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# Corporate Governance Practices in Developing Countries: The Case of Libya

By

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In Accordance with the Requirements of the Degree of

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**Declaration**

I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas.

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**Dedication**

**This thesis is dedicated to my Mother and my Father**

**It is also dedicated to my wife, my children (Ali, Moead, Elaf, Masa and Mohammed), my brothers and sisters and my friends**

## Abstract

Corporate governance is currently on the agenda of many countries, and is receiving considerable attention in the business world as well as in the area of academic research, which is an indication of its importance for business development and for society as a whole. A large body of the currently available knowledge addresses this phenomenon from the perspective of the developed economies. Although the knowledge base about corporate governance in developing countries appears to be limited, it is growing.

The main aim of this study is to investigate current corporate governance practices, perceptions and obstacles within Libya following the introduction of the Libyan Corporate Governance Code (LCGC). To achieve this aim, the study investigates: first, the nature and extent of applying current corporate governance; secondly, the perceptions of listed companies' staff (senior managers and employees in financial positions) and Libyan financial experts (academics and auditors) regarding the introduction of the LCGC; thirdly, the current obstacles facing the application of LCGC; and, finally, the views of the Libyan regulators and officials in relation to the obstacles identified and how they may be reduced.

In order to accomplish the research objectives, a mixed research methodology was adopted: This involved using two types of research methods for collecting data: semi-structured interviews and a questionnaire survey divided into three sequential stages: firstly, interviews were conducted with board members of the companies surveyed; secondly, a questionnaire was distributed to selected staff of the companies surveyed and Libyan financial experts; thirdly, further interviews were conducted with Libyan regulators and officials.

The findings of the study revealed that corporate governance in Libya is in its early stages of development and is characterised by a weak legal environment, lack of knowledge about corporate governance, poor leadership, lack of training among directors and weak investment awareness among investors. Therefore, the influence of social, cultural and economic factors is evident. The results also suggest that urgent action is needed in order to facilitate the implementation of a good corporate governance system in Libya.

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## Abbreviations

| Abbreviation | Meaning |
|---|---|
| CBL | Central Bank of Libya |
| CEO | Chief Executive Officer |
| ESDF | Economic and Social Development Fund |
| FDI | Foreign Direct Investment |
| IIA | Institute of Internal Auditors |
| IMF | International Monetary Fund |
| IMB | Insurance Monitoring Body |
| LD | Libyan Diner |
| LIC | Libya Insurance Company |
| LCC | Libyan Commercial Code |
| LAAA | Libyan Accountants and Auditors Association |
| LGPC | Libyan General People's Committee |
| LGPCTI | Libyan General People's Committee for Trade and Investment |
| LCGC | Libyan Corporate Governance Code |
| LFIB | Libyan Foreign Investment Board |
| LIS | Libyan Insurance Sectors |
| LSM | Libyan Stock Market |
| MTE | Ministry of Trade and Economy |
| SIC | Sahara Insurance Company |
| OBG | Oxford Business Group. |
| OECD | Organisation for Economic Co-operation and Development |
| UIC | United Insurance Company |
| UK | United Kingdom |
| UN | United Nations |
| UNDP | United Nations Development Programmes |
| USA | United State of America |
| WTO | World Trade Organisation |

# Chapter One

# Introduction and Outline of the Thesis

## 1.1 Introduction

Corporate governance became an international issue in the early 1980s. Interest in the UK has increased following the financial scandals of the late 20th century, such as Polly Peck, Maxwell Group, BCCI, Barings Brothers and Northern Rock. It also appeared during the 1997 Asian financial markets crisis (Abdel-Shahid 2001; Baek, Kang et al., 2004; Mallin 2007; Monks & Minow, 2008),along with the collapse of large companies in different countries, like Enron and WorldCom in the USA, which resulted in a loss of confidence in financial data and audit reports. These cases led to a pressing need for improvement in systems of corporate governance.

