uses semi-structured interviews with a thematic guide line to expand on issues raised. The data analyzed in terms of the cultural resources available to police staff.

3.4 Translation through Triangulation

One significant but under-recognized issue in cross-cultural societies is the recovery of meaning across language barriers. The process of recovery we refer to as 'translation', where the intrinsic meaning believed to be held in the transcription of interviews considered in Arabic are interpreted in English.

According to Pinchuck (1977, p.9), translation is defined as "a type of information transfer, the transfer of information expressed in one language into the terms of a second language".

The issue of translation may face researchers who conduct their interviews in another language, in particular Arabic. As an Arabic researcher, I recognized with my first supervisor the issue of translation from Arabic to English; this issue is based on the awareness of losing some meaning through translation due to cultural differences between both languages. Most recently, theories in social linguistics have focused on intercultural translation because it is often discovered by theorists that there is always a gap, a point that is difficult to be culturally transmitted into the target culture (Bahameed, 2008). In addition, Sapir (1949) cited in Bahameed (2008) states that, "theorists thus realize that culture is a very complex and controversial issue because all human groups are cultured, though in vastly different manners and grades of complexity". As the empirical study of this research has been conducted in Arabic which needs to be translated into English, it is absolutely crucial to notice that both languages belong to different settings and different language families. English is classified as a member of the Indo-European language family, whereas Arabic is classified as a member of the Semitic family of languages. English is also the official language of Britain, the United States, and most of the commonwealth countries. Arabic is the official language spoken in more than 15 countries in the Middle East. Arabic and English use different word orders. Each of the two languages has its own ways of versification and phonologically Arabic and English have different phonemic inventories. Additionally, the geographical distance between Arabic and English settings, results in a distance between Arabic culture and English culture. Therefore, the main hindrances of translation affecting the quality of the translation outcome into are lexical hindrances, structural hindrances, prosodic hindrances, and cultural hindrances (Bahameed, 2008).

Ilyas (1989, p.12) argues that:

> "Translation between languages of disjunct cultures is more difficult than carrying out translation between languages that are culturally related or similar. This does not imply, however, that translation between languages that are culturally related or

similar is a straightforward activity. In fact, it embodies some serious pitfalls from the translators as well, though to a lesser degree compared with translation between languages of different cultures".

Winter (1969, as cited in Bahameed, 2008, p.7) argues that:

"The system of form and meaning in language A may be similar to that in language B, but it is never identical with it. This statement has a very simple, yet very important corollary: There is no completely exact translation. If an interpretation of reality as formulated in language A does not exist in isolation, but as part of the system total of this language, then its correlative in language B cannot be isolated from the overall system of B, which must be different from that of A".

In addition, translator knowledge, performance, skill, culture, experience and proficiency play a crucial role in diluting and mitigating the obscurity even of the most culturally complicated items and can discharge them from the obscurity of texts (Bahameed, 2008).

Drawing on Bahameed (2008) there are certain lexical items in Arabic having no equivalents in English since the concepts they refer to do not exist in the English speaking culture. The following table (3.3) illustrates some examples of lexical items:

Table 3.2: Some Examples of Lexical Items

Arabic Word	English meaning
سحورٍ (Sahuur)	**A meal eaten before the dawn for fasting**
تيمم (Tayammum)	**The use of sand for ablution**
قطيعة رحم Qatiiat Al- arhaam	**To be on bad terms with one's relatives**

The difficulty in translating these words comes from the lexical gaps resulting from the cultural differences between the two languages.

Additionally, in terms of intercultural Arabic-English translation Ilyass (1989, p13) argues that a clear example which may give more understanding to the differences between both cultures (Arabic and English) is that:

> "In both languages the English term 'owl' has different meaning. In English, it stands for or carries positive connotations (wisdom and grace), but in Arabic it is a symbol of pessimism and has other negative associations. The translator in such a case has either to incorporate additional material in his TL version in order to make such implicit connotations explicit in the TL, or resort to explanatory footnotes to make up for the missing connotations in his TL version".

Consequently, the following points can summarize the real issue of translating Arabic into English:

1- Both languages belong to different settings and different language families.
2- Arabic and English are languages of different cultures, which explain the differences of meaning of some sentences and vocabulary.

The above indicates that there is the existence of a translation issue based on commensurability of meaning between both languages.

"Kuhn's remarks on incommensurability and its consequences for scientists debating the choice between successive theories, he argues that the parties to such debates inevitably see differently certain of the experimental or observational situations to which both have recourse" (1996, p.198). According to Kuhn, the members in a communication breakdown can recognize each other as members of different language communities, and then become translators. The differences between their own intra- and inter-group dialogues as itself can be taken as a subject for study as, they can attempt to discover the terms that used un-problematically within each community, are nevertheless foci of trouble for inter-group discussions. So, he suggests that it must understood that the manner in which a particular set of shared values interacts with the particular experiences shared by a community of specialists to ensure that most members of the group will ultimately find one set of arguments rather than another (1996, p.199). He also suggests that:

> "Each language community can usually produce from the start a few concrete research results that, though describable in sentences understood in the same way by both groups cannot yet be accounted for by the other community in its own terms" (1996, p.203).

In terms of translation procedure, Kuhn states that some participants of each community may commence vicariously to understand how a statement previously unclear could seem clear to participants of the opposing group.

> "Good reasons for choice provide motives for conversion and climate in which it is more likely to occur. Translation may, in addition, provide points of entry for the neural reprogramming that, however inscrutable at this time, must underlie conversion, and it is that process we must explicate in order to understand an essential sort of scientific change" (1996, p.204).

Moreover, he suggests that "one must go native, discover that one is thinking and working in, not simply translating out of, a language that was previously foreign" (1996, p.204).

Consequently, in order to solve intercultural translation and avoid the bias which an individual researcher might bring to the study, the researcher will use what Ryan et al. (2007) called 'researcher triangulation' or as Modell (2005) called 'investigator triangulation'. The key justification for method triangulation is typically enhancement of the validity of research (Brewer and Hunter, 1989; Bryman, 1992; Denzin, 1978; Jick, 1979, cited in Modell, 2005). Moreover, Bryman (1995, p.134) states that "the spirit of the idea of triangulation that inconsistent results may emerge; it is not in its spirit that one should simply opt for one set findings rather than another."

There is a limitation of prior studies on triangulation which basically rely on multiple studies, each dominated by one or the other method, whereas little consideration has been paid to validity issues arising from different triangulation approaches in single or closely related studies conducted by the same researcher(s) (cf. Creswell, 1994; Tashakkori and Teddlie, 1998, cited in Modell, 2005).

According to Ryan et al, researcher or investigator triangulation indicates that:

> "The researcher should also assess the validity of their own interpretations of the evidence. Feeding evidence and interpretation to the subjects of the study can be helpful in confirming the researchers' own interpretations. But this may not always be appropriate, especially where an assurance of confidentiality has been given to individual informants. Sometimes researchers work in teams in order to avoid the bias which an individual researcher might bring to the study. By using a number of researchers, possibly with different academic backgrounds, areas of interest, research experience and so on, it may be possible to arrive at an agreed interpretation of the

> case, rather than one biased by the personal characteristics of the individual researchers” (2007, p.156).

Therefore, on the basis of the translation validity issue, the researcher will use ‘researcher triangulation’ in order to assess the validity of interpretation by using three investigators. All three investigators are Arabic native speakers; the first one is the researcher (Libyan), the second is the second supervisor (Libyan) and the third is an Egyptian translator. All three translators will be consulted by a native English speaker to ensure that the meaning is the same as all investigators intended (see appendix 2 the translation of one interview & appendix 3 Arabic versions of the English quotations in chapter 4).

3.5 Thematic Analysis

Thematic analysis can be a useful bridge between researchers of varying orientations and fields. It enables the interpretive researchers to create meaning from a comprehensive range of data in such a way, with reliability as consistency of judgment, that description of social ‘facts’ or observations seem to emerge (Denzin & Lincoln, 2000).

Thematic analysis with reliability permits interpretive researchers to generate qualitative hypotheses that provide a basis for positivist researchers to conduct qualitative or quantitative hypothesis testing as a part of the building process of science. In addition, thematic analysis allows researchers using qualitative data to more easily communicate their findings, observations, and interpretation of meaning to others who are using different data. This leads to comprehensive understanding of the phenomenon and it may provide crucial insights to researchers in their review of “what is known” to guide their research strategy and design.

Thematic analysis can be defined as "a process for encoding qualitative information" (Boyatzis, 1998, p.4). Additionally, Daly, Kellehear, & Gliksman, (1997 as cited in Fereday & Muir-Cochrane, 2006, p.3) say "thematic analysis is a search for themes that emerge as being important to the description of the phenomenon". Boyatzis (1998, p.3) describes thematic analysis as "a way of seeing". Thus, researchers who use thematic analysis aim to see something that had not been evident to others. They perceive a pattern, or theme, in seemingly random information. Thematic analysis can be used in many ways: a way of seeing, a way of making sense out of seemingly unrelated material, a way of analyzing qualitative information, a way of systematically observing a person, an interaction, a group, a situation, an organization, or a culture, or a way of converting qualitative data into quantitative data.

Boyatis states that:

> "A theme is a pattern found in the information that at minimum describes and organizes possible observation or at the maximum interprets aspects of the phenomenon. A theme may be identified at the manifest level (directly observable in the information) or at the latent level (underlying the phenomenon)" (1998, p161).

The themes may be firstly generated inductively from the raw information or generated deductively from theory and prior research (Boyatzis, 1998). The gathering or integration of a number of codes in a research is often called a codebook. Strauss & Cobin (1990) say that the ability of the scholar to recognize what is important, gives it meaning, and conceptualize the observations is called *theoretical sensitivity*.

Furthermore, Denzin & Lincoln (2000, p.780) define themes as "abstract 'and often fuzzy' constructs that investigators identify before, during, and after data collection". According to them, besides literature reviews which include rich sources of themes, a researcher can induce themes from the text itself. Drawing on Boyatzis (1998, p.161) there are three methods of developing themes as follows:

1. Initially generating themes inductively from the raw information.
2. Initially generating themes deductively from theory.
3. Initially generating themes from prior research.

One might add a fourth method, initially generating themes from prior experience and knowledge.

To use thematic analysis the researcher has to go through the following stages: Sense themes (recognizing a codable moment), doing it reliably (recognising codable moments and encoding them consistently (see the same theme in different time and encode it in the same way, measured by the degree to which other researchers would see the same themes and encode them in the same way), developing codes through practice and more practice, and interpreting the information and themes in the context of a theory or conceptual framework- that is, contributing to the development of knowledge (Boyatzis, 1998).

Coffey & Atkinson (1996, p.27) state that, “Coding can be thought about as a way of relating our data to our ideas about these data”. They highlight that coding offers many benefits in the processing, organization, and analysis of qualitative data. They believe that although a conceptual scheme is necessary, coding is not. Moreover, the interpretation phase of research follows the development and use of a thematic code. For a qualitative analyst, pattern coding has four important functions as Miles & Huberman (1994, p.69) describe:

1- It reduces large amount of data into a smaller number of analytic units.

2- It gets the researcher into analysis during data collection, so that later fieldwork can be more focused.

3- It helps the researcher elaborate a cognitive map, an evolving, more integrated schema for understanding local incidents and interactions.

4- For multi-case studies, it lays the groundwork for cross-case analysis by surfacing common themes and directional processes.

5- During initial fieldwork the researcher is looking for threads that tie together bits of data.

Thematic codes should have five elements: a label (a name); a definition of what the theme concerns; a description of how to know when the theme occurs; a description of any qualifications or exclusions to the identification of the theme; and examples, for both positive and negative, to eliminate possible confusion when looking for the theme (Boyatzis, 1998, p.31).

Miles & Huberman (1994, p.58) note that “inductive researcher may not want to pre-code any datum until he or she has collected it, seen how it functions or nests in its context, and determined how many varieties of it there are. Strauss and Corbin (1990) suggest that to pick out provisional codes, the researcher should reread the field, make notes of contrasting groups, so s/he can be sensitized to what is different about them.

Researchers should give a code a name that is closest to the concept it is describing, because a researcher must be able to get back to the original concept quickly without having to translate the code into the concept; it is also significant that a second reader be able to do the same (Miles & Huberman, 1994).

3.6 Research Procedure

Research procedure illustrates the steps that the researcher follows before data analysis and discussion. Research procedure consists of three steps; data making, pilot study and ethical issues as follows:

3.6.1 Data Making

This research uses data gathered by using semi-structured interviews. In terms of analysis, and data made, the research contains a description of the views of two different groups who work in the Libyan stock market: officers and brokers. There is a comparative analysis comparing similar issues and subjects, looking for similarities, and differences, in order to highlight significant factors and classify them. The research study undertaken here involved the whole population of sixteen individuals actively engaged in the management and operation of the Libyan stock market.

Due to the short period of the existence of the Libyan stock market, the number of officers who work there is small. Therefore, the researcher interviewed eleven officers and five brokers. The officers are in different positions: six directors, three heads of departments, and two general staff. One of the interviewees did not complete the answers because of the limited time he gave me, and because his position meant that he knew more than the others and consequently gave much fuller answers. Therefore, his answers were included in the analysis. The following section describes the research procedure.

The semi-structured interviews were based on standardized questions which were asked to both parties: officers and brokers. The first stage of conducting the interviews was to hand deliver two letters from the University of Gloucestershire and the department for Higher Education in Libya to the administration of the Libyan stock market to explain the position of the researcher and the purpose of this research. After permission had been given, all the respondents were willing to participate but they were not willing to be identified.

The researcher explained to each interviewee what this research was about and what she was looking for to make them more comfortable and clear about the aims of the researcher. Also, all of interviewees were willing to be recorded during the interview. Along with the recording the researcher took notes of explanations, body language, attitudes and observed some evidence during the interviews that could lead to a deeper understanding of the phenomenon. The researcher tried to develop a good relationship with the respondents by using facial expressions and speaking kindly with them to make them more comfortable and therefore trust the researcher. All the interviews were conducted in the Libyan stock market in Arabic, and took place between 12:00 to 15:00, after the close of electronic trading. The duration of the interviews was between one hour and two and a half hours. Three participants were interviewed in two or three stages, because of their work. On these occasions, participants might sometimes revert to discussion of issues from previous sessions. The research questions were fully answered by most of the respondents; however, some respondents were less knowledgeable. Others were afraid to express their opinions about the role of political risk because of the risk that they might face. As a result, the researcher used indirect questions and encouraged their trust in order to gain their answers by giving more assurances that this thesis focuses on process not on people.

After the interviews, the researcher carefully transcribed all the interviews in Arabic, and then analyzed the data collected by using a thematic approach. Then the results were translated from Arabic into English, in such way as to not distort meanings, sayings, and quotes. The key aim is to preserve conceptual, rather than linguistic equivalence. All the transcripts and translation of the results were given to the second supervisor, who is Libyan, to ensure no mistakes had been made.

3.6.2 Pilot Study

Prior to commencing data collection the interview questions were piloted in order to test logistics and gather information prior to the main study on three officers working in the Libyan stock market who were randomly selected from the sample. No major changes to the interview procedure arose from the pilot study. The only change was made on the factor of private sector converted to privatization, and this was because of three reasons given by those interviewees. First, the Libyan managers have no idea about how to deal with the stock market, so they still hesitate to invest in the Libyan stock market. Second, to be listed on the Libyan stock market a private company has to have at least 250,000.000 L.D (almost £125,000.00) as capital, which is not possible for most new private companies. Third, the size of the private sector is still small. Therefore it has had no impact on the development of the Libyan stock market yet.

3.6.3 Ethical Issues

All names of interviewees who took part in this research have been kept confidential. All respondents agreed to be interviewed under the guidelines of Gloucestershire University's Research Ethics.

Prior to each interview the interviewees were asked to give her/his permission for the interview to be recorded. All the interviews were recorded. All data gathered for this research will be retained with no links between transcripts and respondents' identity. A comment on the use of the data is made in section (4.2).

3.7 Summary

In summary, this chapter illustrates and discusses the research paradigm which relies on the interpretive accounting research (IAR) as an appropriate paradigm in order to understand how the Libyan stock market could be developed since there is insufficient history, breadth and depth in the Libyan stock market. In addition section 3.3 deals with research design built on exploratory research and the use of the semi structured interview as a qualitative research tool. Section 3.4 discusses translation issues and the path that this research has followed. Section 3.5 deals with thematic analysis and research procedure. Section 3.6 explores the research procedure employed including; making data, pilot study and ethical issues. Finally, section 3.7 gives an overview of this chapter. The next chapter discusses data analysis and discussion.

CHAPTER 4: DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and discussion of results from this research. The researcher used in-depth face to face interviews with sixteen respondents: officers and brokers. Thematic analysis is used to analyze their responses in order to generate answers to the research questions. The research produced as degree of overlap between the themes of each question. However, this overlap supports the themes of the main research question which dealt with the factors that affect the Libyan stock market development. The results show that there are eleven main barriers affecting the development of the Libyan stock market; ten of them are identified in the literature review, the eleventh (technology development) is raised during the interviews. All these eleven factors can be viewed as mechanisms that work together to influence the development of the Libyan stock market.

4.2 Process of analysis

This research uses thematic analysis (see section 3.5) in order to answer the research questions. The researcher comes to the thematic analysis with pre-structured statements and the themes derive from the analysis of the literature review. The results were generated by applying thematic analysis to the Arabic language data. In order to identify the themes, each interview took between one hour and two and half hours, was taped and transcribed. Each transcript was read initially to examine the main root terms; each transcript took between fifteen to forty minutes. After the initial reading a mixed approach was adopted. Reading the transcripts, however, it became clear that the responses of the officers were more extensive and their transcripts are longer with more details than those of the brokers. Following this general reading, it was concluded that the officers were better informed than the brokers.

After the general reading, the researcher reread all the transcripts more carefully and drew circles with different colours which indicated different themes and coded all the themes (Coffey & Atkinson, 1996). This technique enables the interpretive researcher to create meaning from a wide range of data and leads to comprehensive understanding of the phenomenon (Denzin & Lincoln, 2000). Highlight and code themes help to reduce a large amount of data into a smaller number of analytical units allowing fieldwork to be more focused (Miles & Huberman, 1994).

The researcher went back to the highlighted text to read it more carefully and undertook a provisional interpretation of the themes in the context of pre-structured questions, informed by theory. At this stage, notes of contrasting groups were made looking for differences in the answers. Whilst it would be normal to attribute quotations to particular participants when quoting them, this is not possible for this study, because it would be relatively easy to identify the sixteen participants and such attributions would conflict with the requirement to preserve anonymity for research subjects as part of the guiding code of ethics. All the ten selected themes derive from the literature review; however, the eleventh theme of technology development was recognized as a common feature of transcripts in answer to the question, "How can the Libyan Stock Exchange benefit from the experience of other developing countries in developing its Market?". This theme also emerged as a suggestion of what kind of technology the State should provide in order to encourage the development of the Libyan stock market.

The following section outlines the evidence for the eleven factors in order to answer the research questions.

4.3 The Barriers to the Development of the Libyan Stock Market

Ten principle aspects which may affect the Libyan stock market development have been identified from the literature review. The ten selected factors are as follows:

1. Culture (CULT),
2. Religion (RELI),
3. Bureaucratic Quality (BUCQ),
4. Banking Sector Development (BSDV),
5. Privatization (PVAT),
6. Per Capita Income Level (PCIN),
7. Foreign Investment (FORI),
8. Stock Market Liquidity (SML),
9. Law & Regulations (LW-RG), and
10. Political Risk (POLR).

However, the eleventh factor, technology development, was identified by all respondents as an important factor that helps the development of the Libyan stock market. After identifying these eleven factors, each factor has sub-themes and is discussed one by one in order to answer the research questions. The following table (4.1) summarizes the findings for each factor. The general situation is that most respondents agreed with the inclusion of a factor. In the table the respondents have been ordered by the extent of their agreement.

Table 4.1: The Findings for Each Factor

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Culture	√	√	√	√	√	√	√	√	√	√	√	√	√	√	X	√
Religion	√	√	X	√	√	√	√	√	√	√	√	X	√	X	X	√
Bureaucratic Quality	√	√	√	X	√	√	√	√	√	X	√	X	√	√	√	X
Banking Sector development	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Foreign Investment	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Political Risk	√	√	√	-	√	√	-	√	-	√	√	√	√	√	√	√
Privatization	√	√	R	√	√	√	√	√	√	R	√	√	√	√	√	√
Stock Market Liquidity	√	√	√	√	√	√	-	√	-	√	√	√	√	√	√	√
Per Capita Income	√	√	√	X	√	√	-	√	√	√	√	√	√	√	√	X
Law & Regulation	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Technology Development	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√

√: Yes X: No -: No answer R: Reservation

4.3.1 Culture (CULT)

The concept of culture has many different meanings and interpretations. Kluckhohn (1951) defines it as follows:

*" A culture consists in patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artefacts; the essential core of culture consists of traditional (i.e historically derived and selected) ideas and especially their attached values" (*Kluckhohn, 1951, as cited in Hofstede, 2001, p 9).

Following the clues given by the respondents two sub themes emerge: national culture and organizational culture.

4.3.1.1 National Culture

The majority of the respondents believe that national culture is a barrier to the development of the Libyan stock market, as one respondents said;

> *"Of course Libyan culture is a barrier of the development of the Libyan stock market because Libyans have no knowledge about stock markets''.*

Another respondent said;

> *"Some people think that the stock exchange is merely some kind of exchanging money center and others fear it".*

The first respondent's general statement, whilst clearly inaccurate in a logical sense can be interpreted to mean that *the majority of Libyans have no knowledge about stock markets.* In this sense this can be regarded as a deficiency in awareness of how financial capital is accessed and mediated internationally. The second respondent again alludes to this lack of awareness. The phrase '*Some people think'* could be interpreted as '*Many people think'* that the stock exchange is a mechanism for simple foreign exchange transacting and are unaware of the role of capital and its mediation in other advanced capital economies.