The bulk of the existing research has focused on developed countries. However, the importance of understanding the interaction of corporate governance in the developing countries is also necessary, because globalisation, international investment and international trade require improved corporate governance (Dahawy, 2008), which will enable developing countries to achieve high and sustainable rates of growth by attracting more investment. This will also increase the ability of their capital markets to mobilise savings and to have confidence in their national economies, which will create more stable political systems (Gregory & Simms, 1999).Corporate governance can help in bringing transparency and reliability to business activities in a number of ways:

First, by demanding transparency in corporate transactions, in accounting and auditing procedures, in purchasing and in all individual business transactions, corporate governance attacks the supply side of corrupt relationships. Secondly, corporate governance procedures improve the management of firms by helping managers and boards of directors to develop a company's strategies, and by ensuring that compensation systems reflect performance. Thirdly, the adoption of standards of transparency when dealing with investors and creditors, as well as the implementation of adequate bankruptcy procedures, helps to ensure there are methods for handling business failures that are fair to all stakeholders. Without such procedures, especially enforcement systems, there is little to prevent insiders from stripping the remaining value out of an insolvent firm for their own benefit (Gregory & Simms, 1999;

OECD, 1999). In addition, various studies have confirmed the importance of the corporate governance system in attracting investment (De-Jong and Semenov, 2002; Klapper & Love, 2004; Leal and Carvalhal-da-Silva, 2005; Black, Jang et al., 2006; Brown and Caylor, 2006; Black & Khanna, 2007).These have shown that countries with a strong corporate governance system for minority shareholders have larger and more liquid capital markets, while countries with a weak system are controlled by dominant investors rather than a widely dispersed ownership structure.

Consequently, in recent years, there has been a remarkable worldwide effort to issue and develop corporate governance principles and standards in order to ensure that good practices are in place so that companies can be protected from potential crises (Solomon, 2007). Furthermore, some codes have been issued for specific continents or regions in the world by specialist organisations such as the Organisation for Economic Co-operation and Development (OECD).

In Libya, corporate governance did not become an issue until early 2001, when the country implemented a programme of economic reform and restructuring that moved from socialist oriented policies toward a free-market economy. A massive privatisation programme was also adopted covering all economic sectors and the Libyan Stock Market (LSM) was established in 2006. As a result, the debate started about the need for good corporate governance in Libya, in order to attract local and foreign investment and to enhance the role of the private sector in the economy (Otman & Karlberg, 2007).

## 1.2 Research Aim, Objectives and Questions

The main aim of this research is to investigate current corporate governance practices, perceptions and obstacles within Libya following the introduction of the Libyan Corporate Governance Code (LCGC).

**To achieve the above aim, the study has several broad objectives:**

1. To explore the nature and extent of applying current corporate governance within eight listed Libyan companies following the introduction of the LCGC.

2. To survey the perceptions of listed companies' staff (senior managers and employees in financial positions) and Libyan financial experts (academics and auditors) regarding the introduction of the LCGC.

3. To identify the current obstacles to the application of the LCGC.

4. To examine the views of the Libyan regulators and officials in relation to the obstacles identified and how they may be reduced.

**The study, therefore, endeavours to answer the following research questions:**

1. What are the nature and extent of current corporate governance practices within eight listed Libyan companies following the introduction of the LCGC?
2. What are the perceptions of listed companies' staff and Libyan financial experts regarding the introduction of the LCGC?
   - **2.1** What are the perceptions of both groups regarding the rights of shareholders as set out in the LCGC?
   - **2.2** What are the perceptions of both groups regarding the board structure as set out in the LCGC?
   - **2.3** What are the perceptions of both groups regarding the board responsibility as set out in the LCGC?
   - **2.4** What are the perceptions of both groups regarding internal auditing as set out in the LCGC?
   - **2.5** What are the perceptions of both groups regarding disclosure and transparency as set out in the LCGC?
   - **2.6** What are the perceptions of both groups regarding conflict of interest as set out in the LCGC?
   - **2.7** What are the perceptions of both groups regarding the board committees as set out in the LCGC?

3. What are the current obstacles to the application of the LCGC?

4. What are the views of the Libyan regulators and officials in relation to the obstacles identified and how they may be reduced?

## 1.3 The Rationale and Motivation for the Study

The motivation for conducting this study is mainly due to the importance of 'corporate governance' in developing countries, especially Libya, where significant political, social and economic changes are taking place.

Additionally, in Libya, considerable interest in corporate governance emerged when the LSM issued the LCGC in 2007, to motivate improvement in company practices and to encourage local investors. The LCGC covered the main principles of good corporate governance, namely, shareholders' rights, board of directors, conflict of interests, discourse and transparency and board committees.

Consequently, in the period following the issuing of the LCGC, the attention of most Libyan parties was drawn to factors relating to the practice of corporate governance. There were debates about the need for such regulations in the local environment and its benefits, the ability of local companies to comply with such a system and the main obstacles that might affect the application of the LCGC.