This was reinforced during the interviews with brokers. The researcher observed two crucial events which support this lack of awareness. A woman came to the broker and asked:

> "*Would you please tell me what are you doing here?"*

After the explanation from the broker the woman asked;

> *"So, what are the benefits that I can get if buy shares?*"

While the broker was explaining the idea and the benefits with the risk that she might face, the researcher focused on her facial expression, noting that she appeared to respond favorably to the idea of a stock market and could see its potential for her own investment. The second incident was when a man approached the broker and said:

> "*look I do not know how to deal in the stock market, but can I give you some money and I will give you a promotion to invest my money, and then take your revenue and give me my profit. "*

The broker's answer that:

> *"I cannot do this, the only promotion that I have is just to pursuance your orders to buy or sell"*.

Both incidents and the comments made – although insubstantial in themselves - suggest a development in the line of questioning to the two brokers involved. Both brokers acknowledge that such questions are quite normal. As one said:

> *"Every day some people come and ask us about how to invest and get profits in the stock market. For example, some students who study at the university bought a few shares in order to make profits and get experience".*

However, one respondent believes that Libyan culture is not a barrier to effect the development of Libyan stock market in general, because it does not have impact on the Libyan investors as individuals, as he said:

> *"Trading and business culture existed in Libya since the Roman age, and, also, all Libyans know the vegetable market and how to trade in it. Therefore, Libyan people know how to invest their money but they just do not have specific knowledge and enough experience to deal with the stock market. Moreover, do you know that fifty years ago, there used to be two stock exchanges in two Libyan cities; one was in Tripoli (Capital City) and the other one was in Benghazi (Second Capital City)? They were called 'Bourse Cafe's', and traders dealt there by bourse rules".*

This interviewee exhibited a high degree of confidence during the interview and claimed previous knowledge about stock markets as well as local and international training after he became a member of staff in the Libyan stock market.

Corroborating his answer about the two bourses in Libya an old person whose testimony would be regarded as trustful, related that her father was a rich trader who dealt on the Tripoli bourse prior to the late 1960's. That archival memory appeared strong in this respondent but is non-existent in the younger generations (late 1960 – to date). This supports the suggestion that Libyan national culture is not necessarily antithetical to the idea of a free market in financial securities. We can further corroborate the lack of cultural resistance to the concept of a stock market by noting the heavy oversubscription of the IPO of the Wahda Bank (Libyan Stock Market Annual Report, 2007 & 2008).

4.3.1.1.1 Discussion

All these events suggest that Libyan society has the potential to accept new financial institutions and new investment tools, which is contrary to the findings of three researchers Hofstede (2001), Twati (2006), and Abubaker (2008) (see section 2.4) these researchers classified Libyan culture as a high uncertainty avoidance culture and generated their findings without considering that their results can be applied to organizations such as IBM as well as IT in Libyan Oil Companies or communication in the Libyan organization for whom there research was undertaken. Furthermore, they cannot be generated in the Libyan financial sector or in the nation Libyan culture as a whole because their researches have carried out on organizational culture in these public companies.

Furthermore, they do not focus on national culture where people have more freedom to act according to their culture and beliefs. A further point is that, historically, Libyan people have been known as traders from the time of the Germanic period, Phoenicians, Grace and Roman, which indicates that Libyans are willingness to take risks as are any traders in order to make profit.

However, this willing is limited by Islamic rules. Therefore, Libyans as Muslims are still willing to trade and take risk by investing under Sharia law. Previous findings suggest that there is an existence of a contractual trust (Zslnai, 2004, section 2.3) in the Libyan stock market, which is based on the expectation that by written or oral agreements parties upholding a universal ethical standard, will keep a promise. Therefore, Libyan national culture is not a barrier to the Libyan stock market.

4.3.1.2 Organizational Culture

All the respondents in this study believe that one of the reasons behind the reluctance of Libyan private companies to be listed on the Libyan stock market is culture. As one of the respondents said,

> *"I think that Libyan culture is one of many barriers that face Libyan stock market development, because Libyan private companies have no knowledge or experience of how to deal with the stock market or what the benefits of being listed are, and also as you know anything new in our culture is suspicious until its worth is proven".*

The very small numbers of companies that have sought listing would tend to confirm this view. The president of one of the private banks in Libya made the following comment to the researcher:

> *"Zainab - look it is too early to take like this decision, the Libyan stock market still in the early stage let's see where this stock market is going".*

4.3.1.2.1 Discussion

This highlights the view of just one Libyan private organization about the Libyan stock market. It indicates that he is not sure whether the Libyan stock market will succeed and continue to grow. This view supports the previous view that anything new in Libyan organizational culture is treated with suspicion until trust in the purpose and permanence of the organization is established. Lack of trust, as well as lack of knowledge and understanding by private companies is certainly an obstacle to being listed on the Libyan stock market.

Therefore, in terms of organizational culture, Libyan private companies can be described ashaving high uncertainty avoidance, which is the same finding as Hofstede (2001), Twati (2006), and Abubaker (2008) (see section 2.4). Therefore, this suggests that Libyan organizational culture is a significant barrier to the effective development of a Libyan stock market.

4.3.2 Religion (RELI)

Longman Pocket English Dictionary, (2001, p.449) defines religion as "*a special set of beliefs in one or more gods*".

Islam is the principal religion in Libya with an estimated %99 percentage of the population active in their faith. Islam is a monotheistic religion in the Abrahamic/prophetic tradition. It arose in the 7th Century and took root in the culturally nomadic traditions of the Arab, desert tribes. In this respect it stood in contradiction to the Christian religion which was rooted in the city dwellers of the Mediterranean region. This fundamental difference explains many of the cultural aspects of the religion: its authority structures, its customs and its practices which whilst having some similarities with the other Abrahamic faiths of: Judaism and Christianity has significant differences. The legal principles of the faith (Sharia) are focused more on the individual and their relationship with the divine in comparison with the canon of the catholic tradition in Christianity which is predominantly focused on the individual and their relationship with the structure of the church and its magisterium (Brown, 2000).

Of particular interest to us is the relative presence or absence of personal freedom in the interpretation of one's faith. For many centuries, the only vehicle for example, Christian understanding by the individual was through the formal hierarchy of the church and its teaching traditions. Such a formal teaching hierarchy did not develop in Islam – the nomad is less subject to hierarchy as the City dweller and depends, culturally, on their own resilience and understanding. Although the basics of Islamic tradition have a similar interpretation in all Islamic countries, we would anticipate that other Islamic traditions would lead to a greater dependence upon the interpretation of their faith by individual specialists in the Islamic religion, known as 'Shaik' rather than receive interpretation through the hierarchy of the church. Thus we anticipate a greater diversity of what is allowed and what is not allowed by the religion than is the case with Christianity which is predominant within Europe and the other developed Western nations.

In this theme we discuss the relationship between Islamic rules of investment and its role in the development of the Libyan stock market.

4.3.2.1 Islamic Rules for Investment

Twelve out of sixteen interviewees thought that religion influences the attitude of most Libyan people when investing in the Libyan stock market, as one of the respondents said:

> *"Religion is a barrier to the development of the Libyan stock market, because all the listed companies are banks and insurance companies, which mainly depend on interest and uncertainty, and, as you know, in the Islamic religion, interest and uncertainty are forbidden. Therefore, most Libyan people will not invest in the Libyan stock market unless there are a variety of listed companies such as industrial companies that do not deal with prohibited things".*

And another said;

> *"I believe that around 60% of Libyan people refrain from investing in the Libyan stock market because of the religious rules".*

These comments show the importance of the rule of Islam on the development of the Libyan stock market. So, because of the lack of diversity of listed companies, the Libyan market is limited to banks and insurance companies. There is a category of Libyan investors who refrain to invest in the stock market because of their understanding of their religious faith and its rules.

However, four interviewees thought that religion is not a barrier to the development of the Libyan stock market, as one respondent said:

> *"I do not believe that religion is a barrier to the development of the Libyan stock market, and to prove this, Wahda Bank covered 137% of the subscription of shares. Also, Libyan Insurance Company covered 97% of the subscription of shares. This means that religion is not a barrier to the development of the Libyan stock market, because it did not prevent all these people from investing in the stock market".*

These two companies were privatized by the government and a proportion of their shares were given to their staff which may explain the high level of subscription for the shares in Wahda bank and the Libyan Insurance Company.

4.3.2.1.1 Discussion

As Nasrabadi (2006) states, religion affects different aspects of human social life including the cultural, economic and the political. Therefore, Muslims have specific individual duties and responsibilities which affect and control different aspects of their life especially investment decisions (see section 2.5).

Therefore, Islam plays a significant role in Libyan society, which in turn affects the development of the Libyan financial market particularly the development of the Libyan stock market. As a result, this leads us to assert that the Libyan financial market should promote Islamic products that encourage and increase the number of Libyan investors participating in the Libyan financial market and the Libyan stock market specifically. This suggests that Libya like most MENA countries has to make some institutional changes in the practices of the financial market that are appropriate to the Libyan culture and Islamic religion. Thus culture and tradition are mediating variables in the isomorphic transfer of organizational practice from the predominantly and culturally Christian West to the Islamic cultures of the

Middle East. By acknowledging the fundamental dissimilarities in culture and religious traditions institutional barriers of fear and distrust will decrease, thus building trust inside and outside of the Libyan stock market and in the whole Libyan financial market.

Accordingly, religious rules have a significant effect on the development of the Libyan stock market. This leads to the argument that in the late stage of Libyan stock market development, if all listed companies are working against Islamic rules this may cause some investors to reconsider their participation in the Libyan stock market.

4.3.3 Bureaucratic Quality (BUCQ)

Max Weber was the developer of the modern concept of bureaucracy. He defined authority as, "A set of rules and regulations and a specification of tasks in an impersonal climate" (Roodenburg, 2008, p.11) (see section 2.6). This theme is divided into four sub themes: bureaucratic quality in the Libyan stock market, personal network, education & training, and bureaucratic quality of the State.

4.3.3.1 Bureaucratic Quality in the Libyan Stock Market

Bureaucracy – literally rule by office – is the system first formally articulated by Weber (Roodenburg, 2008) where authority in organizations is distributed through the holding of offices. The office holder has authority vested in them by virtue of their office – variously described as their 'role', 'position' or 'job' – which is transferred from person to person as they take and leave the office. The term 'Bureaucracy' has become associated with obstruction of action by the arbitrary use of authority in the application of rules and it is this tendency with which we can assess the 'quality' of any bureaucratic system of control. Arbitrary action of rules usually arises because of functional/rule conflict – i.e., where alternative rules as interpreted cover the same circumstances and the official uses the rule which achieves their purpose rather than that of the individual concerned. Given that this is a commonly understood meaning of the term it is this construction which has been used in interpreting the testimony of the respondents to this study.

The majority of the respondents believe that the bureaucratic system within the stock market is a barrier to the development of the Libyan stock market. Predominantly it is the pejorative understanding of the term 'bureaucracy' which is to the fore in their thinking. As one respondent said:

> *"The bureaucratic system in the Libyan stock market is the same as any bureaucratic system in Libyan institutions It has a negative impact on the performance and productivity".*

And another:

> *"The Libyan stock market does not use a good bureaucratic system in order to increase its development. We face problems sometimes with unfair decisions, and many employees quit because of that".*

This suggests that the Libyan stock market suffers from low bureaucratic quality which would affect its development.

Nevertheless, a minority of the respondents (25%) believe that the bureaucratic system within the stock market is one of the factors which enhance the development of the Libyan stock market, as one respondent said,

> *"Yes the Libyan stock market uses a good bureaucratic system in order to increase its development".*

Another respondent said;

> *"Yet we do not have any bureaucracy problems, because as you can see there are few people who work here. You can see a director with a head of department alone*

without any worker, or in some departments there is just only one worker with the director and the head of department, so all transactions are done on time easily without any complicated procedures especially because transaction volume in the stock market still small".

The respondents who agreed with the proposition that the Libyan stock market has high bureaucratic quality were in relatively higher positions than those who did not, and might simply not recognize the problems which the majority mentions.

4.3.3.1.1 Discussion

Although all transactions are timely, this may be explained by the relatively small number of daily transactions, and the limitation of the investment tools available to undertake the necessary transactions. Then the researcher asked all interviewees whether they believe that there is an existence of clans or tribal relationships within the stock market or not? The answers given by the majority of respondents were that there is no existence of this kind of relationship. Only five respondents believed that clans or tribal relationship were significant within the stock market. This suggests that there is little impediment to the formation of, or tribal relationship within the stock market but their existence is not widely recognized or acknowledged.

Therefore, despite the small size of the Libyan stock market and the small number of employees who work within it, the Libyan stock market may suffer to a degree from its bureaucratic quality.

4.3.3.2 Personal Network

All respondents were of the view that there is a general lack of knowledge of brokers in the Libyan stock market. Those brokers, not unexpectedly, who can gain the trust of investors by either personal relationship or by good conduct, appear to have built the strongest personal networks. As one respondent said:

> *"Initially each broker deals with acquaintances and friends and this is normal, so if I go to the place for instance where a friend of mine works, it is natural to extend directly to that friend in order to complete my paperwork because of my trust in him of course. And this usually happens when an investor comes to the stock market he/she goes directly to the broker who knows. Also, maybe good treatment by the broker to the investor gives strength to the trust between them".*

4.3.3.2.1 Discussion

The above indicates that personal relationship plays a significant role in trust in the Libyan stock market. This is the same result of Nee and Opper (2006) who argue that entrepreneurs in developing countries overcome deficiencies in public goods provision through their personal network (section 2.6). Therefore, personal relationship could enhance trust and consequently enhance the development of the market.

4.3.3.3 Education & Training

The officers and brokers in the Libyan stock market are not all specialist investors, traders or analysts. Although the majority of the officers have a Master's degree and one has a PhD in International Law, the others are graduated from Business school or from Higher Education College but they have a very limited or no knowledge about stock market operations. The reason for this is the absence of any recent history of a stock market and no understanding of it derived from the education system.

Here are some typical comments on this theme as respondents reflected on their background:

"….before I worked in the Libyan stock market I studied in a small private college which teaches summer courses for a very little amount of money as a charity, the course was for one week or ten days. The person who taught us was a Libyan specialist working in the New York stock market and he taught us how to trade in the stock market but we did not study anything about either the international standards of stock exchange, or disclosure, or Laws".

"…I had no previous knowledge about stock markets before I worked in the Libyan stock market, as an accountant but I did not study anything about stock markets".

"My specialism is in insurance companies, and therefore I had no previous knowledge about stock markets".

However, to overcome the lack of knowledge and specialists in the Libyan stock market all officers and brokers had internal trading training. All officers had external training as the Head of the Libyan stock market said. External training was particularly common in Egypt and Jordan markets as one respondent said:

"I got both internal and external training in Egypt and Jordan".

This is a really a very good step that the Libyan stock market has taken in order to increase the ability of its officers and brokers to work efficiently. Work efficiency can lead the Libyan stock market to gain trust from Libyans who might be concerned about officers and brokers' knowledge or experience. Thus the Libyan stock market can increase liquidity and some transaction cost efficiency.

However, the researcher notes that the brokers interviewed had less knowledge than the officers. This point was obvious by their answers of the questions during the interviews.

When the researcher asked if this lack of knowledge and experience could be one of the barriers to the development of the Libyan stock market, one of the respondents said:

> *"No, because in the Libyan stock market it is compulsory for all brokers to have intensive training courses according to the license required by the broker".*

Then the researcher asked the respondents what kind of license the stock market granted to brokers? The respondent said;

> *"In fact there are different types of license that the stock market grants to brokers; an execution only license and an advisory license for brokers that requires the broker to have 6 courses with exams then the broker can get a license as an advisor, and there is another license called 'buy with sharing'; this license allows brokers and investors to cooperate and buy shares together. The condition of the cooperation under this licence is that brokers should contribute 70% of value of the shares and investors should contribute 30%".*

However, all brokers have only an execution only license as the respondent said:

> *"All brokers have only a license for execution only because the other licence is still new in the stock market".*

All the respondents stated that the Libyan stock market has had the latest experience from other stock markets such as; the Egyptian stock market, the Jordanian stock market and the Tunisian stock market. One respondent said:

> *"....We have chosen these three stock markets because they are close to the Libyan situation in some cases. The Egyptian stock market is one of the oldest stock markets in the world, and the Jordanian stock market is a modern market".*

In fact this respondent means the Egyptian commodity market and, in particular, the Cotton Exchange rather than the Egyptian stock market. The main point he wanted to say was that the Egyptian stock market has had good experience for a long time compared with the Libyan stock market. In addition, all the respondents stated that they had internal training on the Libyan stock market. However, while only twelve out of sixteen had some external training, one of them had received only external trading. The others who had undertaken only internal training are one officer and three brokers.

4.3.3.3.1 Discussion

This confirms a lack of teaching about the operation of stock markets in the education sector in Libya which is responsible for the limited knowledge in this area. It also suggests that even the educated classes within Libyan society have limited or no knowledge of the stock market. This may affect the level of trust since trust' refers to the knowledge that the agent has a high ability or low costs (Bénabou & Tirole, 2003, cited in Herold, 2010). According to this, Libyan people in particular who are big investors and Libyan companies may suspect and refrain from dealing with the Libyan stock market, which may slowly increase the number of listed companies and investors because of the low level of trust and therefore the Libyan stock market may suffer from the effects of the low level of liquidity and inefficiency of transaction costs.

4.3.3 4 Bureaucratic Quality of the State

Nine out of sixteen of the interviewees believed that the State does not provide appropriate support to the Libyan stock market as one interviewee said:

> *"The State's attitude to the stock market is weak and droopy. At the beginning the State issued the decision to establish the Libyan stock market, but the payment of the capital was delayed, which encouraged the Libyan stock market to be listed, to*

get financial support from the private sector. Consequently, the stock market capitalization was divided into 30% for the Development Fund and 25% for commercial banks and 45% owned by public shareholders. At the same time, the State decided to list all 60 companies in the Fund for Development, but we listed them on the sub-table, because these companies have not yet completed the requirements of listing in the main table, and therefore they cannot be seen on the screen".

Another respondent said:

"...The State should provide e-government to help the Libyan stock market development".

However, two respondents believe that the State provides appropriate support to the Libyan stock market development; because it could not have started work if there had been no support from the state. Five respondents had no idea or knowledge.

4.3.3 4.1 Discussion

The above suggest that bureaucratic quality of the State has suffered from its process due to the delay in providing its support to the Libyan stock market. Therefore, bureaucratic quality of the State can also be considered as a barrier to the development of the Libyan stock market.

4.3.4 Banking Sector Development (BSDV)

The importance of banks is promised on the grounds that banks are the main channels of savings and the allocators of credit in an economy. The efficiency of banks therefore affects the financial system and the entire economy. Their failures can erode public wealth and confidence in the economy. Bank failures or systemic banking crises occur almost invariably due to distorted management incentives, bad governance, weaknesses in macroeconomic policies, weak supervision, problems in the real sector, or a combination of these (Adhikari & Oh, 1999, p1).

Following is the clue given by the respondents, one sub theme emerges:

4.3.4.1 Banking Sector Support

Four Libyan banks helped Libyan stock market development by being listed at an early stage of the establishment of the Libyan stock market. This supports Yartey's (2008) argument that in the early stages of establishing a stock market in an emerging market, the banking sector is a complement to the stock market rather than a substitute to financing investment (see section 2.7). However, after the Libyan banking sector and the Libyan stock market began to develop , the relationship between them needs to be evaluated in order to find out if it supports Yartey's argument or not.

Moreover, all respondents agree that the reason behind listing these four banks is because they are the best of the existing banks in Libya. These four banks have all necessary requirements for listing such as; financial statements for three years prior to application to list ; approval by a statutory auditor; and capital of not less than 1,000,000 million Libyan dinars or its equivalent As one respondent said, the reason for these banks being listed in the Libyan stock market can be summarized as follows:

> *"....Because they are the best of the existing banks".*

Another respondent said:

> *"...These banks have all listed company requirements and as you know all banks regularly prepare their financial statement, which is not the case for most companies in Libya. Also, these banks have full awareness of the importance of the stock market".*

This opinion is built on the idea that the Libyan banks regularly prepare their financial statements and also maintain their capital at a minimum of L.D1,000,000 million or higher which is not the case in most other Libyan companies. This indicates that at this stage of economic transition, the Libyan banking sector can be considered as the most appropriate sector in the financial market suitable for the task of supporting the development of the Libyan stock market.

Although the Libyan banking sector provides support to the Libyan stock market in the early stages all the respondents believe that it is still underdeveloped and needs to improve by developing its product and service. This will help to provide high assistance quality to the Libyan stock market development. As one respondent noted:

> *"The Libyan banking sector should co-operate more with the Libyan stock market by providing new tools of investment, such as mutual funds and portfolios".*

Another respondent said:

> *"The Libyan banking sector should grant loans for the purpose of investing in the stock market."*

One interviewee gave another idea when he said:

> *"I think that the Libyan banking sector should adopt Islamic ideas on investment and finance. Also, the Libyan banking sector can enter the stock market as an intermediary by using the huge amount of cash that it has and removing the restriction on banks".*

There are a number of other banks still not listed because either they are state-owned or they are not sure about the benefits of listing or indeed, both. As one respondent said:

> *"…. Maybe these banks are still not quite sure about the benefits of being listed on the stock market"*

And another:

> *"The Libyan stock market was established by the Central Bank of Libya, then it was separated from the central bank of Libya because the Libyan central bank failed to make the Libyan stock market an active market"*.