At an international level, considerable attention to the importance of Libyan corporate governance practices appeared as a result of government adoption of free market capitalism and encouragement of foreign investment in the country. Thus, there has been a significant increase in the number of foreign investors wishing to learn more about the nature and extent of Libyan corporate governance. Furthermore, because of globalisation and pressure from the World Trade Organisation (WTO) to open the country to international competition, Libya was required to take essential steps to improve its corporate governance system.

Investigating Libyan corporate governance practices will contribute to research on both developing countries and the Arab world, as the country is in a region that is still deeply rooted in the conventional social and economic structures of the past.

All of the above reasons have motivated the researcher to carry out a study that investigates current Libyan corporate governance practices, perceptions of various groups regarding the introduction of LCGC and the obstacles that affect its application. This work is especially significant since there has been a lack of studies that investigate corporate governance practices in Libya.

### 1.4 Research Methodology

To achieve the study objectives, a comprehensive review of the literature on the subject of corporate governance was undertaken both in terms of developed countries, such as the UK ( Cadbury Report, 1992; Greenbury Report, 1995; Hampel Report, 1998; Higgs Report, 2003) and the USA (Sarbanes-Oxley Act, 2002), and developing countries (Kadir

1999; Nganga, Jain et al., 2003; Limpaphayom & Connelly, 2004; Nam & Nam, 2004; Arce & Robles, 2005; Sori & Karbhari, 2006; Black, Carvalho et al., 2008; Gupta, 2008; McGee, 2008; Wong, 2009).

In addition, this present study includes a review of Libyan regulatory initiatives over the last decades, for instance, economic reforms and privatisation programmes, accounting and auditing profession and corporate governance.

There are two main methodologies that can be used in performing research in the social sciences: the qualitative approach and the quantitative approach. Both approaches and their methods of collecting data (e.g. questionnaire surveys, semi-structured interviews) have been used in previous related corporate governance studies. Each method, however, has its advantages and disadvantages. Studies that use only one method are more vulnerable to mistakes than studies that use multiple methods and provide cross-data validity checks (Robson, 2002; Collis & Hussey, 2003). Therefore, in order to overcome the weaknesses of using either method, and to obtain reliably accurate results, this study has adopted both qualitative and quantitative methods for collecting data. This approach is discussed in more detail in chapter four.

Three stages of collecting data were conducted in the current study:

- The first stage was based on a qualitative approach using semi-structured interviews (A) to explore the nature and extent of current corporate governance practices within eight Libyan listed companies and to identify the current obstacles to the application of the LCGC.
- The second stage was based on a quantitative approach using questionnaires to survey perceptions of listed companies' staff (senior managers and employees in financial positions) and Libyan financial experts (academics and auditors) regarding the introduction of the LCGC.
- The third stage was based on a qualitative approach using semi-structured interviews (B) to examine the opinions of the Libyan regulators and officials as regards the reduction of identified obstacles.

### 1.5 Scope of the Study

This is primarily an investigation into current corporate governance practices in Libya, as well as the perceptions and obstacles following the introduction of the LCGC.

Moreover, the study elicits the views of boards of directors regarding corporate governance practices within eight listed companies, and the obstacles facing LCGC.

Therefore, semi-structured interviews (A) were conducted with board members of eight Libyan listed companies: five commercial banks (Wahda Bank, Gamhuria Bank, Alsari Bank, Sahara Bank and Bank of Commerce & Development) and three insurance companies (Libya of Insurance, Co.; Al-Sahara Insurance and Co.; United Insurance Co.). It is important to note that these were the only companies registered in the LSM by the end of 2009 and subject to the LCGC. The particular interviewees were selected based upon their high positions within management. Other factors that influenced the selection of interviewees were their knowledge, experience and participation in the field of corporate governance.

This study also attempts to elicit the perceptions of two Libyan groups, listed companies' staff and financial experts, regarding the introduction of the LCGC.

The first is the internal group, which consists of the staff of companies listed on the LSM (senior managers and employees in a financial position). The second is the external group, which consists of Libyan financial experts (external auditors and academics).

Finally, the study examines the views of the Libyan regulators and officials in relation to the obstacles identified and how they may be reduced.

The semi-structured interviews (B) were conducted with twelve interviewees representing four Libyan official and regulatory bodies, namely, Ministry of Trade and Economy (MTE), Libyan Stock Market (LST), Insurance Monitoring Body (IMB) and Central Bank of Libya (CBL). The decision of choosing these four groups depended on their relevance to the scope and objective of this study.