4.3.4.1.1 Discussion

As Monitory Group (2006) states, the Libyan banking sector has failed to provide its clients with products and services comparable to developed economies (see section 2.7.1). The above suggests that the Libyan banking sector should provide new products and services comparable to those provided in developing economies in order to ensure development which will encourage the development of the Libyan stock market. The Libyan banking sector should consider Islamic products in order to encourage the Libyan people to deal and invest their money in the Libyan stock market instead of investing somewhere else.

Regarding the economic transition, the Libyan central bank established the Libyan stock market and privatized four Libyan banks, listing them on the Libyan stock market to raise new finance and at the same time to encourage Libyan people to deal with the Libyan stock market.

Garcia (1986) as cited in Ben Naceur et al. (2005) has argued that the central banks may have a negative effect on the correlation between stock market development and bank growth (see section 2.7). The above interviewees suggested the same result. So, because Libyan banking sector is dominated by the central bank of Libya, the central bank of Libya should encourages banks to co-operate more with the Libyan stock market by allowing them to diversify their investment tools. These could include using Islamic investment tools, mutual funds and portfolios. New services, products such as investment tools and using high technology will ease information and transaction costs. In addition, this will enhance the development of the banking sector, which will increase trust in the Libyan financial market. A well-developed banking sector will lead to the development of the Libyan stock market.

4.3.5 Foreign Investment (FORI)

Foreign Investment is positively correlated with stock market capitalization and value traded. In other words, Foreign Investment is a complement and not a substitute of domestic stock market development. Furthermore, Foreign Investment is positively correlated with the degree to which capital raising, listing, and trading has been migrating to international financial centres. As fundamentals improve, technology advances, and countries integrate with the international financial system migration will likely increase further and domestic stock market activity may become too little to support many local markets. For many emerging economies, the best policy will involve continuing the establishment of sound fundamentals and attracting Foreign Investment, but not necessarily the trading or even listing of securities locally. (Claessens., Klingebiel & Schmukler, 2001, p.1).

4.3.5.1 The Importance of Foreign Investment

All the interviewees believe that foreign investment is an important factor in increasing the Libyan stock market development, as one respondent said:

> *"... In my view foreign investment is important to the development of the Libyan stock market because after being partially privatized its shares to foreign partners and being listed in the stock market it was noticed that there was a remarkable level of turnover and trading".*

4.3.5.1.1 Discussion

This indicates that large foreign financial institutions would help to enhance stock market liquidity by more active trading and better information disclosure. This is similar to the finding of Stulz (1999), (see section 2.8). This finding implies that the existence of foreign institutions as listed companies in the Libyan stock market may enhance trust and reduce transaction costs by increasing stock market liquidity. This will help to speed up entry and exit (buying and selling shares) and consequently speeding up the development of the Libyan stock market.

4.3.5.2 Foreign investment and law

Legally, foreigners cannot invest in the Libyan stock market unless they become residents. Nevertheless all the respondents believe that it is important to allow foreign investors as individuals to invest in the Libyan stock market in order to enhance the development of the Libyan stock market, as one respondent said:

> *"….It is for sure that foreign investors will lead to the development of the Libyan stock market because they have experience of dealing in the stock markets. Also, they have the financial capability to increase stock market liquidity".*

Another respondent said:

> *"…It is necessary to open the door to foreign investor to invest in the Libyan stock market in order to ensure the development of the Libyan stock market".*

Additionally, another respondent said;

> *"There is a real wish of foreign investors to invest in the Libyan stock market because there are many foreign investors who wish to buy shares but the laws do not allow them yet".*

However, the law can be considered as the main barrier to the entry of foreign investors in the Libyan stock market, as one respondent said:

> *"Foreign investors will not invest in the Libyan stock market unless there are mechanisms and basics suitable to encourage them to invest in the Libyan stock market, like providing necessary laws to protect foreign investors".*

In addition, another respondent added a very important point as he said;

> *"….In my opinion, preventing foreign investors investing in the Libyan stock market is a mistake, because it makes foreign investors enter the stock market by using Libyan people to invest instead of them and this means that we cannot determine or control them which will lead to risk".*

This suggests that the use of Libyan nominees by overseas investors may add a degree of regulatory risk in the operation of the market.

This respondent believes that the use of Libyan nominees by overseas investors is risky because it enables the Libyan stock market to predict and control real foreign investment in the stock market, which might cause a crisis such as that which happened in 1997 in Asia. According to this view the Libyan stock market should allow foreign investors to participate in order to avoid this kind of risk.

Moreover, the participation of resident foreign investors in the Libyan stock market is still small as one respondent said:

> *"There are some foreign residents who are investors in the stock market but their number is still very small".*

4.3.5.2.1 Discussion

Regarding the above, it is obvious that all the interviewees have noticed the crucial role that foreign investment could play in developing and increasing their activity in the market. Moreover, it shows that there may be some level of interest from foreign investors because, as Bortolotti et al. (2004) argue, since share issue privatization is sold at substantial discount it is stimulating the participation of foreign investors in the stock market (see section 2.8).

According to the Annual Report of the Libyan stock market (2008 & 2009), seven Arabic nationalities are interested in investing in the Libyan stock market: Egyptians, Palestinians, Tunisians, Sudanese, Syrian, Judeans, and Algerians (see section 2.8). Only one western nationality is interested in investing in the Libyan stock market - Italian - and this can be explained by the old history of business relationship between Libya and Italy. Further, only one Asian nationality (India) has registered any interest so far. All foreign investors in the market are resident in Libya which suggests at least some interest in the market by foreign investors, and that they can be encouraged more if they have legal support and protection.

Potentially therefore, foreign investment could overcome the lack of experience in the market, increase liquidity and consequently reduce transaction costs and enhance trust in the institution of the market.

4.3.6 Political Risk (POLR)

There is no clear cut definition for political risk, but the researcher chose three definitions that are relevant to this study. Robock and Simmonds (1973) as cited in Clark (1997, p.477) define political risk as follows:

Political risk in international investment exists when discontinuities occur in the business environment, when they are difficult to anticipate, and when they result from political change.

In addition, Loikas (2003) as cited in Sandstrồm (2008, p.1) defines political risk as follows:

Political risk originates from the relationships between political authorities and economic factors.

Thirteen respondents answered the question on political risk and its role in Libyan stock market development. However, two respondents refused to answer this point and said that they have no idea about political risk and its role n the development of the Libyan stock market.

This theme consists of two sub-themes that can be addressed as crucial points that affect the level of Libyan political risk:

4.3.6.1 Institutional Quality

Thirteen out of sixteen respondents strongly agree that political risk affects Libyan stock market development. They believe that political risk negatively affects Libyan investors as well as foreign investors, as one of the interviewees said:

"Political risk discourages Libyan investors and foreign investors from investing in the Libyan stock market because they are afraid that decisions, rules and regulations will be changed".

Another respondent said:

"The instability of decisions makes people afraid to invest in the Libyan stock market".

4.3.6.1.1 Discussion

The above indicate that the instability of decisions is potentially a contributor to the level of Libyan political risk and it may be responsible for the rejection or the hesitation of investment in the Libyan stock market, in particular, by local investors who are familiar with the old systems in Libya. Therefore, the experience of instability in decision making in the old system may be the cause of distrust and hesitation towards investment in the market. This supports the suggestion of the International Monetary Fund (2009) which stated that, “it is important to improve the performance of state administration in Libya and improve the regulatory framework in order to improve the business environment, improve economic, and accounting standard in line with international practices” (see section 2.9.1).

According to the Oxford Business Group (2009), Qaddafi said that the Libyan institutions are affected by corruption and inefficiency (2.9.1). Therefore, the State needs to improve the level of institutional quality including the judicial system, bureaucracy, and property rights in order to lower the level of political risk and improve the business environment. This will encourage the participation of foreign and local investors in the market. However, the Oxford Business Group (2010, p.32) reported that:

> *“Foreign and private participants confirmed that the business environment in Libya has improved dramatically in the last few years, with a number of important new pieces of legislation being adopted in the near future that will ease the fiscal and administrative pressures on business. The main hope expressed by private sector participants is of greater legislative stability, which is essential to long-term planning” (see section 2.9.1).*

The latter indicates that the effort of the Libyan State to improve its business environment and reduce its political risk should result in the development of the Libyan stock market by making the Libyan business environment more attractive to local and foreign investors, which in turn will increase stock market liquidity and give transaction cost efficiency.

4.3.6.2 Liberalization of Financial Market

The Economist (2006) considered the overall business environment in Libyan as highly attractive in a regional context, because of the low level of short-term economic risk, a moderate political risk profile, and the fact that the country's abundant oil and gas resources were being developed and produced in partnership with IOCs. Furthermore, according to Office National Du Ducroire (ONDD) the Libyan political risk ranked as a low level for short term transactions. However, foreign investors are not allowed to participate in the Libyan stock market so far as all interviewees believe. One respondent said:

> *"… There is still a ban on foreign investors as individuals to invest in the Libya stock market, unless they are residents".*

4.3.6.2.1 Discussion

This maybe because Libya is still in the early stages of the transition from a socialist economy to free economy, so the liberalization process in the financial market may still be at the beginning. Therefore the State should ensure that liberalization will not trigger financial instability, or misallocation of capital detrimental to economic growth. This study suggests that in order to reinforce the positive impact of liberalization on the development of the Libyan stock market, less government intervention and not fully opening the economy to foreign investment (after reforms the Libyan domestic economy) should take place; a conclusion also noted by Ben Naceur et al. (2008). The positive impact of liberalization may increase the level of stock market liquidity by increasing the level of trust and enhancing transaction cost efficiency.

4.3.6.3 The Strategy Plan Between the State and the Libyan Stock Market

There is only one respondent who, because of his position, has a real knowledge of the existence of a clear strategic plan between the State and the Libyan stock market. This interviewee believes that there is no clear strategic plan when he said:

> *"There is no clear strategy plan between the State and the Libyan stock market, and the State does not appreciate the growth of this stock market which has succeeded so far in an environment that is hostile even now. If the State does not work to create a good and suitable environment for the stock market in the near future, I can say that the Libyan stock market will fail, and this failure will be a serious blow to the Libyan economy, which will lose confidence in any of the components of economic activity. To achieve success in the Libyan stock market, the State must be improved, through developing the banking sector, the creation of modern economic laws, and the implementation of these laws, also by creating the necessary institutions that we need to serve the legislative environment and economic development in Libya".*

4.3.6.3.1 Discussion

The above suggests that the Libyan stock market may suffer because of a lack of a clear strategic plan between the State and the Libyan stock market. Also, it supports the finding of this research that the State has a low level of bureaucratic quality which negatively affects the development of the market.

4.3.6.4 Incentives Provided by the State

All the respondents believed that the State should provide incentives to encourage unlisted companies to be listed on the Libyan stock market, and therefore it will increase the development of the Libyan stock market, as one respondent said:

> *"The State should encourage companies to be listed on the stock market by providing, for example, incentives such as; tax exemption, exemptions or facilities from customs duties, and banking facilities, and these kind of incentives will make the Libyan stock market an active market".*

4.3.6.4.1 Discussion

It is interesting to note that state incentives are viewed in terms of favorable tax treatment for listed versus unlisted companies. No significant mention was made of investor incentives which are arguably as important in creating an active market.

4.3.7 Privatization (PRIV)

> *Privatization is the process to transfer a property or responsibility from the public sector to the private sector. The term can refer to partial or complete transfer of any property or responsibility held by government. Through privatization, governments seek to become more efficient in running enterprises, both in terms of cost and quality of services* (Avalos, (2007, p.1).

Privatization of state assets was pioneered in the Western economies during the Thatcher/Reagan era with wholesale sell-offs of the nationalized industries. The argument in favor of this was that it produced significant capital receipts thus reducing the burden of government debt, it removed both strategic and operational control from the public arena and it was anticipated that it would improve the quality of delivery through regulated competition. The practice was adopted by other countries – most dramatically by the former Soviet block countries, following the collapse of the Soviet Union in 1992 (Smith, 1991).

4.3.7.1 The Role of Privatization

Opinions on privatization fell into three broad categories. The majority of the interviewees believe that privatization has a positive impact on the development of the Libyan stock market. As one of the respondents said:

> *"Privatization has a positive impact on the development of the Libyan stock market because it helps to have more listed companies and encourages Libyan people to deal with the stock market".*

Although the majority agree that privatization has a positive impact on the Libyan stock market development two of the respondents had reservations:

> *"At this stage, yes, but I hesitate because I am wondering if the process will go badly in future".*

When the research asked how this may happen, his answer was:

> *"Because most companies which are going to be privatized are loss- making companies and, this as you know means that privatization will fail which of course will have a negative effect on the Libyan stock market development".*

Another highly placed respondent in the Libyan market said:

> *"There is a desire of the State in the direction of privatization, but there are incomplete aspects and factors so there must be an existence of a general*

framework to serve and help the privatization programme succeed. The General People's Committee, who are the decision makers in Libya, tried to rush the privatization program and expect that they can privatize 350 companies in over 3 years, but they were surprised that they cannot privatize all these companies in three years. They only privatize small companies, but they could not do this with large companies, because they did not qualify these companies. Loss-making companies that they decided to be privatized and thus who will buy their shares? The answer is no one. In my view, what is being privatized through the capital market so far has been considered as successful and the stock market gave a very important indicator of the importance of the stock market in the success of the privatization programme".

However, one interviewee had a particularly strong view that the way privatization was being undertaken had not been properly prepared for and followed through:

"I strongly disagree with privatization process in Libya because the appropriate method is not being followed".

4.3.7.1.1 Discussion

This means that privatization would, it is believed, play a positive role in helping increase the level of listing and, as a result, increase liquidity, the number of investors, and general awareness amongst the Libyan population. This supports Pagano et al. (1993) and Oijen (1999) who suggest that privatization is used to increase the number of listed companies and liquidity.

Privatization can also be used as an instrument to provide necessary experience for Libyan investors, which is missing in the Libyan stock market. Therefore, privatization can increase the level of trust and by increasing liquidity the Libyan stock market can have a beneficial effect on the efficiency and level of transaction costs.

According to the respondent's view, privatization has a positive impact on the Libyan stock market at this early stage, but there is a level of concern that the wholesale privatization of smaller – and sometimes loss making entities – will damage the gains that have been made in the development of the market so far. However, the rushed decision of the General People's Committee to privatize 350 companies in 3 years can be explained by a lack of expertise in understanding the effect that it would have on the fledgling markets.

The subsequent delay in the privatization indicates that the decision makers have recognized the significance of the entrance of a large number of low quality firms into the market, especially as there is still much to be done to strengthen the legal framework for equity investment.

However, the evidence of success in the sale of shares of two privatized banks and one Insurance company in the Libyan stock market support the view of the majority of respondents who agree that privatization has overall had a positive impact on the Libyan stock market. As Pagano (1993) argues, successful privatization results in a strength of property rights and institutional reliability which broadens the appeal and confidence (trust) in equity investment that most stock markets of developing countries are missing and need to work harder to reach; the Libyan stock market is no exception.

4.3.8 Stock Market Liquidity (SML)

According to Chordia, Sarka and Subrahmanyam (2001, p1) stock market liquidity is "*the ability to buy or sell large quantities of an asset quickly and at low cost*". This theme consists of three sub themes;

4.3.8.1 The role of stock market liquidity

The majority of the respondents agree that stock market liquidity is important in increasing the development of the Libyan stock market, as one interviewee said;

> *"Obviously liquidity is important to help stock market development because increased liquidity means an increase in the number of listed companies, and also an increase in the number of investors, which indeed will positively affect the increase in the size of the stock market".*

The majority believes it is because the stock market is still at an early stage of development; it is still small in both volume and in terms of the number of listed companies. As one respondent said:

> *"As you know the size of the stock market is still small, and the investors sometimes have to wait in order to sell or buy shares. We need to increase the number of listed companies and increase the number of investors in order to increase liquidity"*

Another respondent present another point as he said:

> *"Stock market liquidity is used to cover any financial problem that might face the stock market, but because of the low level of stock market liquidity at this early*

stage the Libyan stock market cannot cover all financial problems that may face the stock market".

However, two respondents had no knowledge of this, as one of them said;

"I do not have any idea about the relationship between stock market liquidity and the development of the stock market".

The other one said;

"Sorry I have no knowledge as my background is in insurance companies and I have not studied anything about stock markets. Also I got this job recently".

4.3.8.1.1 Discussion

This result is in harmony with the views of several researchers. Ben Naceur et al. (2005); and Yartey (2008), for example, find that in emerging markets there is a positive relationship between stock market liquidity and the development of the stock market.

The Annual Reports (2007; 2008 & 2009) of the Libyan Stock Market suggest that the Libyan stock market has a low level of liquidity as shown in table (2.8) (see section 2.11.1). The respondents were asked why stock market liquidity is low.

Due to the illiquid market, investors bear additional transaction costs - the opportunity cost associated with waiting to trade (Benveniste et al, 2001). This additional cost may not, at this stage, be noticed by the Libyan investors because of their relative lack of knowledge and experience of standards and conditions elsewhere. Therefore, an illiquid stock market may increase transaction costs and decrease trust, which negatively affect the development of the stock market.

4.3.8.2 Transaction Cost

The majority of the interviewees thought that trading transaction cost is low (0.005%), and it is divided by 0.002% for the stock market and 0.003% for brokers to encourage investors to invest in the Libyan stock market, as one respondent said:

> *"In order to encourage investors to invest in the stock market, the transaction cost is low; it is only 0.005 divided to 0.003 for brokers and 0.002 for the stock market. Also, share prices are lower than the actual prices as an Egyptian specialist who works with us said that these prices will be increased in future to the real price".*

Another respondent said:

> *"Transaction cost in the Libyan stock market is low and even lower than it should be".*

Further, one broker believes that transaction costs are very low and it does not cover their costs, as he said:

> *"Transaction cost is low compared with the trading volume, and they do not cover our costs".*

One officer believes differently, as she said;

> *"I believe that transaction cost is too much especially for small investors, and therefore it should be reduced".*

4.3.8.2.1 Discussion

The above indicates that brokers regard transaction costs as far lower than they should be. This may be somewhat self-serving because they have no other sources of profit in what is still a very limited market.

Although the Libyan stock market has lower trading volumes than many emerging stock markets, the issue price of shares is low. This suggests that the Libyan stock market is not typical of emerging markets, which Maratheb & Shawkyc (2003) argue are characterized by high levels of trading intensity, low trading volume and high trading costs.

Further, the reason behind low transaction costs in the Libyan stock market is because the decision makers seek to encourage high degrees of market participation by Libyan investors. Moreover, the above explains why there are a relatively high number of Egyptian investors in the stock market. Although the Libyan stock market has low transaction costs and low issue prices, it can be characterized as an illiquid stock market which affects trading value and volume. Consequently, this may affect the level of trust in the market. Therefore, stock market liquidity is one of the principal barriers to the development of the Libyan stock market.

4.3.8.3 The Libyan Stock Market and the Capital Finance

Twelve out of fifteen respondents believe that the Libyan stock market can help companies obtain capital finance. Two respondents gave qualified agreement with this opinion as one of them said:

> *"I believe that the Libyan stock market can help companies raise finance capital up to L.D100,000.00 but not more, because people who have significant capital do not have enough knowledge and enough trust in the Libyan stock market".*

One respondent had no idea.

4.3.8.3.1 Discussion

The above indicate that the lower level of stock market liquidity can be considered as a barrier to the development of the stock market.

4.3.9 Per Capita Income (PCI)

> *"Per Capital Income (PCI) is measured by dividing the real GDP of a particular year by the population of the country"* (Sule, 2009, p.82).

4.3.9.1 The Role of Per Capita Income

The interviewees have different opinions on the importance of per capita income in developing the Libyan stock market. Several studies such as Caporale et al. (2009) and Levine & Zervos (1996) argue that there is a positive relationship between stock market development and GDP per capita income. Furthermore, Ben Naceur et al (2008) and Yartey (2008) find that in emerging markets, real income is highly correlated with the size of the stock market. The majority of the respondents (twelve out of sixteen) support this as they believe that Libyan income level is low, and therefore it reflects negatively on the development of the Libya stock market, as one interviewee said:

> *"Per capita income is low and this affects negatively the ability of most Libyan investors to invest in the Libyan stock market, which in turn negatively affects the development of Libyan stock market".*

Three interviewees thought that Libyan per capita income has no effect on Libyan stock market development. One of them said:

> *"There is no relationship between Libyan stock market development and per capita income, because even in the poor countries which have very low per capita income,*

there is an existence of active stock markets. We hear about mutual funds which are appropriate for small investors".

One interviewee refused to give his opinion on the income level. He said:

"Yes, we know that a good per capita income leads people to make savings which will lead to investment, but I am not an economist; therefore, I am not able to give you any idea about the income level".

This was despite the fact that this interviewee had a Masters Degree in Accounting.

4.3.9.1.1 Discussion

This means that per capita income is a barrier to the development of the Libyan stock market because it limits the ability of the majority of Libyan people from becoming investors.

We could argue that these respondents are comparing the Libyan stock market with other stock markets in similar circumstances, but have not reflected on the recent history of the country; Libya has just converted from a socialist to a liberalized free market economy, and the majority of Libyan people still obtain their income from the government.