Hence, it was decided to interview participants from four groups: the MTE, since it represents the highest authority and oversees all economic sectors in Libya; the LSM, which issued the LCCG and is also regarded as the only means to monitor the application of this code; and the IMB and the CBL because they supervise the insurance companies and banking sectors that were investigated in the first stage of this study.

However, this study does not investigate corporate governance in other Libyan companies or business sectors, since they are not required to adopt the LCGC requirements and are not registered in the LSM.

### 1.6 Structure of the Thesis

The overall outline of the thesis is illustrated in figure 1.1. It is divided into eight chapters.

**Chapter One:** Introduction and Outline of the Thesis: comprising of a discussion of the background, aims and objectives of the study, its rationale and motivation. There is also included a summary of the methodology, scope of the study and the structure of the thesis.

**Chapter Two:** Libyan Economic Environment. An overview of the Libyan economic environment, including consideration of economic reforms and privatisation programmes in both financial and non-financial sectors. This chapter also gives an overview of corporate governance in a Libyan context, the legal framework and the OECD principles, the LCCG and the challenges of its application.

**Chapter Three:** Literature Review on Corporate Governance. Part one deals with definitions, historical background of corporate governance and the theoretical background of the study. Part two reviews the corporate governance mechanisms, such as ownership structure, shareholders' rights and legal protection, board of directors, board committees, internal auditing and disclosure and transparency. In addition, this part examines corporate governance practices in developing countries.

**Chapter Four:** Research Methodology. A discussion of the methods used to carry out this study in terms of research philosophy, paradigm and approach (Quantitative and Qualitative Methods). In addition, this chapter gives an overview of the current research design, outlining the objectives and the research questions and data collection methods – semi-structured interviews (A) and (B), and questionnaire survey – as well as the three main stages of collecting data.

**Chapter Five**: Results and Analyses of Semi-Structured Interviews (A). A discussion of the analysed data from the semi-structured interviews (A) that were conducted with board members of eight Libyan listed companies, regarding current corporate governance practices and the obstacles to the application of the LCGC.

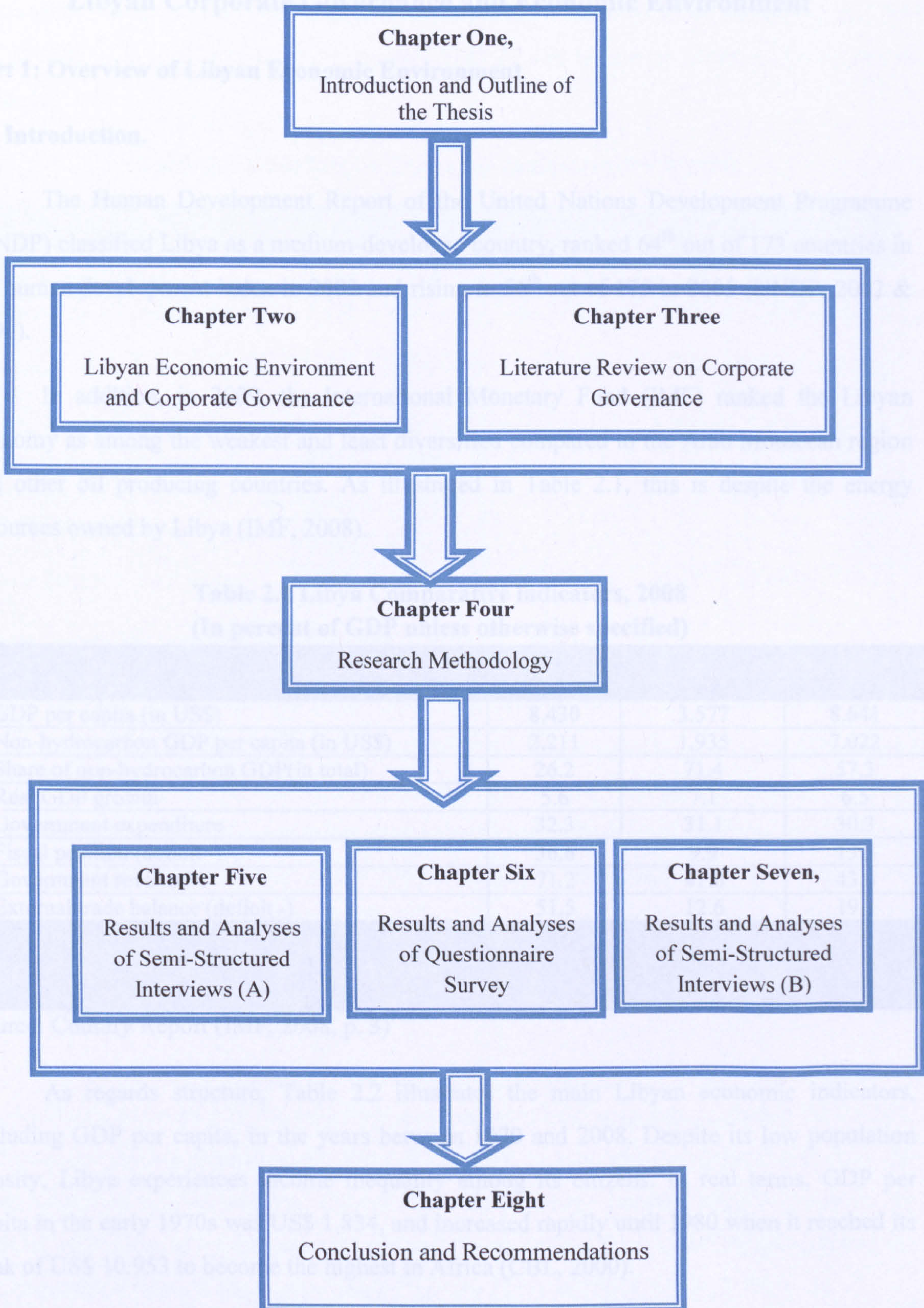
**Chapter Six:** Results and Analyses of Questionnaire Survey. An examination of the data from the questionnaire that was conducted with two targeted groups (listed companies' staff