According to the Libyan Central Bank (2008) Annual Report 52, 2008), the average per capita income was L.D 9,332.000 with inflation at 10.4% in 2008. This low average of per capita income plays a crucial role in the development of the market because it prevents a significant number of Libyan people investing directly in the Libyan stock market.

Thus, we would argue that per capita income is an important factor that leads to an increase in the size of the market, liquidity and, ultimately, its efficiency.

4.3.10 Law and Regulations (LW-RG)

The framework of law when establishing a stock market is intended to provide legitimacy and legal protection to both investors and creditors. Without a robust framework of law the ability of the market to effectively function, enforcing contracts between buyers and sellers and providing a source of new capital finance to industry and commerce would be significantly impaired. A regulatory framework can be built upon the legal framework giving it operational effect. Such regulation can come through the passing of subsequent laws and quasi-legal exchange and related bodies as they establish rules for the ongoing conduct of the market.

4.3.10.1 The Law of Libyan Stock Market

All the respondents commented that as yet no overarching framework of Libyan stock market law has been established; therefore, the Libyan stock market continuous to work in a state of legal ambiguity although it has, to a certain extent established it's own body of regulation:

> *"We have rules and regulation but we need law that can give legitimacy to the stock market".*

4.3.10.1.1 Discussion

The above indicates that the Libyan financial market in common with most of the Arabic financial markets is still at an early stage in the process of financial reform which according to Creane et al. (2004) is hindered by legal constraints and ambiguities. Therefore this lack of a legal framework supports Otman & Karlberg (2007) argument of the importance of drawing up comprehensive supporting legislation. The lack of a coherent body of law is argued to be a limitation on the establishment of any financial market (Shleifer & Vishny (1997); Creane et al. (2004); Ben Naceur et al. (2007); and Yartey (2008).

4.3.10.2 The State and the Libyan Stock Market Law

Fifteen of the interviewees believed that the State should move quickly to put a full legal framework in place. As one respondent said:

> *"If the State adopts the law of the stock market, then we can work efficiently".*

However, one interviewee had a different position on this issue:

> *"The law of economic activities provided for the establishment of the Libyan stock market, but the legislature could not formulate the law of the Libyan stock market due to the lack of expertise in the preparation of such a law. I believe that having no law is not an obstacle in the development of the Libyan market. For example, the Tunisia Stock Exchange continued working for 25 years without law, as well as the Sultanate of Oman Stock Exchange for 10 years, while the Kuwait Stock Exchange, the oldest stock exchange in the Gulf States has worked until today without law. Therefore, I see this situation as normal because we need to create experience and knowledge about the Libyan stock market, so that we can formulate the law in accordance with local economic conditions, instead of importing law that does not fit with the local economic conditions".*

4.3.10.2.1 Discussion

This point is well argued and advocates an emerging strategy for the development of an underpinning legal framework. The key phrase is 'we need to create experience and knowledge about the Libyan stock market' suggesting that markets have their own local and national character which will only emerge over time and the legal framework needs to reflect this.

4.3.10.3 Regulations of the Libyan Stock Market

There are different responses about the rules and regulations in the Libyan stock market being understandable and suitable for listed companies and investors. The majority of the respondents (ten out of sixteen) believed that the rules and regulations in the Libyan stock market are suitable and understandable. Therefore, they are not a barrier to the Libyan stock market, as one respondent said:

> *"Rules and regulations in the stock market are not barriers in developing the stock market. All rules and regulation are for protecting the stock market, listed companies and investors. The Libyan stock market is looking for reliability and trust to encourage investors; if we do not have appropriate rules and regulation this means this stock market will fail".*

In addition, all the interviewees stated that the listed companies met all the listing requirements and further, they knew the benefits of listing, as one respondent said:

> *"These listed companies which are banks and insurance companies are the best companies because they meet all the listing requirements, which all good companies must have".*

Moreover, the majority believe that the requirements of listed companies are not a barrier for any company to be listed as one respondent said,

> *"I believe that any company which refuse to be listed, is because it has a defect itself, but not because of the listing requirements".*

One interviewee disagreed with this opinion; he said:

> *"The rules and regulations in the Libyan stock market should be decreased to encourage companies to be listed".*

Five interviewees were not able to give a comment on this issue.

Faith in the regulatory system appears to rely on the fact that they had been taken from those offered in other MENA countries particularly Egypt and Tunisia:

> *"We copied rules and regulation from other Arabic stock markets such as Egypt and Tunisia with some changes to make these rules and regulations suitable for the Libyan stock market".*

4.3.10.3.1 Discussion

Although there is a lack of knowledge about the operation of stock markets more generally the interviewees argued that the existing rules and regulation were suitable and fit for purpose. This indicates that rules and regulations are not barriers to developing the Libyan stock market at this early stage. However, by the time when the Libyan stock market develops and uses more products and more investment tools, these regulations may be insufficient. Transaction costs in the Libyan stock market can be divided into transaction taxes and brokerage, which derive directly from regulation. Transaction cost in the Libyan stock market is low which can encourage investors and therefore enhance trust.

4.3.10.4 "My Word is my Bond"

Fifteen out of sixteen of the interviewees believe that they do not accept and would not be prepared to work on the basis that 'my word is my bond'. Given the lack of legal protection informal contracts would not, respondents argued, be appropriate in the Libyan market context. As one respondent said:

> *"I cannot accept dealing with informal contracts because there is no legal protection on just words or promises, and, this will continue unless I know who I deal with well, or there is legal protection for these kinds of contract".*

Also another respondent said:

> *"We should have trust supported by law before we can deal under this motto".*

One respondent who was a broker agreed with this opinion partly, as she said:

> *"My Company accepts dealing with investors by informal contracts. But, first we have to ask the investor to sign the contract and choose what kind of contract they would like to deal with; whether by telephone or email or both, as well as direct dealing. And we have already used the telephone as another way of trading, but we must record it. Also, we have started to deal with investors by email but we must know the investors very well, because as you know there is no legal protection on these kinds of transactions".*

When the researcher tried to discuss this situation with a high ranking person, he said:

> *"Even if there are some informal contracts, it is compulsory for the brokers to follow a written order on the same day of the transaction this is the rule which must be followed until we have legal protection on these kinds of contracts".*

4.3.10.4.1 Discussion

According to the respondents, informal contracts would not be acceptable in the Libyan context. Partly, the issue is one of a lack of an underlying legal framework and the lack of protection that this implies. Comparing the situation with the London stock exchange where informal contracting is the norm rather than the exception, we note that the latter also developed its *modus vivendi* in a weak legal context. Currently, informal trading can only take place in the Libyan stock market on the basis of an existing personal relationship, where trust already exists. In the case of the type of contracts, the following table 4.1 shows the differences between the Libyan stock market as an emerging market in its early stage, and the London stock market as a developed market and one of the oldest stock markets in the world.

Table 4.2: Type of Contracts in London & Libyan Stock Markets

Type of contract	London Stock Market	Libyan Stock Market
Direct contract	√	√
Phone	√	X
Email	√	X

4.3.10.5 The Barriers of Informal Contracts

There are different opinions on the barriers to using informal contracts in the Libyan stock market. Opinions fall into the following categories: lack of legal protection, distrust, culture, lack of experience, no existence of appropriate mechanisms for using these kinds of contracts, and no previous relationships between brokers and investors. As one respondent said:

> *"Informal contracts, like online trading are helping the Libyan stock market to achieve a leap, but there is no legal protection for either brokers or investors. Also, there is no existence of appropriate mechanisms for using these kind of contracts".*

4.3.10.5.1 Discussion

According to the respondents it seems that the main issue behind their views is the lack of trust. Thus, the decision makers may have to build trust in relationships with Libyan investors in order to encourage the use of informal contracts in dealing with the Libyan stock market by providing legal protection thus, increasing the ability of brokers and officers to fulfill their duty and create appropriate mechanisms for using such informal contracts. This supports the views of several researchers. For instance, Bottazzi & Da Rin (2005, p1-2) state that "with better legal protection, investors give more non-contractible support, demand more downside protection, and exercise more governance" (see section 2.2). In addition, Spier (1992, cited in Herold, 2010) argues that the signaling of trust can cause contractual incompleteness (see section 2.2).

4.3.10.6 Time Aspect

All the respondents believe that using informal contracts in the Libyan stock market needs time to develop. As one interviewee said:

> *"…I believe that informal contracts will be used when the state decides that."*

Another respondent said:

> *"I think that time plays a role in having suitable experience, before we can use informal contracts, as most stock markets do".*

4.3.10.6.1 Discussion

The above suggests that, the Libyan stock market, as any stock market needs time to develop and to gain its own experience. This is supported by Jun et al. (2003) who find that emerging markets become more efficient as time goes by. Therefore, informal contracting by telephone or email can take place in the Libyan stock market under one condition: the existence of secure property rights. Secure property rights can enhance trust in the Libyan financial market and in the whole Libyan financial market which would lead to a speedy development of the Libyan stock market and the Libyan financial market.

4.3.11Technology Development (TCDV)

This theme appears to answer the question of how the Libyan Stock Exchange can benefit from the experience of other developing countries in developing its Market. All interviewees talked about technology development and its crucial role in Libyan stock market development.

All the respondents believe that the Libyan stock market uses the latest technology, especially since 3rd April 2008, when the manual system was replaced. This had a significant effect on the development of the market. One of the respondents said:

> *"Since April 2008, the Libyan stock market has used an e-trading system under the supervision of a U.S expert to make sure that it is identical to the specifications of other stock markets. We also gave workers two months of training on this system".*

Another respondent said:

> *"....We decided that the best decision we should take is to start from the first day of trading with the electronic trading system which avoids mistakes and addresses any problems that can occur from human error".*

4.3.11.1 Discussion

The above indicates that this technology may ensure the development of the Libyan stock market by reducing bureaucratic procedures and therefore decrease transaction costs, which in turn will enhance trust in the Libyan stock market.

4.3.12 Summary

In this chapter we have explored and discussed the responses given by interviewees concerning the development of the Libyan market. In order to achieve coherence and impose some structure on the very varied comments made and opinions expressed we have used thematic analysis. As discussed in chapter 3 thematic analysis permits a qualitative assessment of the significance of comments made and how they can be categorized. The results of this analysis suggest that the eleven factors can be considered as barriers to the development of the Libyan stock market. Ten of these factors were identified in the literature review. The eleventh factor - technology development - arose during the interviews. All eleven factors are significant and would, it is argued, increase the allocation efficiency of the market; they could also act to reduce transaction costs and enhance trust in the Libyan stock market. In the next chapter we will develop these factors into a more general model of development of the market.

Chapter 5: Model Development

5.1 Introduction

Based on the literature review and data analyses, this chapter presents a model for the development of the Libyan stock market. This model shows the prepotency of relationships between the eleven factors identified in the previous chapter. Drawing on this model, subordinate factors in the hierarchy must be met before factors at the higher levels can be successfully addressed. So, culture and religion are of the highest prepotency and stock market liquidity is a lower prepotency.

5.2 The relationship between the eleven factors

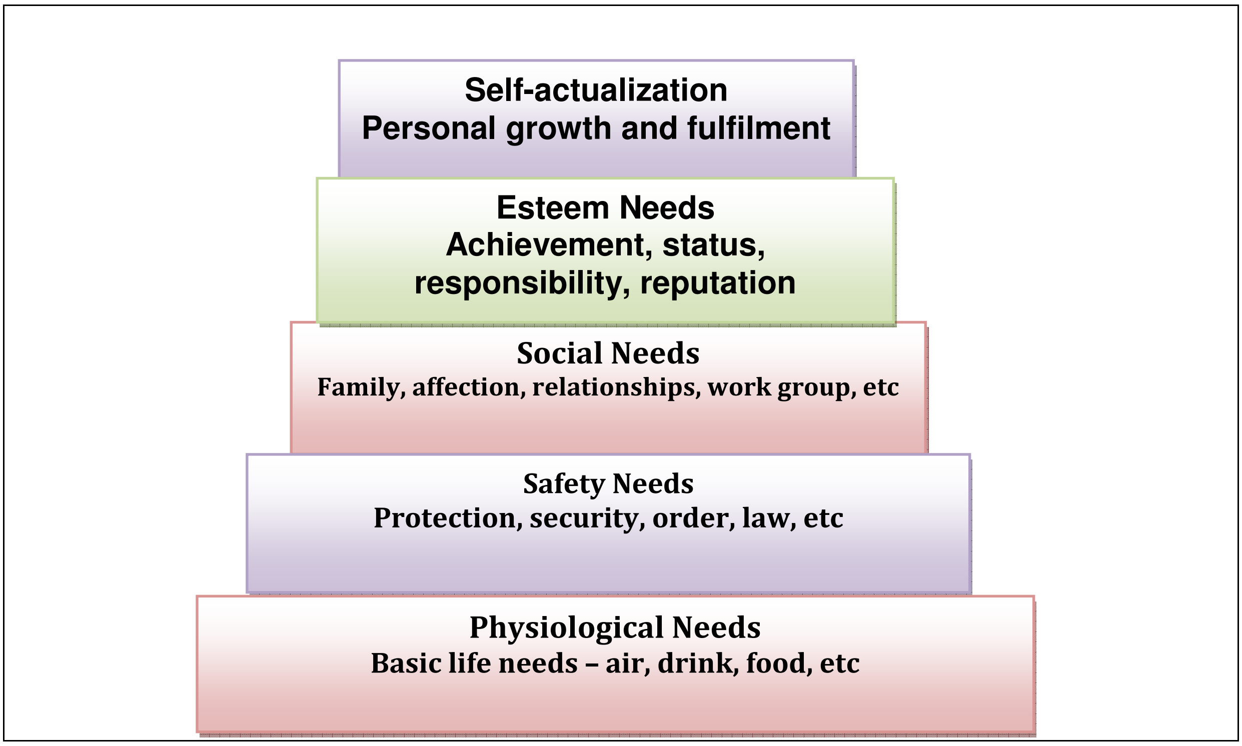
According to Maslow's theory first published in 1970, some motivation factors need take precedence over others. For instance, if anyone is hungry and thirsty he or she will attend to those needs – ignoring other less propotent needs if they are thwarted. Relying on this idea, Maslow argues that if motivation is driven by the existence of unsatisfied needs, then it is worthwhile for a manager to understand which needs are the more important for individual employees. So, when a need is mostly satisfied it no longer motivates and the next higher need takes its place. In other words, needs at the foundation of the pyramid must be met before needs at the next level can be addressed (Potter, 2005). Figure (5.1) demonstrates Maslow's model of a hierarchy of needs pyramid.

Although Maslow's model has been superceded in the motivational literature – the concept of prepotency is a powerful one. This research provides a similar model for the development of the Libyan stock market. The model suggests that trust is an important mediating variable in stock market development. Therefore, certain level of trust should be addressed in order to increase stock market liquidity which is a significant indicator of stock market development.

The general discussions with officers and brokers (see chapter 4.3) revealed that the level of trust is low on the Libyan stock market, which suggests that all eleven factors should be considered important in enhancing trust in the market and hence enabling its development.

This model is built on the idea that ***stock market liquidity is the lowest prepotency*** as an indicator of stock market development, whereas ***culture and religion has the highest prepotency,*** because both are considered as the background of people's actions in all their life aspects.

Figure 5.1: Maslow Hierarchy Needs



Source: (http://www.netmba.com/mgmt/ob/motivation/maslow/).

Therefore, the key issue taken from this model is the need to focus on the enhancement of trust as key to increasing the number of listed companies and encouraging more investors to invest and deal in the Libyan stock market. This is because, in the end, a liquid and active stock market relies on the presence of a large number of investors and the number of listed companies. Given these conditions, low barriers to entry and market frictions we would expect the market to increase in allocative efficiency enhancing trust in the way that it serves the economy in providing capital resource at an economically efficient price.

In such an environment, some factors in the Libyan financial market should be considered as more important than others, certainly at the early stage of stock market development. The importance of some factors depends on the existence of other factors: in other words, some factors are most important and can be considered as a foundation for other factors.

Culture and r**eligion** are considered equivalent to physiological needs, in that culture and religion has the highest prepotency in our model of the Libyan stock market development. *The logic of this is that, culture and religion are the crucible that shapes the background of people's actions.* So studying and understanding the effect of culture and religion is critical in terms of stock market development. Culture and religion are addressed by the majority of respondents as barriers to the Libyan stock market. As one respondent said:

> *"Some people think that the stock exchange is merely some kind of exchanging money and others fear it" (see section 4.3.1.1).*

Culture is a tool that allows people to understand the advantages of the stock market. Hall (1969 as cited in Abubaker, 2008), state that culture is the way of life of people, so culture is the way of thinking, feeling and reacting (see section 2.4). The essential core of culture consists of traditional ideas and especially their associated values.

Cultural and Islamic values work together in the way that affects all elements of personal life including investment decision. As a result of the overwhelming cultural and religious values in the Islamic countries, traditional ideas and its associated values are affected by Islamic values as embedded in Sharia Law.

One of the critical findings of this research is that Libyan people are willing to take and share risk in order to make profit by investing in the Libyan stock market, but the lack of trust and suitable products are the proximate reasons why many Libyan investors refrain from dealing in the Libyan stock market. As we have noted in chapter 4, the Libyan national culture can be characterized as uncertainty accepting, therefore, if the Libyan stock market provides Islamic investors with products and enhances trust by providing secure property rights and low transaction costs, this will, we would expect, encourage confidence in the Libyan stock market.

According to Hofstede (2001), national culture affects the values of organisations in society (see section 2.4), and organizational culture affects strategic development as one respondent said:

> *"I think that Libyan culture is one of many barriers that face Libyan stock market development, because Libyan private companies have no knowledge or experience of how to deal with the stock market or what are the benefits from being listed, and also as you know anything new in our culture is suspicious until prove its trustfull" (see section 4.3.1.1).*

The reason behind the low number of listed companies in the Libyan stock market can be explained by the simple observation that, Libyan organizational culture suffered from lack of knowledge and distrust in the stock market and its mechanisms. Furthermore, managers or leaders coming from the same cultural and religious background are likely to act according to the same cultural and religious values. Moreover, as Libyan culture is described by Hofstede

(2001) and Abubaker (2008) as low on individualism, company based-families are not seeking investment finance from the stock market (see section 2.4). As a result, the Libyan stock market should create structures, systems and symbols of organizational trust that eliminate costly modes of transacting and high legal costs.

> *"Moreover, Islamic religion is a barrier which stands against investment decisions as the majority of respondents believe, as one respondent said:I believe that around 60% of Libyan people refrain from investing in the Libyan stock market because of religious rules" (see section 4.3.2.1).*

In the Islamic world, religion is still considered a way of life and Islam affects all aspects of Muslims' lives (Nasrabadi, 2006, see section 2.5). In addition, Muslims perform according to Sadeghzadeh (1995, as cited in Nasrabadi, 2006) under three mechanisms; self-control, public control and government control. These three mechanisms lead Muslims to act, as they see it, according to God's requirements at all times and in all aspects of this life. In this regard, God's law as embodied in Sharia Law is highly influential in determining the way people act (see section 2.5). According to Sharia Law Muslims must not participate in the stock market unless it is in full compliance with Sharia Law and is not simply used as a forum for gambling. For this reason, speculative motives in investment would be seen as contrary to Sharia, but fundamental investing would be acceptable. Therefore, the availability of Islamic products will increase the level of trust and encourage more Libyan investors to invest in the Libyan stock market because investing under Sharia Law makes Muslims feel more at peace with their investments as they believe their money is halal and therefore they are acting under God's blessing. The Libyan stock market should understand that in order to achieve rapid development, cultural and religious factors should be considered as important factors that create the environment of the Libyan financial market.

By understanding these two elements of culture and religion, all decisions made by decision-makers must respect the cultural values of the Libyan people and be in compliance with Sharia Law. In this way, the groundwork for the establishment of trust and a sense of fairness in the market will be established. Consequently, cultural and Islamic rules are critical in terms of the enhancement of trust leading to an increase in the number of investors and listed companies. This will lead to increased stock market liquidity and rapid development of the Libyan stock market.

Political risk in the same way plays a crucial role in the development of the Libyan stock market. *The logic of putting political environment on the second level of the model is that people or citizens are the source of authority, as any Islamic country, politicians should come from the same culture, and the same religion which is Islam otherwise they will not be trusted or accepted*. Politicians act mostly according to their background of cultural and religious aspects, and they get authority from the same root. Although, there is no direct link between political risk and religion, they might affect each other when politicians use the religion to force people toward a certain direction in order to serve and enhance the politicians aims, and their satisfaction could be the main element in preventing people from achieving their goals thus influencing their lifestyle.

The majority of respondents believe that political risk is a barrier to the development of the Libyan stock market. As one respondent said:

> *"Political risk discourages Libyan investors and foreign investors from investing in the Libyan stock market because they are afraid that decisions, rules and regulations will be changed" (see section 4.3.6.1).*

The domestic stability for decades' adds to Libyan competitiveness (The Economist, 2009, see section 2.9.1). In particular, legislative stability may affect both local and foreign investor decisions. All the elements of political risk including greater legislative stability, good institutional quality which relies on the bureaucratic procedures , liberalization, the existence of an effective strategic plan between the State and the Libyan stock market, and incentives provided to the listed companies, can enhance the development of the Libyan stock market because it strengthens not only trust, but also increases the number of companies listed, together with the number of local and foreign investors, and therefore the stock market liquidity increases.

At the third level of the model are ***law and regulations***, and because of the excellent relationship between politicians as decision-makers and the law and regulations as environmental legislation. All respondents say law is a critical issue in the development of the Libyan stock market, as one respondent said:

> *"We have rules and regulation but we need law that can give legitimacy to the stock market" (see section 4.3.10.1).*

In addition, Creane et al. (2004) states that Libya has the lowest average in the financial development index in the MENA region which incorporates the banking sector, the nonbank financial sector, regulation and supervision, monetary sector and policy, financial openness and institutional environment (see section 2.13.1). Also, Otman & Karlberg (2007) state that there is the existence of a body of law in Libya to deal with the environment, but the existing environmental laws are not being applied rigorously and the enforcement of environmental legislation is poor (see section 2.13.1). It is the view of all respondents that it is crucial to have environmental health legislation for the development of the Libyan stock market.

Understanding both Libyan culture and Sharia law can give politicians a better understanding which aids them in providing appropriate legislation that is most suitable for the Libyan financial market, and in particular for the enhancement of trust in the Libyan stock market. Although regulations in the Libyan stock market are suitable at this early stage, they may be not suitable in the future when the Libyan stock market has new investment tools and new products which are not included in the current regulations.

However, laws for the protection of shareholders and creditors should be drawn up to include comprehensive environmental health legislation; this will lead to an increased level of trust in all ten factors in order to increasing stock market liquidity. Sharia law includes all Islamic business rules, therefore law and regulations should work under Sharia law in order to promote the development of the Libyan stock market. Law and regulations can secure property rights, which enhance and increase the level of trust, as the high level of trust is in turn backed by secure property rights.

The Libyan financial market works under western convention, which is not acceptable for most Libyans, thus they are forced to deal with the Libyan financial market as there are no alternatives; in other words, they have no choice. However, this is not the case for the Libyan stock market because investment decisions are taken by choice, not by enforcement. Therefore, the existence of Islamic products and effective legal protection are crucial to enhance trust and confidence, and satisfaction with the Libyan stock market which will then increase the number of Libyan investors.

Bureaucracy exists as a part of social and economic processes and also reflects the culture. Suitable and good **bureaucratic** systems can be built according to culture, religion, political risk, law and regulations in such a way to help institutions to achieve their goals efficiently.

The majority of respondents believe that a bureaucratic system within the stock market is a barrier to the development of the Libyan stock market, as one respondent said:

> *"The bureaucratic system in the Libyan stock market is the same as any bureaucratic system in Libyan institutions. It has a negative impact on the performance and productivity" (see section 4.3.3.1).*

Bureaucratic quality in this case is included; bureaucratic quality of the state as a whole and bureaucratic quality of the Libyan stock market because good bureaucratic quality of the state reflects well on the Libyan stock market.

As Van and Schein (1978, as cited in Ouchi, 1980) argue that in clans and societies traditional rules play a very important role in governing behaviour (see section 2.6), and as Libyan society consists of tribes and clans, personal relationships or personal networks play a very important role for trust in the Libyan stock market. This personal relationship can overcome any obstacles that may face brokers when dealing with investors. Also, it may affect positively the level of trust between staff themselves and between staff and brokers. Moreover, the poor quality of State bureaucracy affects the Libyan stock market which has led the Libyan stock market to be listed in order to get financial support. The Libyan stock market should be aware that efficient bureaucratic procedures will enhance its reputation and therefore increase trust in the stock market. A number of respondents mentioned that the Libyan stock market suffers from unfairness and inequality which has led many employees to quit, as one respondent said:

> *"The Libyan stock market does not use a good bureaucratic system. In order to increase its development, we face problems sometimes with unfair decisions, and many employees quit because of that" (see section 4.3.3.1).*

Libyan society is described by Hofstede (2001) and Abubaker (2008) as having low individualism and it is reliant on personal networks (see section 2.4). This unfairness and inequity may affect the reputation of the Libyan stock market and therefore destroy or lower the level of trust which will dissuade investors from dealing on the stock market.

Equally, **technology development** as a tool of bureaucracy is important nowadays for any business and investment environment. Using technology can reduce the impact of human errors and also provide good quality services on time, which decreases the cost of living. The best bureaucracy guarantees equity and fair treatment of all performers regardless of personal relationships. Having an efficient bureaucracy   technology investment in the State, the stock market will enhance trust and increase efficiency making the financial market more attractive for investors. An increase in the number of investors leads to an increase in the liquidity of the Libyan stock market and therefore more rapid development of the Libyan stock market.

*The division of real **income level** in the economy is conditioned by both law and regulations which uses bureaucracy as a tool to enforce its decisions*. The importance of this factor is addressed by the majority of respondents as one respondent said:

> *"Per capita income is low and this affects negatively the ability of most of Libyan investors to invest in the Libyan stock market which in turn negatively affects the development of Libyan stock market" (see section 4.3.9.1).*

According to Yartey (2008), per capita income is highly correlated with the size of stock market development (see section 2.12). As a transition economy, any increase in the Libyan per capita income is crucial for the development of the Libyan stock market. Most Libyans live at the same level and have no other sources available to them to increase their income under a socialist economy. An increase in real per capita income can increase the capability of Libyans to invest in the stock market.

Therefore, the low level of real per capita income should be increased in order to extend the ability of Libyans to invest in the Libyan stock market. This will play a critical role in increasing the liquidity of the Libyan stock market. Having more investors dealing in the stock market will encourage others through the role of personal network and reputation, which will increase the Libyan stock market liquidity.

The next most important factor is banking sector development. As Yartey (2005, p.175) states, “the stock market functions best with a well developed banking system” (see section 2.7). Per capita income and banking sector development complement each other because the banking sector is the appropriate vehicle to accelerate an increase in per capita income, particularly for small finance projects where there is no access to the stock market. Furthermore, the banking sector may strengthen the financial position for many small investors; banks might offer a variety of financial services that allow them to grow and establish larger projects which could allow them to list on the stock exchange.

The Libyan financial market is dominated by the Libyan banking sector. Therefore banking sector development has a critical role in the development of the Libyan stock market as in any emerging market. When per capita income is increased the level of net saving is increased. The banking sector, like stock markets, intermediates savings to investment projects. To ensure development, the Libyan banking sector should improve its service and provide new investment products such as mutual funds, portfolios, loans for the purpose of investment, and Islamic investment products.

Despite the Libyan banking sector still being underdeveloped and most banks still owned by the Central Bank of Libya, four banks were listed on the Libyan stock market in its early stages. By developing the banking sector the Libyan stock market will develop rapidly by increasing stock market liquidity.

Privatization plays an important role in the development of the Libyan stock market Privatization according to Perotti (1999) is particularly relevant for emerging stock markets (see section 2.10). *Privatization through stock market is helping to increase both listed companies and the number of investors, also privatize some banks could help stock market development which is the case in Libya.* The majority of respondents believe that privatization has a positive impact on the development of the Libyan stock market, as one respondent said:

> *"Privatization has a positive impact on the development of the Libyan stock market because it helps to have more listed companies and encourages Libyan people to deal with the stock market". (see section 4.3.7.1).*

The Privatization process through the Libyan stock market is an instrument to privatize companies, so if privatization is to succeed, this means that the Libyan stock market will also succeed by increasing the number of listed companies and investors and also increasing the stock market liquidity which will speed the development of the Libyan stock market.

The logic of putting privatization after banking sector development is because the privatization process in Libya was started by privatizing two banks through the Libyan stock market at the beginning of the establishment of the Libyan stock market, which led to the activation of the Libyan stock market. In addition, other privatised companies will mostly come through the Libyan stock market. This process will enhance knowledge and trust and increase the number of listed companies and the number of investors, thereby increasing the stock market liquidity.

Foreign investment is correlated with privatization, both being attracted by each other. Foreign investment inflows place where privatization has massive support. And privatization will bring brighter success when foreign investment has a big share of the privatized assets. Both factors are influenced by local law and regulation, and economic direction.

Although there is a huge debate about the role of foreign investment on the stock market (see section 2.8), it is important for the development of the Libyan stock market because it could be a cure the lack of experience and increase the liquidity of the stock market. This view is raised by all respondents as one respondent said:

> *"... In my view foreign investment is important to the development of the Libyan stock market because after partially privatized to foreign partners and they listed in the stock market it was noticed that there was a remarkable turnout and trading" (see section 4.3.5.1).*

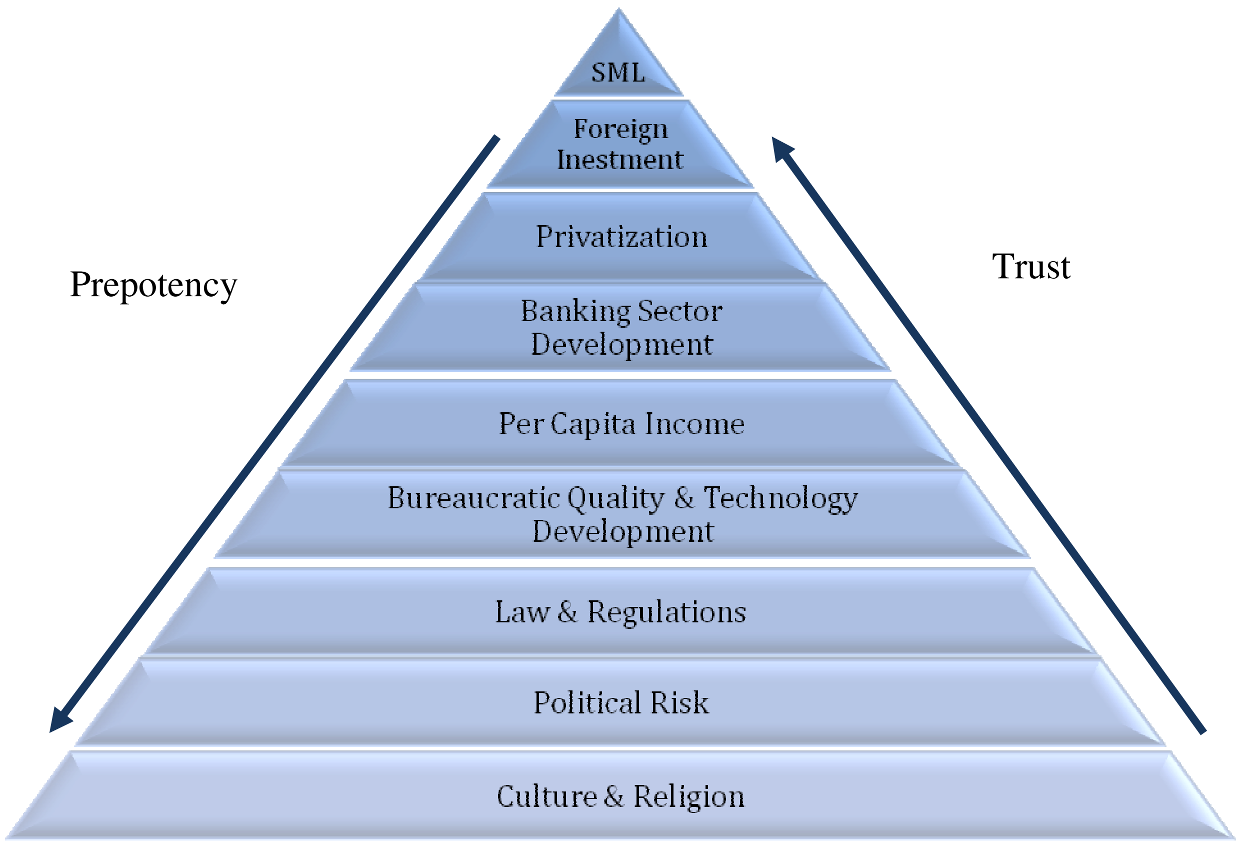
Therefore, we suggest that foreign investors should allow for a certain type of foreign investor to participate in the Libyan stock market because of the danger of fully opening to foreign investment.

Finally, the eleven factors should appear in its order in the model in order to ensure the development of the Libyan stock market. This will lead to an increase in the level of stock market liquidity which is considered an indicator of the development of the Libyan stock market in this model. Figure (5.2) shows the model of the development of the Libyan stock market.

The model developed in this thesis has certain similarities with that proposed by Covey (2008) discussed in the literature review (see sections 2.4 & 2.15). Culture and religion clearly derive both self trust and relationship trust, because self trust and relationship trust are related to issues dealing with the personal and social sphere that lead to behaviour supported by culture and religion. The dimensions of politics, law, regulation, bureaucratic quality and technological development underpin organizational trust because it helps to create structures, systems and symbols of organizational trust that decrease or eliminate costly organizational trust taxes, and create organizational trust dividends. Market trust is identified with levels of per capita income, banking sector development and privatization because it is both personal brand as well as company brand which reflects the trust of investors, customers and others in the marketplace. Finally, social trust is connected with foreign investment and stock market liquidity, because by its contribution, suspicion is decreased low- trust inheritance taxes with society and creates value for others and for society at large.

Although this model figure (5.2) is appropriate for this research, an alternative model was considered; this is illustrated in the appendix (4). This alternative framework lays out these factors broadly, with the levels of trust building sequentially. Thus, the initial starting conditions of self trust and relationship trust give rise to some level of organizational trust, which can be used to build market trust, which in turn would be evidenced by a growth in foreign investment and privatization. The growth of foreign investment and privatization would then lead to 'social trust' that would increase stock market liquidity, which is considered as the indicator of the existence of trust. This model could be developed through further research (see section 6.6 in conclusion).

Figure 5.2: Model of Libyan Stock Market Development



5.3 Summary

In summary, this chapter illustrates and discusses the model that provides the development of the Libyan stock market. This chapter has dealt with the relationship between the eleven factors of this study and is summarized by drawing the model of the Libyan stock market development. The following chapter discusses the conclusion of this research.

Chapter 6: Conclusion

6.1 Introduction

The thesis attempted to explore some factors which affect the development of emerging financial markets. The focus of our analysis is on the development of the Libyan stock market. On the basis of the literature review and the previous experience of the researcher in the Libyan financial market, the researcher has selected ten factors which she believes have a real impact on the development of the Libyan stock market. However, another factor emerged during the research process which has not been raised in the literature to date. This factor concerns technological development and is discussed further below.

The one recent study in Libya broadly concerning the stock market and economic reform was conducted by Masoud (2009). His focus was on the determinants of economic reform and stock market performance. His study had a different focus from this study; being concerned more with *how* the development of the stock market might be supported and the factors that would be significant in this. While in this research, it seems clear that trust is central in the minds of the Libyan respondents as a requirement for the development of an efficient stock market. However, respondents suggest that much work needs to be done to build the mechanisms for people to learn to trust. There is clear evidence that, in their view, building a capacity for trust will have significant impact on the way that contracts are created in this arena in Libya, this support the need of this research.

This research provides the link between the selected factors and their impact on the emerging financial market in Libya. In addition, this research attempts to discuss the importance of the role of the state in order to improve the social economy and the regulation of transaction costs on the capital resources traded on the Libyan stock market.

A core theme within this research is the examination of the role of trust in the efficient operation of an emerging market and the importance of all the variables under study in enhancing trust between market agents. Finally, we try to emphasis the reasons behind the resistance towards, and the rejection of using unwritten contracts in the Libyan stock market.

6.2 Conclusions of Research Questions

Semi structured interviews were used in order to answer the research questions raised at the beginning of this research. The questions are restated here for drawing conclusions upon them:

1- What are the factors which may affect the Libyan stock market development?
2- What is the relationship between trust and the main factors as it effects the Libyan stock market development?
3- What are the barriers to use of unwritten contracts in the Libyan stock market?
4- How can the Libyan State and market work together to improve the social economy and regulation of transaction cost on the capital resource of the Libyan stock market?

In order to answer the research questions the following section is divided into three parts:

First: The main factors which affect the Libyan stock market and the influence of trust in its operation

The research establishes that there are a number of factors that may affect the development of the Libyan stock market. According to our analysis this research suggests that ***national culture*** is not a barrier to the development of the Libyan stock market. National culture according to Hofstede (2001) affects the values of organizations in society. Hofstede (2001), Twati (2006), and Abubaker (2008) suggest that national Libyan culture can be characterized as uncertainty avoiding and that this may be significant in the development of the Libyan market. However, this research suggests the opposite that Libyan culture can be described as uncertainty accepting in the context of financial markets. Libyan people, generally have a high degree of tolerance for different opinions to those they may hold. The results show also that there is a link between culture and trust because Libyan culture is described as uncertainty accepting in the financial markets so Libyan investors are willing to take risk in order to make profits. This indicates that there is an existence of what is called by Zslnai (2004), contractual trust in the market, which can mitigate transaction costs. However, because people trust that those who have the skills make things happen (Covey, 2008, see section 2.4). Therefore, the Libyan stock market needs to improve the skills of its officers and the skills of brokers who deal directly with investors in order to build good reputation and enhance trust. As a result, culture is one of the factors that encourage the effective development of the Libyan stock market.

Religion can play a significant role in the emerging financial market. Religious rules can have a significant impact on business activities (Nasrabadi, 2006, see section 2.5). Islamic religion is part of Arabic culture and Islamic values are deeply rooted in Muslim beliefs. Muslims are not allowed to do business which goes against Islamic rules. If they do so, they believe that Allah will not bless them or their families and they wait for Allah's punishment in this life and/or in the afterlife. If they do not follow the rules of Islam they will feel a sense of guilt and lack of satisfaction with their life. This guilty emotion and belief affect a Muslim's decisions when doing business or undertaking investment. As Wilson (1997) argues that there is no question of importuning cultural standards or religious beliefs (see section 2.5) from elsewhere. Islamic investors are concerned about different norms and standards of investing behaviour implied by importing Western ways of doing financial business. So what is important for Muslim investors is the principle business activity of companies and whether those companies are involved with riba-based banks (interest), or are involved with any forbidden activities (see section 2.5). This supports Platteau's (2008) argument who notes that the development of a modern economy cannot take place in Muslims lands without significant organizational change. The result of this research support the above that Islamic religion has a crucial role on the Libyan stock market and Islamic religion can be considered as a barrier affecting the development of the Libyan market. Because Libyan financial market along with most MENA financial markets do not fully function incompliance with Islamic law (Shariah), this leads to a category of Libyan investors who, on principle, refrain from investing. Since Sharia can play a significant role in the development of the Libyan stock market, the state should allow the financial markets to operate under Sharia to gain the trust which might lead to an increase in the number of Libyan investors, and decrease transaction costs. This increase in trust could lead not only to the development of the Libyan market, but also to the development of the Libyan financial market and the Libyan economy as a whole. According to Covey (2008) trust usually affects two outcomes speed and cost. When trust goes down, speed will also go down and costs will go up. The relation we believe should apply is as follows:

Trust = availability of Islamic investment products + the speed of processing + low transaction costs + secure property rights

In terms of ***bureaucratic quality*** this research is focused on two categories of bureaucratic quality: first bureaucratic quality within the Libyan market itself and the bureaucratic quality of the state. Commencing with bureaucratic quality within the Libyan market we find that although the market has a small size with a short history, bureaucratic quality has already had a negative impact on its development because of inequity and unfair treatment in employment practice. The volume of bureaucracy has not yet affected transactions, because all transactions can be done in a relatively short time with reasonably low transaction costs which to a certain extent enhances trust in the Libyan market at this stage of its development. However, inefficient bureaucracy within the stock market may lead to reduced trust and increase transaction costs which in the future could be a serious problem in the development of the stock market.

In addition, this research finds that there is a crucial role of state bureaucratic performance in influencing the development of the Libyan stock market. This supports Nee & Opper (2009), who argue that the quality of the state's bureaucratic performance extends to the quality of the market economy's regulatory structure (see section 2.6).

The banking sector in Libya is still underdeveloped and is characterized as having high liquidity with low levels of lending to the private sector. In addition, the majority of commercial bank assets are in short-term deposits or cash (Tahari et al. 2007 & Oxford business Group, 2007, see, section 2.7). According to Yerty (2008), the development of a well-developed banking sector is one of the critical issues necessary for supporting stock market development (see section 2.7). Therefore, the Libyan central bank should give more freedom to banks in order to increase their service quality and to diversify investment products. Additionally, the central bank of Libya should allow Islamic banks to operate in the financial market and be listed in the Libyan exchange. This may encourage Islamic investors to invest in the market and indeed prepare the Libyan financial market for emergence of Islamic products that can compete with the developed financial markets of the West. If the central bank of Libya can establish this market environment this may lead to a significant decrease in transaction costs and increase the level of trust.

Foreign Investment is one of the key issues considering the development of the Libyan stock market. Law and regulation do not allow foreign investment except residents. Although foreign investment might be considered risky, Libyan stock market law and regulation should allow foreign investment to enter to the market under certain conditions increasing liquidity and transparency. Thus the Libyan stock market can be stable, and reduce transaction costs and enhance trust.

Political risk is an important aspect in investment decisions and it strongly affects the local cost of equity which will have important implications for the stock market. This research finds that political risk is one of the main barriers to investment and raising finance through the Libyan stock market, which is similar to Yarty's (2008) findings, who studied the relationship between political risk and emerging markets (see section 2.9). The Libyan state should allow for stock market liberalization which could lead to an increase in the equity capitalization of the market, a decrease in the cost of capital, a reduction in equity risk premia, and an increase of the size and liquidity of the Libyan stock market. Consequently, stock market liberalization could lead to decreased transaction costs and increase in the level of trust.

Privatization has a positive impact on the development of the Libyan stock market. Generally, Initial Public Offerings (IPO's) allow for better diversification opportunities for local investors, and Share Issue privatization (SIP's) affect market liquidity, isolates spillovers in liquidity and increase foreign investment. Therefore, the state should make sure that privatization procedures are facilitated in order to enhance trust and reduce transaction costs.