and Libyan financial experts), regarding the participants' perceptions on the introduction of LCGC in Libya.

**Chapter Seven:** Results and Analyses of Semi-Structured Interviews (B). A discussion of the analysed data from the semi-structured interviews (B) that were conducted with Libyan regulators and officials regarding identified obstacles and ways of decreasing them.

**Chapter Eight:** Conclusion and Recommendations. This final chapter presents a summary of the research findings. It also makes recommendations, highlights the potential contribution and limitations of the study and suggests areas of further investigation.

**Figure 1.1 Structure of the Thesis**



# Chapter Two:

# Libyan Corporate Governance and Economic Environment

## Part 1: Overview of Libyan Economic Environment

### 2.1 Introduction.

The Human Development Report of the United Nations Development Programme (UNDP) classified Libya as a medium-developed country, ranked 64th out of 173 countries in the human development index in 2002 and rising to 56th out of 175 in 2005 (UNDP, 2002 & 2005).

In addition, in 2009, the International Monetary Fund (IMF) ranked the Libyan economy as among the weakest and least diversified compared to the Arab Moroccan region and other oil producing countries. As illustrated in Table 2.1, this is despite the energy resources owned by Libya (IMF, 2008).

**Table 2.1 Libya Comparative indicators, 2008**
**(In percent of GDP unless otherwise specified)**

| | Libya | Maghreb* | OPEC** |
|---|---|---|---|
| GDP per capita (in US$) | 8.430 | 3.577 | 8.641 |
| Non-hydrocarbon GDP per capita (in US$) | 2.211 | 1.935 | 7.022 |
| Share of non-hydrocarbon GDP(in total) | 26.2 | 71.4 | 57.3 |
| Real GDP growth | 5.6 | 7.1 | 6.5 |
| Government expenditure | 32.3 | 31.1 | 30.3 |
| Fiscal position (deficit -) | 36.6 | 9.9 | 13.3 |
| Government revenue% | 71.2 | 41.0 | 43.6 |
| External trade balance (deficit -) | 51.5 | 12.6 | 19.3 |

* Maghreb: Algeria, Libya, Mauritania, Morocco, and Tunisia.
** OPEC: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE, and Venezuela (Excluding Iraq).

Source: Country Report (IMF, 2008, p. 3)

As regards structure, Table 2.2 illustrates the main Libyan economic indicators, including GDP per capita, in the years between 1970 and 2008. Despite its low population density, Libya experiences income inequality among its citizens. In real terms, GDP per capita in the early 1970s was US$ 1.834, and increased rapidly until 1980 when it reached its peak of US$ 10.953 to become the highest in Africa (CBL, 2000).