Stock market liquidity is one the barriers affecting the development of the Libyan stock market. The Libyan market in common with similar emerging markets can be characterized as generally illiquid. Investors in the Libyan market have to wait in order to sell or buy their shares. This affects the number of traders, trading volumes and values. Therefore, illiquidity affects the level of trust because of the limited experience of investors and the small number of traders and also might increase transaction costs in future.

Per Capita Income level affects the development of the Libyan stock market. As several researchers find out such as Goldsmith (1969), Levine & Zervos (1996), Ben Naceur et al (2008) and Yartey (2008), this research concludes that the low level of per capita income is potentially a key issue in the development of the Libyan stock market. Low levels of per capita income affect the number of investors, liquidity, and the size of the market. Low per capita income may explain low stock prices and low transaction costs. However, as a transition economy the Libyan state should work to increase the level of per capita income in order to gain trust in its new polices, and increases the population's capability to save and invest in the Libyan financial markets.

Law and Regulations; *regulations* are not barriers to the development of the Libyan stock market in this early stage, since the Libyan stock had benefited from other MENA stock markets experience (such as Egypt and Tunisia).

However, the Libyan stock market is still waiting upon the adoption of the Libyan stock market Law as it is considered as a barrier to the development of the Libyan stock market.

Technology Development, this factor was raised during the interviews. The Libyan stock market uses the current technology under the supervision of U.S expertise since April 2008. This has assisted faster development than would otherwise have been the case. This suggests that the Libyan stock market recognizes the significant importance of using common technology with the employed in developed markets in order to enhance the development of the Libyan stock market. The use of the latest technology may encourage investors to deal more confidently in the stock market, as it shows them how much the decision makers are serious, and that all transactions can be done in a timely way. This confident feeling may increase the number of investors in the market leading to an increase in the level of stock market liquidity. Therefore, technology development should be considered as a factor that has a crucial role to play in the development of the market. However, this suggests that the state could encourage the use of more technology by encouraging the use of debit cards as credit cards are considered forbidden. Also, the State should allow e-government and provide secure property right for all technology transactions.

Second: The role of the State on the Libyan stock market and the use of informal contracts in the Libyan stock market

Although the Libyan State issued the decision to establish the Libyan stock market there is no clear strategic plan between the State and the stock market. The environment of the Libyan financial market is still, in many respects, unsuited for the development of the Libyan stock market. The State took the decision to adopt a market-based economy in 1992 but the economic sanctions in 1992 till 1998 delayed the process of transition in the economy. Currently, the Libyan financial market is underdeveloped; there is a slow privatization process, inappropriate economic laws and slow and heavy bureaucratic quality, which all serve to play a negative role in the developing of the Libyan stock market.

The State still delays the adoption of the Libyan stock market law but this is not an issue of the development of the Libyan stock market at this stage as many Arabic stock markets have worked without a strict legal framework. The reform progress in Libya is still in its infancy, the process and government ownership is prevalent, and the legislature has a lack of knowledge and experience in the preparation of such law.

Therefore the Libyan market needs to gain experience and a history of continued the operation before a regular framework can be successfully establishes. The state could provide stronger incentives such as tax exemption, exemptions or facilities from customs duties, and banking facilities in order to increase the number of listed companies and investors in the Libyan market.

This environment also affects the level of trust and the use of informal contracts. Personal relationships are currently the only basis upon which informal contracting of any sort occurs in the Libyan financial market. The Libyan State and the Libyan stock market needs time to develop experience and improve all its operational aspects. Thus, time plays a crucial role in developing the Libyan stock market.

6.3 conclusions on model development

Regarding the findings of this research, a model of the development of the Libyan stock market has been proposed. This model is organized according to the relation importance of some factors over others with a view to developing trust in the market. Trust is regarded as an important mediating variable in the development of the market. In this model culture and religion are argued to be the highest prepotency variables whereas stock market liquidity is considered as the lowest prepotency.

The model is built for the Libyan stock market, and it is difficult to generalize this model for MENA markets or emerging markets. This is because there are differencing characteristics from country to country. However, in the researcher's opinion, there are some aspects of the model that can be applied to the MENA and emerging markets.

Culture and religion are considered as the fundamental factors that should be considered in order to understand the basic environment that the Libyan stock market exists in. This insight could help to make the right decisions that will enhance trust and encourage Libyan investors to invest in the market.

Although it might be some differences of cultural dimensions between some MENA countries all Arabic countries share common values of culture and religion. Culture and religion are the basics drivers of people's actions and in particular of investment decisions. However, this might not be the case in other emerging markets where culture is important but religion has no role in investment decision making.

The second level of the model is political risk, because Libyan citizens are the source of authority and politicians come from the same culture and Islamic religion this may in some cases reflect on their acts and their decisions. Decreasing the level of political risk will enhance trust in both Libyan and foreign investors which should in its turn lead to an increase in stock market liquidity.

According to our literature review, political risk can play a crucial role on MENA and other emerging markets. Therefore, political risk cannot be ignored within this model.

Law and regulations are set by politicians and decision-makers in Libya. Providing a suitable law and regulations for the Libyan financial market after the decision was taken to make the transition to a free economy will indeed reflect positively on the development of the Libyan stock market because a high level of trust is backed by secure property rights.

As discussed previously in the literature review (chapter 2) many studies concluded that suitable law and regulations will influence the stock market development in the level of MENA and other emerging markets. So, law and regulations should be considered important.

Good bureaucratic quality is built drawing on culture and religion, political risk, and law and regulations in terms of the achievement of efficient institutional' goals. Thus good bureaucratic quality at the state level and in the Libyan market should work to increase the level of trust and therefore enhance the development of the market.

Technology development is considered as a tool of bureaucracy which explains its existence of the same level of bureaucratic quality in this model. Using the latest technological development will increase the level of bureaucratic quality by increasing the speed of transactions and overcoming many sources of human error in transaction processing. Thus transaction costs will decrease and trust will increase.

Bureaucratic quality and technological development are important in the sense that they could decrease transaction costs and increase the speed of transacting. Therefore, bureaucratic quality and technology development might have application on the MENA stock markets and other emerging stock markets.

Although there are no studies to examine the relationship between per capita income and the development of the Libyan stock market, this research suggests a positive relationship between them. Therefore per capita income level should be increased in order to increase the capability of Libyans to invest in the Libyan stock market which will increase the size and the stock market and its liquidity.

In general per capita income varies from country to country. However, in Libya, and across other emerging and MENA economies, per capita is significantly lower than in the developed economies. Therefore, the conclusions of this study might have application on some of emerging market including MENA countries in particular those which have small populations and limited resources.

Banking sector development is an important factor that could enhance the development of the Libyan stock market, because the banking sector and the stock market behave as a complement any way rather than as substitutes in the early stage of stock market development. The banking sector could improve its service and provide new investment products, including Islamic products, and this enhance its own development.

As the banking sector develops so the Libyan stock market should develop building upon the positive relationship between the two sectors. The banking sector should increase in volume and activity as listed companies in the Libyans market along with banks could provide assistance to small investors to invest in the stock market. By doing this, the liquidity of the Libyan stock market will increased which will again enhance the development of the Libyan market.

As discussed in the literature review, the banking sector has an important to play in the development of the stock market development in emerging markets, since banks and stock market behave as a complement rather than substitute in the early stage of stock market establishment. As a result, banking sector development might be applied on some of emerging markets.

Privatization plays a positive role in the development of the Libyan stock market. Although the privatization process is slow in Libya it helps the market, because it is an instrument serving to increase the number of listed companies and the number of investors. So, the privatization process needs to continue its success in order to enhance stock market development.

Several studies find a positive role for privatization on the development of stock markets in the emerging markets. This leads us to suggest that privatization could be more rigorously applied on MENA and other emerging markets.

Foreign investment could help the enhancement of the development of Libyan stock market. Although there is a debate about the role of foreign investment on the Libyan stock, opening the door to foreign investment will be useful for the development of the Libyan market.

Foreign investment can help improve the performance of the Libyan stock market and also increase its liquidity. It is been suggested by many studies discussed in the literature review that foreign investment has an important role to play in the development of the stock markets in emerging markets. Consequently, foreign investment might have application on the development of MENA and other emerging markets.

Stock market liquidity is considered as the lowest prepotency because it cannot be increased with commensurate improvements in other factors described in our model. Good levels of liquidity are a beneficial result of high levels of transaction cost efficiency and the presence of trust in dealing with the Libyan stock market. This insight is equally applicable to offer MENA and emerging markets.

6.4 The Contribution of This Study

Whetten (1989) suggests that the contribution of research can be judged by four criteria; providing evidence for unrealistic hypotheses of the model, identifying and explaining the deviation of theory from observation, including new variables or excluding current variables from an existing model or a theory, or indicating the effect of new variables or excluding current variables on the existing relationship. This research addresses several contributions as follows:

First, all the selected factors with the addition of technology development are fundamental factors that can lead to the development of the Libyan financial market in particular the Libyan stock market, based on the evidence here. This study strongly supports previous research in this field. One factor (that of technology development), however, did not feature in prior studies. A contribution of this work then is to highlight its significance.

Second, according to Hofstede (2001); Twati (2006) and Abubaker (2008) the Libyan culture is characterized as high uncertainty avoidance. This study finds the opposite. Libyans, at least in relation to the stock market do not avoid uncertainty. Therefore, the finding of Hofstede (2001); Twati (2006) and Abubaker (2008) cannot be generalized and applied to the Libyan market. The Libyan national culture can be described as "uncertainty accepting" in the financial market area.

Third, in Islamic countries, the isomorphism of western institutions to the financial market, without considering changes according to culture and religion may inhibit Muslims from investing and dealing with these institutions. This finding tends to support the work of Platteau (2008) who argues that the development of a modern economy has not taken place in Muslim lands without organizational change. However, this remains under research and further research can be conducted in this area.

Fourth, Trust is an important mediating variable in stock market transacting, and in the Islamic World, to gain trust in the financial market, three outcomes follow from the following relationship:

Trust = availability of Islamic investment products + Speed of processing + low transaction costs + secure property rights

This is the only study, to date, that identifies the ability of Sharia complaints products as a fact on building trust in the stock markets in Islamic countries. This is perhaps not surprising, but it is worthy to note that many western firms have made the mistake of entering this market without Sharia-compliant products. Non-compliant products may be purchased by some, but such products and the companies may take longer to become trusted.

Fifth, there is a positive relationship between all eleven factors and the enhancement of trust. This means that these eleventh factors should be considered as important in the development of any emerging stock market simply through their impact on trust. This is the only study to date that identifies the relationship between the eleven factors and trust. This relationship is still under research and further research can be conducted in this area

Sixth, According to Nee & Opper (2009) a direct analysis of the relationship between bureaucratic quality and the development of financial markets has not yet been undertaken. However, the finding of this study is that there is a direct relationship between the development of the Libyan financial market and bureaucratic quality.

Seventh, in order to develop financial markets, the State and the Libyan stock market should have a clear strategic plan and work together. Also, the State has a crucial role in creating a suitable environment for the new transition to the economy.

Eighth, personal relationships are important in order to use informal contracts in the Libyan stock market. To gain trust and use informal contract investors currently need to deal with brokers who come from the same clan or tribe. In time trust grow to the point that investors are prepared to move beyond the clan or tribe in marking and keeping informal contracts.

Ninth, according to data analysis and the literature, this research provides a model for the development of the Libyan stock market. The key issue of this model is trust as an important mediating variable in stock market development therefore, stock market liquidity is considered as a lowest prepotency, whereas, culture and religion are considered as the highest prepotency.

Tenth, as discussed in the data analysis (see section 4.3.3.3) this study identifies the need for further training for brokers and considers the need of teaching the operation of stock markets extensively in the education sector in Libya.

Eleventh, this is the first interpretive study on this topic that aims to emphasise the barriers to effect marketization in the very recent creation of the Libyan stock market where there is insufficient history, breadth and depth in the market to support a more quantitative study.

6.5 Critical Review

This study has taken three years to complete. The researcher was very active and enthusiastic in the first stage of the research journey and was keen to examine the subject in depth through the qualitative approach. She personally interviewed a cross section of members of the Libyan stock market, including officers and brokers, due to the wide scope of the research and to compensate for the limited knowledge of some respondents. Acquiring information is no easy task, particularly when the gathering of information can be seen as a threat by some respondents. The use of personal interviewing to gather information worked well due to the Libyan stock market being in its early stages. This approach allowed the researcher to explain, simplify and ask follow up questions at a level that maximised engagement with the respondents.

Moreover, one significant issue in cross-cultural societies is the recovery of meaning across language barriers. The researcher overcame this issue by using what is called translation through triangulation. This consisted of three Arabic investigators (two Libyan and one Egyptian), and all three translators consulted with a native English speaker to ensure that the meaning was agreed by all investigators.

In addition, the researcher passed through other obstacles during the period of preparation as follows:

1. The limitation of references. There are few studies that address the most recent establishment of stock market processes.
2. The relatively recent establishment of the Libyan stock market meant that interviewees only had 2-3 years experience at the time of this study; this will increase in the future. The recent development of the Libyan stock market also does not allow a longitudinal study at this time.

In the process, I, as the researcher have been on a journey that has had huge implications for me and my future. Coming to the UK and conducting this thesis has strengthened me. I never would have anticipated this when I set out my research journey, as I set out to explore the barriers to effective marketization of corporate equity in Libya. Comparing who I was, with who I have become, this journey has provided me with many experiences which I have obtained from various sources. This research has extended my thinking, about doing research and about methodology; I took part in an intellectual and rational debate. In addition, I learned how to explain my opinion, how to discuss the issues and how there is no limit to knowledge.

I have to acknowledge that doing the current research encouraged me to attend international conferences and created inside me the confidence to present papers such as a paper at the Behavioral Finance Working Group Conference at Cass Business School, London; a paper at the Annual Conference of British Accounting Association (BAA) at Cardiff City Hall; a paper at the Doctoral Colloquium in the Business School at Gloucestershire University; and a paper for the 3rd International Conference of the Mediterranean Network of Management Schools. These conferences provided me with the opportunity to discuss my topic with experts from different countries, explain to them my ideas and obtain their valuable opinions that helped me to develop my skills and improve my research. It gave me the opportunity to present many seminars and workshops at the University of Gloucestershire as well as the discussions with PhD colleagues and the lectures in the English classes.

In addition to the forthcoming paper (*Religion and Cultural Dimensions of Trust in the Emerging Financial Market in Libya*) in the International Journal of Behavioural Accounting and Finance, I am enthusiastic to publish the whole thesis as a book. I believe during this journey, a new sense has arisen as I have become more positive, strong, confident and motivated to continue with my academic journey in the future.

6.6 Further studies

Libya nowadays is an open country for new investments, and many business managers would like to invest in Libya in particular in the Libyan stock market. However, there is a lack of studies on the Libyan stock market due to first, no specialist in this area, second due to the early stage of development. Therefore, this research could highlight the issue of the Libyan stock market and the main factors that may enhance the development of such stock market.

Also, this research could be conducted in different national culture to investigate whether these eleventh factors have the same influence in different culture. Moreover, the factors such as culture, religion, bureaucratic quality, privatization, foreign direct investment, income level, income per capita, political risk, stock market liquidity and law & regulations have influenced stock market performance. The characteristic of the recent established stock market needs light thrown on them. Not many studies have been prepared and not many researchers are aware of their effects. Such factors have not acquired considerable importance in the ongoing structural adjustment of different establishment stock market both in developed and developing countries. The efficient performance of the stock market may depend to a large extent on the creation and proper functioning of markets and the direction of the economy; an emerging market economy should enhance the interaction between many active companies and stock markets performance.

Capacity and the degree of openness of the economy will influence stock market performance. In addition, since this research discusses the important role of Sharia complaints products on the development of the Libyan stock market, further research should investigate whether the availability of such products does in fact build trust within the institution more quickly than if there are no such products. Technology development however, has been found to be an important factor in this research which is not found before.
The developed in this thesis needs to be examined and find whether it can be applied on other emerging countries. Due to the fact that the Libyan stock market exists in a country that is regarded as a developing country and have some similarities and differences of characteristics with other emerging markets in particular MENA and other Islamic countries. Finally, an alternative model for Libyan stock market development could be developed through further research.

6.7 Summary

This thesis has examined the impact of ten selected factors on the development of the Libyan stock market. Our discussion found that there are eleven factors that can enhance the development of the Libyan stock market. Also, this research finds that in order to ensure the development of the Libyan stock market, some factors should be considered as more important than the others as discussed in the model. This chapter discussed the following sections; conclusions of research questions, conclusions on model development, the contribution of this study, critical review, followed by further studies.

6.8 Postscript

Since the conclusion of the main part of this research, political events have led to a revolution in Libya. At the time of writing, the markets are in abeyance as the conflict between a large section of the Western people and the government is resolved. At this point it is impossible to say with certainty how Libya will emerge from this period of conflict and whether its newly created market will survive and in what form. However, trust is an eternal virtue and whatever emerges it will be better for the existence of trust rather than from its absence.

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APPENDEX 1: ENGLISH LANGUAGE VERSION OF THE INTERVIEW QUESTIONS (WITH COVER LETTERS)

Interviewer: --

Gender: ☐ Male ☐ Female

Date: ---

Starting time: --------------------------------------

Finishing time: ------------------------------------

Place of interview: -------------------------------

1. Can you tell me your job title, please?
2. Does your job require knowledge of the stock market?
3. Did you have prior knowledge or experience of stock markets?
4. Have you had specific training about stock market operations?
5. What is the role of privatization on the stock market?
6. How many companies are listed in the stock market?
7. What type of companies are they?
8. Why do these companies choose to be listed on the stock market?
9. Why some companies are not listed on the stock market?
10. What are the privileges provide to the listed companies?
11. Do you think that the rules imposed by the stock market are a barrier to list these companies on Libyan stock market?
12. In your view how do you think that Libyan Stock Market could help companies to have finance capital?

13. How do you think that foreign investment can encourage the development of the Libyan stock market?
14. Do you think that the government should give some privilege for the companies to be listed on the stock market?

    -''If yes'', what kind of privilege do you think it will be helpful?
15. How high income level suitable to encourage people to invest on the stock market?
16. How might religious beliefs which may affect the development of Libyan Stock Exchange?
17. How does the banking sector help the Libyan Stock Market to develop?
18. How can Libyan Stock Exchange benefit from the experience of other developing countries in developing its Market?
19. Which religious factors are you currently considering as barriers to making people do not invest on the stock market?

    ☐ Users ☐ Gambling ☐ No knowledge

    ☐ Unethical behavior ☐ speculation
20. Which of the ethical investment are you considering as barriers for making people do not invest on the stock market?

    ☐ Markets served (tobacco, arms, alcohol, etc)

    ☐ Behaviours on market (insider trading, stock price manipulation)
21. The state and the market have different agendas in terms of transaction cost efficiency, so what is the relative importance between state and market of informal contract?
22. To what extent would you trust the "My word of my word is my bond" in the Libyan stock market and why?
23. What do you think are the barriers to transfer the idea of "my word is my bond" into Libyan stock market?
24. To what extent can has that isomorphism that cultural way of doing things transfer to the Libyan stock market?
25. How does Libyan stock market work to have transaction cost efficiency?
26. When do you think that Libyan stock market can enter into informal contracts?

APPENDIX 2: THE TRANSLATION OF ONE INTERVIEW

Interviewee: The Director of oversight and ‘follow-up’ risk

Gender: Male

Date: 07/09/2008

Starting time: 12:00

Finishing time: 01:30

Place of the interview: The Libyan stock market

Interviewer: Can you tell me your job title, please?

A1: I am the Director of oversight and follow up risk.

Interviewer: Can you please tell me more about your job?

A1: Yes of course, the nature of my work is to control and supervise the market dealers, in particular brokers and listed companies. However, %90 of the control and supervision is on brokers because they deal directly with investor’s money, so we have to protect our investors against any mistake or problem by brokers. For listed companies, it is important to make sure that its shares price reflects the realty, otherwise this market will fall down as what happened in Malaysian market when the market collapsed because of the game that one bank play and the same happened in the UK. Therefore, we have to make sure that all information that given by listed companies must be true. Our duty is to show investors all events that affect transparency, clarity and credibility, and then it is investors who decide to buy or sell.

Interviewer: Does your job require knowledge of the stock market?

A1: Yes, it does.

Interviewer: Did you have prior knowledge or experience of stock markets?

A1: No not really, I did not have enough knowledge about the stock market but before I worked in the Libyan stock market I studied in the small private college which teaches summer courses for a very little amount of money as a charity, the course was for one week to ten days. The person who taught us was a Libyan specialist working in the New York stock market and he taught us how to trade in the stock market but we did not study anything about either the international standards of stock exchange, or disclosure, or Laws.

Interviewer: When you start work in the market, have you had specific training about stock market operations?

A1: Yes, I had internal training in the stock market, and, external training in the Jordanian and Egyptian stock markets.

Interviewer: Is there any specific reason for choosing those two stock markets?

A1: Yes both of them have good experience also they are close to our environment.

Interviewer: In your view, what is the role of privatization on the stock market development?

A1: I think that privatization has a positive impact on the development of the Libyan stock market.

Interviewer: Why?

A1: Because it helps to have more listed companies and encourages Libyan people to deal with the stock market.

Interviewer: How many listed companies are on the stock market?

A1: aaaahh, we have twelve companies; seven listed in the main table, so, that you can see them on the screen, and five listed companies in the sub-table because they have not yet completed the listing requirements for the main table, so, you cannot see them on the screen.

Interviewer: Well, what type of companies are they?

A1: As you can see from the screen, they are banks and insurance companies.

Interviewer: Why do you think only banks and insurance companies have become listed?

A1: Because they are the best companies in Libya, and they have met all the listing requirements.