In the 1990s, GDP per capita slumped to US$ 5,640 due to the fall of world oil prices in this period; after that, it continued to increase rapidly to reach US$ 14,500 in 2008. Meanwhile, nominal GDP was estimated at US$ 3.601 billion in 1970, increasing to US$ 33.330 billion in 2004 and to approximately US$ 89.900 billion by 2008, as illustrated in Table 2.2.

**Table 2.2 Main Libyan Economic Indicators (1970-2008)**

| Year | 1970 | 1980 | 1990 | 2000 | 2004 | 2006 | 2008 |
|---|---|---|---|---|---|---|---|
| Population (Millions) | 1.963 | 3.246 | 4.844 | 5.310 | 5.740 | 5.900 | 6.191 |
| Nominal GDP in billions (in LD) | 1.288 | 10.554 | 7.750 | 25.200 | 43.577 | 72.300 | 114.00 |
| Nominal GDP in billions (in US$) | 3.601 | 35.556 | 27.319 | 19.800 | 33.330 | 55.100 | 89.900 |
| GDP Per capita (in US$) | 1.834 | 10.953 | 5.640 | 5.600 | 5.800 | 8.430 | 14.500 |
| Exports & Re-exports (in billions L.D) | 0.856 | 6.489 | 3.744 | 5.221 | 20.848 | 36.336 | 40.972 |
| Oil Exports (%) | 98.25 | 99.96 | 94.41 | 95.61 | 96.3 | 96.00 | 96.60 |
| Imports( In billions L.D) | 0.263 | 3.070 | 2.145 | 1.911 | 8.255 | 7.934 | 8.501 |
| Trade Balance (In billions L.D) | 0.593 | 3.419 | 1.599 | 3.310 | 12.593 | 28.402 | 32.471 |

Source: Annual Report of (CBL, 2000, 2004, 2006, & 2008)

The data above highlight one of the most central features of the Libyan economy, which is its heavy dependence on the exports of crude oil for export receipts and government revenue; more than 96% of exports and more than 60% of the national GDP. Oil production, in general, is an extremely capital-intensive activity with a high level of labour productivity. The large share of this sector in the Libyan economy, therefore, tends to overstate the underlying level of productivity. Furthermore, due to this significant dependence on oil exports, the Libyan economy has become susceptible to external factors, especially fluctuations in world oil prices (Kridan, 2006).

Moreover, the 2006 report of the IMF argues that “the predominance of the oil sector is also highly noticeable in the country’s external and fiscal accounts…..,during 2000-2005, hydrocarbon exports accounted for about 97 percent of total exports receipts and were the main source of official reserves. Overall, the non-oil sector remains largely dependent on imports, as evidenced by the high non-oil imports- to non-oil GDP ratio (70 percent) and the low coverage of non-oil imports by non-oil exports (11% in 2004)” (IMF, 2006, p. 3).

Porter and Daniel (2006) argue that Libyan oil has a direct impact on the performance of the overall economy and affects the quality of the country's business environment in many ways, including investment and incentives for non-energy sector activities.

Therefore, oil as a source of wealth for Libya can provide two significant advantages: first, oil wealth can have a positive effect on individual prosperity and, therefore, the standard of living of all Libyans if distributed effectively to the population; secondly, oil wealth can provide an important source of investment capital for other industries and economic development initiatives (Porter & Daniel, 2006).

However, Porter and Daniel (2006), state that despite some advantages, the presence of substantial oil-derived wealth also brings a number of significant disadvantages:

- "Libya is a price-taker for the commodity that accounts for the bulk of its income, and therefore experiences significant price fluctuations. This volatility creates difficulties for long-term planning, consistent management and responsible investment in the economy;
- when most of the wealth generation takes place within one industry, entrepreneurs and investors have incentives to focus on their investment and activity within this one sector, thus increasing dependence and volatility in the economy;
- supposedly market-oriented institutions, such as import-export bank and licensing agencies, are used instead as tools for redistribution and their resources are diverted away from market-oriented action; and
- perhaps the most damaging potential effect is that the people of the country may develop an expectation that 'everything is for free' and that their time is best spent trying to capture a greater share of the windfalls rather than engaging in productive employment or enterprise" (p. 33).