Interviewer: Why do you think these companies chose to be listed on the stock market?

A1: I believe because they are aware of the benefits that they will achieve from being listed on the stock market.

Interviewer: Does this mean that other companies have resisted to be listed on the stock market because they are not aware of these benefits?

A1: Not really, some companies are afraid because they have irregularities. However, other companies do not have knowledge of the benefit of being listed on the stock market.

Interviewer: Do you think that the rules and regulations imposed by the stock market are a barrier to listing these companies on the Libyan stock market?

A1: No not at all, these rules and regulations exist to ensure safety and reduce risks for both listed companies and investors. However, we need a law that can give legitimacy to the stock market.

Interviewer: Do you mean that Libyan stock market still works without law?

A1: Yes, we are still waiting to adopt the Libyan stock market law

Interviewer: Why do you think this delay is all about?

A1: You know how bureaucratic procedures work in Libya

Interviewer: do you mean how slow it is?

A1: absolutely.

Interviewer: Do you have the same problem here in the stock market?

A1: No, yet we are fine and doing our job on time.

Interviewer: That's interesting….

A1: Yes we are still a small market with small and appropriate number of officers so that helps us to overcome any bureaucratic problem.

Interviewer: To what extent do you think that the Libyan stock market could help companies to raise finance capital?

A1: I believe that the Libyan stock market can help companies to raise finance capital up to L.D 100,000, not more, because people who have significant capital do not yet have enough knowledge and enough trust of the Libyan stock market.

Interviewer: So, do you think that the Libyan stock market should work to increase its liquidity to ensure its development?

A1: Obviously liquidity is important to help stock market development, because increased liquidity means increase in the number of listed companies, and also increase in the number of investors which indeed will affect positively in increasing the size of the stock market

Interviewer: Do you think that the government should give some privileges to companies, for being listed on the stock market?

A1: Yes I do.

Interviewer: What kind of privilege do you think would be helpful?

A1: The state should encourage companies to be listed on the stock market by providing, for example, things like; tax exemption, exemptions or facilities from customs duties, and banking facilities, and this kind of incentives will make the Libyan stock market a more active market.

Interviewer: Are current income levels suitable to encourage people to invest in the stock market?

A1: It depends from person to person, and depends on the consumer culture from one person to another.

Interviewer: That is right but can you please give an average at least?

A1: Okay, hmmm 1000 to 1500 Libyan Dinars

Interviewer: Well, this means that per capita income level is low?

Interviewer: Yes you can say that

Interviewer: Do you think that religious beliefs are affecting the development of the Libyan Stock Exchange?

A1: No, I do not think so.

Interviewer: Hmmm that's odd, because most of your Colleagues said that people do not invest in the stock market because of Islamic rules?

A1: Look for me, I do not believe that religion is a barrier to the development of Libyan stock market, and to prove this, Wahda Bank covered 137% of the subscription of shares. Also, Libyan Insurance Company covered 97% of the subscription of shares. This means that religion is not a barrier to the development of the Libyan stock market, because it did not prevent all those people from investing in the stock market

Interviewer: How does the banking sector help the development of the Libyan Stock Market?

A1: Hmmm, I think the Libyan banking sector should co-operate more with the Libyan stock market by providing new tools of investment, like mutual funds and portfolios

Interviewer: How does the Libyan stock exchange benefit from the experience of other developing countries in developing its stock market?

A1: The Libyan stock market has the latest experience from the Egyptian, Tunisian and Jordanian stock markets. We have chosen these three stock markets because they are close to the Libyan situation in some cases, but also because the Egyptian stock market is one of the oldest stock markets in the world, and the Jordanian and Tunisian stock markets are modern markets.

Interviewer: Do you think that the Libyan culture can be considered as a barrier to the development of the Libyan stock market?

A1: No, because trading and business culture existed in Libya since the Roman age, and, also, all Libyans know the vegetable market and how to trade in it. Therefore, Libyan people know how to invest their money but they just do not have a specific knowledge and enough experience to deal with the stock market. Moreover, do you know that fifty years ago, there used to be two stock exchanges in two Libyan cities; one was in Tripoli (Capital City) and the other one was in Benghazi (Second Capital City)? They were called 'Bourse Cafe's', and traders dealt there by bourse rules

Interviewer: What about foreign investment, do you think that foreign investment is important for the development of the Libyan stock market?

A1: Excuse me; (answer a call phone for 10 minutes)

A1: Sorry it is important to answer.

Interviewer: No problem, it is fine.

A1: Sorry, What was your question?

Interviewer: My question was; do you think that foreign investment is important for the development of the Libyan stock market?

A1: Yes, It is for sure those foreign investors will lead to the development of the Libyan stock market because they have experience to deal in the stock markets also they have financial capability to increase stock market liquidity

Interviewer: So you think that foreign investors should be allowed to participate in the Libyan stock market?

A1: Yes. In my opinion, preventing foreign investors to invest in the Libyan stock market is a mistake, because it makes foreign investors enter the stock market by using Libyan people to invest instead of them and this means that we cannot determine or control them which will lead to risk.

Interviewer: So, do you think that political risk is a barrier to the development of the Libyan stock market?

A1: Indeed, political risk discourages Libyan investors and foreign investors from investing in the Libyan stock market because they are afraid that decisions, rules and regulations will be changed

Interviewer: Do you think that the lack of experience and knowledge about stock market operation by brokers can be considered as a barrier to the Libyan stock market development?

A1: No, because in the Libyan stock market it is compulsory for all brokers to have intensive training courses according to the license required by the broker.

Interviewer: To what extent would you trust “My word is my bond” in the Libyan stock market and why?

A1: Now it is impossible, because there is no appropriate mechanism, and no legal protection for this kind of transactions.

Interviewer: How do you think the state can help the Libyan stock market to use informal contracts and the development of the Libyan stock market?

A1: The State should provide e-government to help the Libyan stock market development.

Interviewer: How does Libyan stock market work to have transaction cost efficiency?

A1: Transaction cost in the Libyan stock market is low and even it is low than what it should be.

Interviewer: When do you think that the Libyan stock market can enter into a system of informal contracts?

A1: I believe it might be three to five years.

APPENDIX 3: THEARABIC VERSIONS OF THE ENGLISH QUOTATIONS IN CHAPTER 4

"بالطبع الثقافة الليبية تعد عائقا لتطور السوق الليبي للاوراق المالية لان الليبيين ليس عندهم معرفة بالاسواق المالية" .

"Of course Libyan culture is a barrier of the development of the Libyan stock market because Libyans have no knowledge about stock markets''.

" هناك بعض الناس يعتقدون ان البورصة هى مكان لتغيير العملة وبعضهم متخوف منها" .

"Some people think that the stock exchange is merely some kind of exchanging money center and others fear it".

"لوسمحت هل يمكن ان تخبرني ماذا تعملون هنا؟"

"*Would you please tell me what are you doing here?"*

"وما هي الفائدة التي سأجنيهااذا اشتريت اسهم؟"

"So, what are the benefits that I can get if buy shares?"

"انظر انا لا اعرف كيفية التعامل فى السوق ولكن هل يمكن ان اعطيك بعض المال لتستثمره لي مع اعطاءك الصلاحية لذلك وبالتالي يمكن ان تأخذ حصتك من الارباح وتعطيني حصتي منها."

"*look I do not know how to deal in the stock market, but can I give you some money and i will give you a promotion to invest my money, and then take your revenue and give me my profit. "*

"انا لا استطيع فعل ذلك لان صلاحيتي هي فقط تنفيذ اوامرك لبيع او شراء الاسهم."

"I cannot do this, the only promotion that I have is just to pursuance your orders to buy or sell".

"كل يوم ياتينا اناس يرغبون فى معرفة كيف يمكنهم الاستثمار وتحقيق الارباح فى السوق. مثلا هناك بعض الطلبة الجامعيين الذين اشتروا عدد صغير من الاسهم بغرض تحقيق ربح واكتساب خبرة".

"Every day some people come and ask us about how to invest and get profits in the stock market. For example, some students who study at the university bought a few shares in order to make profits and get experience".

"التجارة فى الثقافة الليبية موجودة منذ ايام الرومان في ليبيا، كما أن الجميع يعرف سوق الخضار ويعرف كيف يتاجر فيه ولهذا فان الليبيون يعرفون كيف يستثمرون اموالهم ولكن فقط هم ليست لديهم المعرفة والخبرة الكافية للتعامل فى السوق المالي. اضافة الى ذلك هل تعرفين انه منذ حوالي 50 سنة مضت كان هناك بورصتين تعملان فى ليبيا الاولى فى طرابلس والثانية فى بنغازي وكان يطلق كل كل واحدة منها اسم قهوة بورصة وكان التجار يستثمرون فيها بقوانين البورصة انذاك".

"Trading and business culture existed in Libya since the Roman age, and, also, all Libyans know the vegetable market and how to trade in it. Therefore, Libyan people know how to invest their money but they just do not have specific knowledge and enough experience to deal with the stock market. Moreover, do you know that fifty years ago, there used to be two stock exchanges in two Libyan cities; one was in Tripoli (Capital City) and the other one was in Benghazi (Second Capital City)? They were called 'Bourse Cafe's', and traders dealt there by bourse rules".

"أنا اعتبر ان الثقافة هي احد العوائق التى تواجه تطور السوق الليبي، لان الشركات الخاصة ليس لديها اي معرفة اوخبرة عن كيفية التعامل فى السوق او حتى ماهي الفوائد التي يمكن ان تتحصل عليها الشركات المدرجة بالسوق، وكما تعرفين ايضا ان اي شئ جديد فى ثقافتنا يعد مشكوك فيه حتى يثبت العكس".

"I think that Libyan culture is one of many barriers that face Libyan stock market development, because Libyan private companies have no knowledge or experience of how to deal with the stock market or what the benefits of being listed are, and also as you know anything new in our culture is suspicious until its worth is proven".

"زينب انظرى الوقت لايزال مبكر لاتخاذ مثل هذا القرار فالسوق لايزال فى مراحله الاولى دعينا نرى الى اين سيذهب هذا السوق".

"Zainab - look it is too early to take like this decision, the Libyan stock market still in the early stage let's see where this stock market is going".

"الدين يعد عائقا ويؤثر سلبا على تطور السوق لان كل الشركات المدرجة هي عبارة عن بنوك وشركات تأمين والتي تعتمد على الربا والغرر والتى كما تعرفين هي محرمة فى الدين الاسلامي ولهذا فان معظم الليبيين لن يستثمروا فى البورصة حتى يكون هناك تنوع فى الشركات المدرجة مثل الشركات الصناعية التي لا تتعامل بالمحرمات".

"Religion is a barrier to the development of the Libyan stock market, because all the listed companies are banks and insurance companies, which mainly depend on interest and uncertainty, and, as you know, in the Islamic religion, interest and uncertainty are forbidden. Therefore, most Libyan people will not invest in the Libyan stock market unless there are a variety of listed companies such as industrial companies that do not deal with prohibited things".

"أنا اعتقد ان ما يقارب 60% من الليبيين يبتعدون عن الاستثمار فى سوق المال الليبي نتيجة للعامل الديني".

"I believe that around 60% of Libyan people refrain from investing in the Libyan stock market because of the religious rules".

"انا لا اعتقد ان الدين يعد عائقا لتطور السوق الليبي والدليل على ذلك ان مصرف الوحدة غطى 137% من الاكتتاب فى الاسهم وكذلك شركة ليبيا للتأمين غطت 97% من الاكتتاب فى الاسهم وهذا يعني ان الدين ليس عائقا فى تطور السوق الليبي لانه لم يمنع كل هؤلاء المستثمرين من الاستثمار فى السوق".

"I do not believe that religion is a barrier to the development of the Libyan stock market, and to prove this, Wahda Bank covered 137% of the subscription of shares. Also, Libyan Insurance Company covered 97% of the subscription of shares. This means that religion is not a barrier to the development of the Libyan stock market, because it did not prevent all these people from investing in the stock market".

"نظام البيروقراطية فى السوق مثل اي نظام بيروقراطى فى اي مؤسسة فى ليبيا له تأثير سلبي على الاداء والانتاجية".

"The bureaucratic system in the Libyan stock market is the same as any bureaucratic system in Libyan institutions It has a negative impact on the performance and productivity".

"السوق الليبي لا يستخدم نظام بيروقراطي جيد لكي يساعد على تطور السوق فنحن نواجه احيانا مشاكل مع القرارات الغير عادلة والتي تسببت فى ترك الكثير من الموظفين العمل فى البورصة".

"The Libyan stock market does not use a good bureaucratic system in order to increase its development. We face problems sometimes with unfair decisions, and many employees quit because of that".

"نعم سوق المال الليبي يستخدم نظام بيروقراطي جيد يساعد على تطوره"

"Yes the Libyan stock market uses a good bureaucratic system in order to increase its development".

"ليس لدينا اي مشاكل بيروقراطية بعد لانه كما ترين يوجد عدد قليل من الموظفين هنا. فيمكن ان تري فى بعض الادارات مدير ادارة مع رئيس قسم فقط بدون اي موظفين اخرين او ادارة تحتوي على مدير ادارة ورئيس قسم

وموظف واحد فقط ولهذا فان كل المعاملات تتم فى وقتها وبسهولة وبدون اية تعقيدات فى الاجراءات وخصوصا ان حجم المعاملات فى البورصة لازال صغيرا".

"Yet we do not have any bureaucracy problems, because as you can see there are few people who work here. You can see a director with a head of department alone without any worker, or in some departments there is just only one worker with the director and the head of department, so all transactions are done on time easily without any complicated procedures especially because transaction volume in the stock market still small".

"مبدئيا كل وسيط يتعامل مع معارفه واصدقاءه وهذا شئ طبيعي فلو انني ذهبت الى محل فيه صديق لي فمن الطبيعي ان اتوجه مباشرة الى ذلك الصديق لاتم معاملتي لثقتي به بطبيعة الحال وهذا مايحدث عادة عندما يحضر مستثمر للسوق فانه يتوجه مباشرة للوسيط الذي يعرفه وايضا يمكن ان تكون المعاملة الجيدة من الوسيط للمستثمر سببا فى تعزيز الثقة بين بينهما".

"Initially each broker deals with acquaintances and friends and this is normal, so if I go to the place for instance where a friend of mine works, it is natural to extend directly to that friend in order to complete my paperwork because of my trust in him of course. And this usually happens when an investor comes to the stock market he/she goes directly to the broker who knows. Also, maybe good treatment by the broker to the investor gives strength to the trust between them".

" .... قبل ان ادخل للعمل فى السوق دخلت معهد صغير خاص في بنغازي يعطي دورات في الصيف بمبلغ رمزي كعمل خير ولمدة اسبوع او عشرة ايام وقام بتدريسنا خبير ليبي يعمل في بورصة نيويورك وقد درسنا بعض الامور عن كيفية التداول ولكن لم ندرس اي شئ عن معايير البورصة الدولية او الافصاح او القوانين".

"….before I worked in the Libyan stock market I studied in a small private college which teaches summer courses for a very little amount of money as a charity, the course was for

one week or ten days. The person who taught us was a Libyan specialist working in the New York stock market and he taught us how to trade in the stock market but we did not study anything about either the international standards of stock exchange, or disclosure, or Laws".

"ليس لدي معرفة مسبقة عن البورصات قبل عمل فى البورصة فكما تعرفين انني كمحاسب لم ادرس اي شئ عن اسواق المال".

> *"…I had no previous knowledge about stock markets before I worked in the Libyan stock market, as an accountant but I did not study anything about stock markets".*

"انا تخصصي فى شركات التأمين وبالتالي فلم يكن لدي اي معرفة مسبقة عن اسواق المال".

"My specialism is in insurance companies, and therefore I had no previous knowledge about stock markets".

" تحصلت على دورات محلية وخارجية معا فى كل من مصر والاردن".

"I got both internal and external training in Egypt and Jordan".

"لا، لان السوق وضع قيود اجبارية على الوسطاء وذلك بان جعل كل الوسطاء يخضعون لدورات تدريبية مكثفة كل حسب الترخيص الذي يطلبه".

"No, because in the Libyan stock market it is compulsory for all brokers to have intensive training courses according to the license required by the broker".

"فى الحقيقة هناك عدة تراخيص يمنحها السوق للوسطاء فهناك ترخيص العمل كوسيط وهناك ترخيص اخر خاص بتقديم الاستشارات وهو يتطلب من الوسيط الدخول فى 6 دورات تتبعها امتحانات ومن ثم يتم منح الترخيص الخاص بتقديم الاستشارات وهناك ترخيص اخر اسمه الشراء بالمشاركة وهو عبارة عن اشتراك كل من الوسيط والمستثمر فى عملية ما بحيث يشارك الوسيط بنسبة 70% والمستثمر يشارك بنسبة 30%".

“In fact there are different types of license that the stock market grants to brokers; an execution only license and an advisory license for brokers that requires the broker to have 6 courses with exams then the broker can get a license as an advisor, and there is another license called ‘buy with sharing’; this license allows brokers and investors to cooperate and buy shares together. The condition of the cooperation under this licence is that brokers should contribute 70% of value of the shares and investors should contribute 30%”.

"كل التراخيص الممنوحة للوسطاء حاليا هي فقط كوسطاء لتنفيذ اوامر البيع والشراء لان التراخيص الاخرى لازالت جديدة فى السوق"

“All brokers have only a license for execution only because the other licence is still new in the stock market”.

"...قد اخترنا هذه الاسواق المالية الثلاثة لأنها قريبة من الوضع الليبي في بعض الحالات أيضا فسوق الأوراق المالية المصرية يعد احد أقدم أسواق الأسهم في العالم، وسوق الأوراق المالية الأردنية هي السوق الحديث".

“....We have chosen these three stock markets because they are close to the Libyan situation in some cases. The Egyptian stock market is one of the oldest stock markets in the world, and the Jordanian stock market is a modern market".

"موقف الدولة بالنسبة لسوق الأوراق المالية ضعيف ومتخاذل، في البداية أصدرت الدولة قرار إنشاء وسوق الأوراق المالية الليبي، ولكن دفع رأس المال تأخر، مما ادى الى أن يتم ادراج سوق الأوراق المالية الليبي، للحصول على الدعم المالي من القطاع الخاص. وبالتالي ، فإن راسمال سوق الأوراق المالية ينقسم الى 30 ٪ لصندوق التنمية و 25 ٪ للبنوك التجارية و 45 ٪ مملوكة من قبل المساهمين العامة. وفي الوقت نفسه، قرر

صندوق التنمية ادراج 60 شركة من شركاته فى السوق،قد تم ادراجها فى الجدول الفرعي، لأن هذه الشركات لم تكمل بعد متطلبات الإدراج في الجدول الرئيسي، وبالتالي لا يمكن رؤيتها على الشاشة " .

"The State's attitude to the stock market is weak and droopy. At the beginning the State issued the decision to establish the Libyan stock market, but the payment of the capital was delayed, which encouraged the Libyan stock market to be listed, to get financial support from the private sector. Consequently, the stock market capitalization was divided into 30% for the Development Fund and 25% for commercial banks and 45% owned by public shareholders. At the same time, the State decided to list all 60 companies in the Fund for Development, but we listed them on the sub-table, because these companies have not yet completed the requirements of listing in the main table, and therefore they cannot be seen on the screen".

" ...لا بد من توفير الحكومة الالكترونية للمساعدة على تطوير سوق الاوراق المالية الليبي" .

"...The State should provide e-government to help the Libyan stock market development".

"لانها هي احسن الموجود" .

"....Because they are the best of the existing banks".

...هذه المصارف يوجد لديها كل متطلبات الادراج فى السوق فكما تعرفين فان المصارف كلها تعد ميزانياتها بشكل دائم على عكس معظم الشركات فى ليبيا، كما ان لديها الوعي الكامل بأهمية السوق لها" .

"...These banks have all listed company requirements and as you know all banks regularly prepare their financial statements, which is not the case for most companies in Libya. Also, these banks have full awareness of the importance of the stock market".

" قطاع المصارف الليبية يجب ان يتعاون اكثر مع السوق الليبي من خلال تقديم ادوات استثمارية جديدة مثل صناديق الاستثمار والمحافظ الاستثمارية".

"The Libyan banking sector should co-operate more with the Libyan stock market by providing new tools of investment, such as mutual funds and portfolios".

"قطاع المصارف الليبية عليه ان يقدم قروض وتسهيلات لاجل الاستثمار فى البورصة".

"The Libyan banking sector should grant loans for the purpose of investing in the stock market."

"انا اعتقد ان قطاع المصارف الليبية عليه ان يتبنى الافكار الاسلامية فى الاستثمار والتمويل وكذلك يمكن للمصارف الليبية ان ان تدخل كوسطاء فى السوق من خلال استخدام الكميات الكبيرة من الاموال السائلة المتكدسة لديها بدون استثمار ورفع القيود عنها".

"I think that the Libyan banking sector should adopt Islamic ideas on investment and finance. Also, the Libyan banking sector can enter the stock market as an intermediary by using the huge amount of cash that it has and removing the restriction on banks".

" .... ربما هذه المصارف لازالت لاتعرف الفوائد التي قد تتحصل عليها عند ادراجها فى السوق المالي"

"…. Maybe these banks are still not quite sure about the benefits of being listed on the stock market"

"سوق المال الليبي انشئ فى البداية عن طريق مصرف ليبيا المركزي ثم انفصل السوق عن مصرف ليبيا المركزي وذلك لان مصرف ليبيا المركزي فشل فى تطوير وتنشيط السوق."

"The Libyan stock market was established by the Central Bank of Libya, then it was separated from the central bank of Libya because the Libyan central bank failed to make the Libyan stock market an active market".

"...في راي الاستثمار الاجنبي مهم لتطور السوق فبعد الخصخصة الجزئية لكل من مصرف الصحاري ومصرف الوحدة وبيع جزء من اسهمهما الى شركاء اجانب وادراجهما فى السوق كان هناك اقبال وتداول ملحوظ على اسهمهما".

"... In my view foreign investment is important to the development of the Libyan stock market because after being partially privatized its shares to foreign partners and being listed in the stock market it was noticed that there was a remarkable level of turnover and trading".

"..بالتأكيد دخول المستثمرين الاجانب سيؤدي الى تطور السوق لانهم لديهم الخبرة للتعامل فى الاسواق المالية كما لديهم القدرة المالية التي تساعد على رفع سيولة السوق".

"....It is for sure that foreign investors will lead to the development of the Libyan stock market because they have experience of dealing in the stock markets. Also, they have the financial capability to increase stock market liquidity".

"... لابد من فتح الباب للمستثمر الاجنبي للاستثمار فى السوق الليبي لضمان تطور السوق"

"...It is necessary to open the door to foreign investor to invest in the Libyan stock market in order to ensure the development of the Libyan stock market".

"هناك رغبة حقيقية من المستثمرين الاجانب للاستثمار فى السوق، فهناك العديد من المستثمرين الاجانب الذين يرغبون فى شراء اسهم ولكن القوانين لاتسمح لهم".

"There is a real wish of foreign investors to invest in the Libyan stock market because there are many foreign investors who wish to buy shares but the laws do not allow them yet".

"المستثمر الاجنبي لن يقدم على الاستثمار فى سوق المال الليبي مالم تتوفر الاليات والاساسيات الملائمة لدخوله مثل توفر القوانين اللازمة لحماية المستمرين"

"Foreign investors will not invest in the Libyan stock market unless there are mechanisms and basics suitable to encourage them to invest in the Libyan stock market, like providing necessary laws to protect foreign investors".

" ...فى راي ان منع المستثمرين الاجانب من الاستثمار فى السوق الليبي هو خطأ لان المستثمرين الاجانب سوف يدخلون السوق السوق عن طريق استخدام ليبيين بدلا عنهم وهذا معناه اننا لايمكن ان نحدد اونتحكم فى عدد وهوية المستثمرين الاجانب داخل السوق مما يعرضه للخطر" .

"….In my opinion, preventing foreign investors investing in the Libyan stock market is a mistake, because it makes foreign investors enter the stock market by using Libyan people to invest instead of them and this means that we cannot determine or control them which will lead to risk".

"يوجد عدد من الاجانب المقيمين المستثمرين فى السوق ولكن عددهم بسيط" .

"There are some foreign residents who are investors in the stock market but their number is still very small".

"المخاطر السياسة تمنع المستثمرين الليبيين والمستثمرين الاجانب من الاستثمار فى سوق الاوراق المالية لانهم يخشون التغيير فى القرارات والقواعد واللوائح" .

"Political risk discourages Libyan investors and foreign investors from investing in the Libyan stock market because they are afraid that decisions, rules and regulations will be changed".

"عدم الاستقرار فى القرارت يجعل الناس يخشون الاستثمار فى سوق الاوراق المالية الليبي".

"The instability of decisions makes people afraid to invest in the Libyan stock market".

"لايزال هناك حظر على المستثمرين الاجانب كأفراد من الاستثمار فى السوق الا اذا كانوا مقيمين فى ليبيا" .

"… There is still a ban on foreign investors as individuals to invest in the Libya stock market, unless they are residents".

"لاتوجد استراتيجية واضحة بين سوق المال والدولة. والدولة لا تقدر نمو هذا السوق ووجوده فى الاقتصاد والذي نجح ان ينمو فى بيئة غير صالحة وهو الان يعمل باليات السوق المنظمة ويعمل حسب قوى العرض والطلب فى السوق. وهناك رغبة لان يعمل هذا السوق وينجح ليس من السوق فقط ولكن من الاطراف المتعاملة مع السوق. لكن هناك اليات كثيرة يجب ان تتوفر لانجاح هذا السوق واذا لم تتوفر فى الامد المنظور فاستطيع القول ان سوق المال فى ليبيا سوف يفشل واذا لم ينجح فستكون ضربة قاصمة للاقتصاد الليبي وسيفقد الثقة فى اي مكون من مكونات الاقتصاد الوطني. ولانجاح هذه التجربة يجب تحسين المناخ من خلال اصدار القوانين اللازمة ودفع النشاط الاقتصادي وتطوير العمل المصرفي والذي يعد مهم جدا فصناديق الاستثمار تنشأها المصارف والمصارف ايضا تمول المشاريع الجديدة والشركات الجديدة وكذلك تمول الشركات التي ترغب فى زيادة راسمالها" .

"There is no clear strategy plan between the State and the Libyan stock market, and the State does not appreciate the growth of this stock market which has succeeded so far in an environment that is hostile even now. If the State does not work to create a good and suitable environment for the stock market in the near future, I can say that the Libyan stock market will fail, and this failure will be a serious blow to the Libyan economy, which will lose confidence in any of the components of economic activity. To achieve success in the Libyan stock market, the State must be improved, through developing the banking sector, the creation of modern economic laws, and the implementation of these laws, also by creating the necessary institutions that we need to serve the legislative environment and economic development in Libya".

"يجب على الدولة تشجيع الشركات للادراج فى السوق الليبي من خلال مثلا تقديم حوافز مثل تقديم الإعفاءات الضريبية، تسهيلات الرسوم الجمركية والتسهيلات المصرفية، مثل هذا النوع من الحوافز سجعل سوق الأوراق المالية الليبي سوق نشطة".

"The State should encourage companies to be listed on the stock market by providing, for example, incentives such as; tax exemption, exemptions or facilities from customs duties, and banking facilities, and these kind of incentives will make the Libyan stock market an active market".

"الخصخصة لها تأثير ايجابي على تطور السوق الليبي بالطبع لانها تساعد على ادراج المزيد من الشركات فى البورصة وكذلك تشجع الليبيين للتعامل مع السوق الليبي".

"Privatization has a positive impact on the development of the Libyan stock market because it helps to have more listed companies and encourages Libyan people to deal with the stock market".

" ... في هذه المرحلة نعم ولكن عندي بعض التحفظ لانني اخشى الاستخدام الخاطئ لهذه العملية فى المستقبل".

"At this stage, yes, but I hesitate because I am wondering if the process will go badly in future"

"لان معظم الشركات المقرر خصخصتها هي شركات خاسرة وهذا كما تعلمين يعني ان الخصخصة ستفشل وهذا بالطبع سيؤثر سلبا على تطور السوق المالي الليبي".

"Because most companies which are going to be privatized are loss- making companies and, this as you know, means that privatization will fail which of course will have a negative effect on the Libyan stock market development".

"هناك رغبة من الدولة للاتجاه للخصخصة ولكن هناك جوانب وعوامل ناقصة فلابد من وجود اطار عام يخدم ويساعد على انجاح برنامج الخصخصة. الان فى ليبيا حاولوا الاندفاع ببرنامج الخصخصة وتوقعوا انهم يستطيعون خصخصة 350 شركة فى خلال 3 سنوات حسب قرار اللجنة الشعبية العامة ولكنهم فوجئوا بانهم لايستطيعون، فهم خصخصوا الشركات والتشاركيات الصغيرة وباعوها ولكن الشركات الكبيرة لم يستطيعوا ثم انهم لم يؤهلوا هذه الشركات فالشركات الخاسرة والفاشلة هي التي قرروا خصخصتها وبالتالي من سيشتري اسهمها لاحد. ما يتم خصخصته عن طريق سوق المال حتى الان اعتبره ناجح وسوق المال اعطى مؤشر هام جدا على اهمية سوق المال فى انجاح برنامج الخصخصة".

"There is a desire of the State in the direction of privatization, but there are incomplete aspects and factors so there must be an existence of a general framework to serve and help the privatization programme succeed. The General People's Committee, who are the decision makers in Libya, tried to rush the privatization program and expect that they can privatize 350 companies in over 3 years, but they were surprised that they cannot privatize all these companies in three years. They only privatize small companies, but they could not do this with large companies, because they did not qualify these companies. Loss-making companies that they decided to be privatized and thus who will buy their shares? The answer is no one. In my view, what is being privatized through the capital market so far has been considered as successful and the stock market gave a very important indicator of the importance of the stock market in the success of the privatization programme".

"بالتأكيد السيولة مهمة لتطور السوق المالي، فارتفاع السيولة يعني ارتفاع عدد الشركات المدرجة وكذلك ارتفاع عدد المستثمرين والذي بالتأكيد سيؤثر ايجابا على حجم السوق المالي".

"Obviously liquidity is important to help stock market development because increased liquidity means an increase in the number of listed companies, and also an increase in the number of investors, which indeed will positively affect the increase in the size of the stock market".

"كما تعلمين ان حجم السوق المالي مازال صغير والمستثمرين احيانا عليهم ان ينتظروا حتى يمكنهم بيع او شراء اسهم و نحن بحاجة لزيادة عدد الشركات المدرجة وزيادة عدد المستثمرين لرفع سيولة السوق".

"As you know the size of the stock market is still small, and the investors sometimes have to wait in order to sell or buy shares. We need to increase the number of listed companies and increase the number of investors in order to increase liquidity"

"سيولة السوق المالي تستخدم لتغطية اي مشاكل مالية يمكن ان تواجه السوق المالي ولكن سوق المال الليبي في هذه المرحلة لا يمكنه تغطية الا حجم صغير من المشاكل المالية نتيجة لضعف السيولة فيه".

"Stock market liquidity is used to cover any financial problem that might face the stock market, but because of the low level of stock market liquidity at this early stage the Libyan stock market cannot cover all financial problems that may face the stock market".

"انا لا اعرف ما هي العلاقة بين سيولة السوق المالي وتطور السوق المالي".

"I do not have any idea about the relationship between stock market liquidity and the development of the stock market".

" عفوا انا ليس لدي اي معرفة لان خلفيتي كانت في شركات التأمين ولم ادرس اي شئ عن اسواق المال وكذلك انا عملت هنا مؤخرا فليس لدي خبرة بعد".

"Sorry I have no knowledge as my background is in insurance companies and I have not studied anything about stock markets. Also I got this job recently".

"لتشجيع المستثمرين على الاستثمار في السوق المالي فإن تكلفة المعاملات بسيطة فقط 0.005 مقسمة الى 0.003 للوسطاء و 0.002 للسوق وكذلك اسعار الاسهم منخفضة عن قيمتها الحقيقية و كما قال احد الخبراء المصريين المتعاونين معنا ان اسعار هذه الاسهم سترتفع في المستقبل الى قيمتها الحقيقية".

"In order to encourage investors to invest in the stock market, the transaction cost is low; it is only 0.005 divided to 0.003 for brokers and 0.002 for the stock market. Also, share prices are lower than the actual prices as an Egyptian specialist who works with us said that these prices will be increased in future to the real price".

"تكلفة المعاملات في سوق الأوراق المالية الليبي منخفضة وحتى أنها منخفضة عما ينبغي أن يكون " .

"Transaction cost in the Libyan stock market is low and even lower than it should be".

"تكلفة المعاملات منخفضة بالمقارنة مع حجم التداول، وبالتالي فإنها لا تغطي تكاليفنا"

"Transaction cost is low compared with the trading volume, and they do not cover our costs".

"اعتقد ان تكلفة المعاملات كبيرة خصوصا لصغار المستثمرين، وبالتالي فإنه ينبغي خفضها"

"I believe that transaction cost is too much especially for small investors, and therefore it should be reduced".

"أعتقد أن سوق الأوراق المالية الليبي يمكن أن يساعد الشركات بتمويل رأس المال يصل الى100,000.00 ، لأن المستثمرين الذين لديهم رؤوس الأموال الكبيرة ليس لديهم ما يكفي من المعرفة والثقة في سوق الأوراق المالية الليبي" .

"I believe that the Libyan stock market can help companies raise finance capital up to L.D100,000.00 but not more, because people who have significant capital do not have enough knowledge and enough trust in the Libyan stock market".

"مستوى دخل الفرد منخفض ويؤثر سلبا على قدرة المستثمرين الليبيين على الاستثمار فى السوق الليبي والذي بدوره طبعا يؤثر سلبا على تطور السوق المالي" .

"Per capita income is low and this affects negatively the ability of most Libyan investors to invest in the Libyan stock market, which in turn negatively affects the development of Libyan stock market".

"لايوجد علاقة بين تطور السوق الليبي ومستوى دخل الفرد لانه حتى فى الدول الفقيرة والتي يكون مستوى دخل الفرد فيها منخفض جدا يوجد اسواق مالية نشطة فنحن نسمع عن صناديق الاستثمار والتي تكون ملائمة لصغار المستثمرين فى هذه الدول وبالتالي فانا لا ارى اي علاقة" .

"There is no relationship between Libyan stock market development and per capita income, because even in the poor countries which have very low per capita income, there is an existence of active stock markets. We hear about mutual funds which are appropriate for small investors".

"نعم نحن نعرف ان وجود مستوى دخل جيد للفرد يؤدي الى الادخار والذي بدوره يؤدي الى الاستثمار ولكن انا لست اقتصادي وعليه فانا لا استطيع ان اعطيك اي فكرة عن راي فى مستوى دخل الفرد" .

"Yes, we know that a good per capita income leads people to make savings which will lead to investment, but I am not an economist; therefore, I am not able to give you any idea about the income level".

"لدينا لوائح وقرارات فى السوق المالي الليبي ولكن بحاجة الى قانون يعطي الشرعية للسوق"

"We have rules and regulation but we need law that can give legitimacy to the stock market".

"اذا تبنت الدولة قانون سوق المال فان هذا سيؤدي الى ان يعمل السوق بكفاءة"

"If the State adopts the law of the stock market, then we can work efficiently".

"قانون الانشطة الاقتصادية نص على انشاء سوق الاوراق المالية لكن المشرع لم يستطع ان يصوغ قانون سوق الاوراق المالية الليبي وذلك لعدم وجود الخبرة لاعداد مثل هذا القانون. انا اعتقد ان عدم وجود قانون

لسوق المال لا يمثل عائقا لتطور السوق. فمثلا سوق المال التونسي استمر فى العمل لمدة 25 عاما بدون قانون، وكذلك السوق المالي لسلطنة عمان عمل بدون قانون لمدة 10 سنوات، واما بالنسبة لسوق الكويت للاوراق المالية وهو اقدم سوق مالية فى الخليج فقد عمل حتى الان بدون قانون. وعليه فانا ارى عدم صدور قانون للسوق الليبي امر طبيعي لاننا نريد ان نخلق الخبرة والمعرفة عن السوق الليبي حتى نتمكن من صياغة القانون وفقا للظروف الاقتصادية المحلية بدلا من استيراد القانون الذي لا يتناسب مع الظروف الاقتصادية المحلية".

"The law of economic activities provided for the establishment of the Libyan stock market, but the legislature could not formulate the law of the Libyan stock market due to the lack of expertise in the preparation of such a law. I believe that having no law is not an obstacle in the development of the Libyan market. For example, the Tunisia Stock Exchange continued working for 25 years without law, as well as the Sultanate of Oman Stock Exchange for 10 years, while the Kuwait Stock Exchange, the oldest stock exchange in the Gulf States has worked until today without law. Therefore, I see this situation as normal because we need to create experience and knowledge about the Libyan stock market, so that we can formulate the law in accordance with local economic conditions, instead of importing law that does not fit with the local economic conditions".

"القرارت واللوائح فى السوق المالي لا تمثل عائقا فى تطور السوق. كل القرارات واللوائح هي لحماية وتوفير الامان للسوق والشركات المدرجة والمستثمرين على حد سواء لان ذلك سيوفر البيئة الملائمة للحصول على ثقة المستثمرين واذا لم يكن لدينا لوائح وقرارت ملائمة فان هذا يعني انعدام الثقة فى السوق وبالتالي اعراض الناس عن التعامل مع السوق مما سيعرض السوق للفشل".

"Rules and regulations in the stock market are not barriers in developing the stock market. All rules and regulation are for protecting the stock market, listed companies and investors.

The Libyan stock market is looking for reliability and trust to encourage investors; if we do not have appropriate rules and regulation this means this stock market will fail".

" هذه الشركات المدرجة في البورصة والتي هي البنوك وشركات التأمين هي أفضل الشركات لأن لديهم جميع متطلبات الإدراج والتي يجب ان تكون موجودة في جميع الشركات الجيدة" .

"These listed companies which are banks and insurance companies are the best companies because they meet all the listing requirements, which all good companies must have".

"اعتقد ان سبب رفض اي شركة للادراج هو بسبب انها لديها عيوب، ولكن ليس بسبب متطلبات الإدراج" .

"I believe that any company which refuse to be listed, is because it has a defect itself, but not because of the listing requirements".

"فى راي انه يجب تخفيض القرارات واللوائح الخاصة بمتطلبات ادراج الشركات حتى يمكن زيادة عدد الشركات المدرجة" .

"The rules and regulations in the Libyan stock market should be decreased to encourage companies to be listed".

"نحن اخذنا القرارت واللوائح التي تعمل بها الاسواق المالية مثل السوق المالي المصري والسوق المالي التونسي وقمنا باجراء بض التعديلات عليها لكي تتوافق مع وضع السوق المالي الليبي" .

"We copied rules and regulation from other Arabic stock markets such as Egypt and Tunisia with some changes to make these rules and regulations suitable for the Libyan stock market".

"لا يمكنني قبول التعامل بالعقود الغير الرسمية بسبب عدم وجود أي حماية قانونية على مجرد كلمات أو وعود، وهذا سوف سيستمر ما لم أعرف مع من اتعامل ، أو أن هناك حماية قانونية لمثل هذه الأنواع من العقود" .

"I cannot accept dealing with informal contracts because there is no legal protection on just words or promises, and, this will continue unless I know who I deal with well, or there is legal protection for these kinds of contract".

"ينبغي أن الثقة يدعمها القانون قبل أن نتمكن من التعامل تحت هذا الشعار " .

"We should have trust supported by law before we can deal under this motto".

"شركتي تقبل التعامل مع المستثمرين من خلال العقود الغير رسمية. ولكن علينا أولا أن نطلب من المستثمر التوقيع على العقد واختيار أي نوع من العقد التي يرغبون في التعامل مع، سواء عبر الهاتف أو البريد الإلكتروني أو على حد سواء، بالإضافة إلى التعامل المباشر. وقد بدأنا بالفعل باستخدام الهاتف كطريقة أخرى للتداول، ولكن يجب تسجيله. أيضا، ولقد بدأنا في التعامل مع المستثمرين عن طريق البريد الالكتروني ولكن يجب علينا أن نعرف جيدا المستثمرين، لأنه كما تعلمين ليس هناك حماية قانونية على هذا النوع من المعاملات " .

"My Company accepts dealing with investors by informal contracts. But, first we have to ask the investor to sign the contract and choose what kind of contract they would like to deal with; whether by telephone or email or both, as well as direct dealing. And we have already used the telephone as another way of trading, but we must record it. Also, we have started to deal with investors by email but we must know the investors very well, because as you know there is no legal protection on these kinds of transactions".

" ...حتى لو كان هناك بعض العقود الغير رسمية قد تم القيام بها فانه إلزامي للوسطاء ان يلحقوها بأمر مكتوب في نفس يوم المعاملة. هذه هي القاعدة التي يجب اتباعها حتى يكون لدينا الحماية القانونية على مثل هذا النوع من العقود " .

"Even if there are some informal contracts, it is compulsory for the brokers to follow a written order on the same day of the transaction this is the rule which must be followed until we have legal protection on these kinds of contracts".

"العقود الغير رسمية مثل التداول عبر الإنترنت هي لمساعدة سوق الأوراق المالية الليبي لتحقيق طفرة، ولكن لا توجد حماية قانونية لكل من الوسطاء و المستثمرين ، وأيضا ليس هناك وجود آليات مناسبة لاستخدام هذا النوع من العقود" .

"Informal contracts, like online trading are helping the Libyan stock market to achieve a leap, but there is no legal protection for either brokers or investors. Also, there is no existence of appropriate mechanisms for using these kind of contracts".

" ...إعتقد أنه سيتم استخدام العقود الغير رسمية عندما تقرر الدولة ذلك" .

"…I believe that informal contracts will be used when the state decides that."

" ...أعتقد أن عامل الوقت يلعب دورا في وجود خبرة مناسبة، قبل أن نتمكن من استخدام عقود غير رسمية ومعظم أسواق الأسهم لديها " .

"I think that time plays a role in having suitable experience, before we can use informal contracts, as most stock markets do".

"منذ 3 ابريل 2008 استخدم سوق المال الليبي نظام التدوال الالكتروني تحت اشراف متخصص امريكي للتأكد من مطابقته للمواصفات التي تعمل بها الاسواق المالية الاخرى" .

"Since April 2008, the Libyan stock market has used an e-trading system under the supervision of a U.S expert to make sure that it is identical to the specifications of other stock markets. We also gave workers two months of training on this system".

" ....قررنا اتخذنا القرار الافضل وهو ان نبدأ من اول يوم بنظام التداول الالكتروني يبتعد عن الاخطاء ويعالج اي مشاكل يمكن ان تحدث من الاخطاء البشرية" .

"....We decided that the best decision we should take is to start from the first day of trading with the electronic trading system which avoids mistakes and addresses any problems that can occur from human error".

APPENDIX 4: AN ALTERNATIVE MODEL FOR LIBYAN STOCK MARKET DEVELOPMENT