## 2.2 Libyan Economic Reforms and Privatisation Programmes

From 1970 until 1990, the Libyan economy was centrally planned; the government controlled both the production and services sectors. In the early 1970s, after the El-Fatah revolution in September 1969, the Libyan government chose nationalised-oriented economic policies, which in turn led to specified limits in investment. At the same time, they enforced strict regulations on foreign trade, which eliminated the private sector almost completely (IMF, 2007).

Libyan government interference and the adoption of these policies for several successive years caused deterioration in the economy of the country and a decrease in its

growth generally. Also, it led to the lowering of standards of living for individuals, the weakening of total economic conditions and the increase of external threats to the economy (Porter & Daniel, 2006).

In the mid-1980s, Libyan economic condition deteriorated further because of the decrease of oil prices, on the one hand, and the enforcing of international sanctions by the UN on Libya in 1986, on the other hand. As was mentioned in the 2006 report of the IMF, "Other impediments to economic development included weak institutions and poor governance. Economic conditions started to deteriorate in the mid-1980s with the fall in world oil prices, and worsened in the 1990s as a result of international sanctions" (IMF, 2006, p. 3 ).

In 1987, the Libyan government introduced a series of measures with regard to economic liberalisation. In the early 1990s, the economy was passing through an intermediary phase as a result of adopting policies of free economy and enlarging the ownership base and allocation of wealth among Libyan citizens with limited income. These policies started in 1992 with the issuance of law no. 9/1992) concerning economic activities and its amendments in 2003. The Banking Law (no. 1/1993), furthermore, permitted the establishment of commercial banks owned by the private sector.

The Law 5 / 1997), concerning foreign capital investment and its amendment Law 7/ 2003) and the Libyan Banking Law (LBL 1/2005) gave authority to the CBL to issue licenses to foreign banks and free the interest rates on deposits. It also led to the re-structuring of commercial banks owned by the government and transformed them into corporate organisations. In addition, the issuance of the decision 134/ 2006) of the Libyan General People's Committee (LGPC) established the Libyan Stock Market (LSM).

The following sections will focus on economic reforms in the non-financial and financial sectors.

### 2.2.1 Economic Reform (Privatisation) in Non-Financial Sectors

As is often the case politically, privatisation has caused many disagreements in Libya. However, while many developing countries have overcome doubts about privatising publicly owned organisations, Libya has encountered difficulties. This was confirmed by the IMF in its 2006 report; "Libya is working on implementing the arrangements for economic reform

and openness since the freezing of the United Nations penalties in 1999, but the progress towards establishing the economy of the market was slow and interrupted" (IMF, 2006, p. 5 ).

Privatisation reform policies started in Libya in the late 1980s with the issuance of the decisions of the LGPC (no. 447/1987) concerning the transfer of ownership of government plants. The standard for privatisation was that the activity of the company should not be essential for the economy, and that the private sector should have the willingness and the financial capacity to accomplish it (LGPC, 1987).

This was the first step of the Libyan government privatisation programme, which consisted of transferring the ownership of public sector companies from the state to employees working for those companies with the intention of enlarging their ownership base. In 1994 and 1995, about 145 and 295 companies – from all economic sectors except finance – were, respectively, privatised according to the previously-mentioned decisions.

In 2003, the LGPC (no. 313/ 2003) was aimed at transferring 360 other economic units in three stages, as illustrated in Table 2.3, starting in 2004 and ending late 2008. The objective of the first phase was to privatise 260 companies and transfer their ownership completely to the private sector. This was to be accomplished by the end of 2005. The second phase concerned the transference of the ownership of 46 companies to the private sector by the end of mid-2007. In these two phases, privatisation was offered to local investors only (employees and all other local categories) and the companies took the form of corporate organisations (LGPC, 2003).

**Table 2.3 The Stages of Privatisation According to Targeted Economic Sectors**

| Sector | Phase One | Phase Two | Phase Three | Total |
|---|---|---|---|---|
| Industrial sector | 145 | 41 | 18 | 204 |
| Agricultural sector | 28 | 4 | 24 | 56 |
| Livestock sector | 71 | 0 | 11 | 82 |
| Marine resources sector | 16 | 1 | 1 | 18 |
| **Total of the phase** | **260** | **46** | **54** | **360** |
| Investors type | Local employees and investors | Local employees and investors | Local and foreign investors | |
| Starting date of phase | 1/1/2004 | 1/1/2006 | 1/7/2007 | |
| End date of phase | 1/1/2005 | 1/7/2007 | 31/12/2008 | |

Source: Decision of LGPC (no. 313/ 2003)

The last phase included the privatisation of 54 companies between the beginning of the second half of 2007 and the end of 2008. These privatised companies also took the form of corporate organisations, but were offered for investment to foreign investors. The same decision of LGPC (no. 313/ 2003) allowed the exemption of both local and foreign investors from fees or taxes for five years, starting from the date of transfer of ownership of these companies to the private sector. This was encouragement from the Libyan government to help make the privatisation programme successful.

### 2.2.2 Economic Reform (Privatization) in Financial Sectors

In general, the Libyan financial sector is divided into two parts: the banking system and financial and investment institutions. However, to be more precise, the banking sector includes the central bank, specialised banks and the commercial banks, whereas the financial and investment institutions incorporate companies that are strongly linked to the banking system. The latter include the insurance sector, the Social and Economic Development Fund and the Libyan Stock Market.

#### 2.2.2.1 The Libyan Banking Sector

##### 2.2.2.1.1 The Central Bank of Libya

The Central Bank of Libya (CBL) was established in 1951. It was known as the "monetary authority" and came under the supervision of the Ministry of Finance. In 1956, the name was changed to The Central Bank of Libya. It is owned by the government as the monetary authority and enjoys the status of an independent corporate body. The main branch of the CBL is located in the capital, Tripoli, and it has three branches in three deferent cities, Benghazi, Sabah and Sert. Its capital at the end of 2008 was LD 500 million (CBL, 2008).

As regards the importance of the financial sector in the economic reform of any country, the IMF in 2006 mentioned that for Libya to succeed there should be a stronger and more efficient banking system based on market rules. This requires "enhancing banking supervision; restructuring the banking system; modernizing the domestic payment system; and revising the legal and regulatory frameworks" (IMF, 2006, p. 10).

The Libyan government has taken some steps to reform its banking system. The most visible sign of change has been the adoption of the new LBL (1/ 2005 ), which came into effect in January 2005. The main objectives of the LBL are:

a. Emphasising the independence of the CBL in line with international best practices.
b. Improving the capital adequacy ratio of commercial banks.
c. Strengthening the competitiveness of domestic banks, eventually leading to the participation of foreign banks in domestic banking markets.
d. Extending the domain of the CBL supervision to include all banks (including specialised banks such as Agriculture, Real Estate Investment and Development Bank), which were previously excluded from its supervisory domain.
e. Adopting the principles of the Basel Committee on effective banking supervision.
f. Improving standards of and requirements for supervisory disclosure by the bank (Porter & Daniel, 2006).

The LBL (1/2005) seems to have incorporated many of the recommendations of international agencies like the IMF. Article 5 of the Banking Law (1/2005) specified the main duties and responsibilities of the CBL as follows:

1. "Issue the Libyan currency and maintain its stability within Libya and abroad.
2. Manage the government's reserves of gold and foreign exchange.
3. Regulate monetary policy and supervise currency conversion transactions within Libya and abroad.
4. Regulate credit and banking policy and supervise its implementation within the framework of the government's general policy.
5. Achieve the goals of economic policy in terms of stabilizing the general level of prices and maintaining the soundness of the banking system.
6. Manage the liquidity of the national economy.
7. Regulate and supervise the foreign exchange market.
8. Provide advice to the government on matters related to the general economic policy".

In addition, the LBL (1/ 2005) has allowed the re-structuring of Libyan commercial banks and their transfer from CBL ownership to private sector corporate companies. The LBL also led to the reorganisation of specialised banks under the auspices of the CBL (Otman & Karlberg, 2007).

**2.2.2.1.2 The Libyan Specialist Banks (LSB)**

There are four specialist banks in the Libyan business environment whose objectives include financing and granting credit for specific economic activities:

a. **Agriculture Bank**: Established in 1957, it comprises 36 branches, providing interest free production loans to farmers. It also offers medium-term loans for up to five years for machinery and materials, and long-term loans for up to 15 years for land reclamation projects, irrigation and agricultural construction.

b. **Real Estate Investment Bank**: Established in 1965 under the name of the 'Manufacturing and Construction Bank', it comprises two branches and provides loans to Libyan citizens for building and buying houses. This reflects the importance of mortgages and state loans in supporting the economy and social development.

c. **Libyan Arab Foreign Bank:** Established in 1972, it aims to deal with Libyan investments abroad, operating through subsidiaries or affiliates in about 30 foreign countries.

d. **Development Bank:** Established in 1981, it comprises 23 branches, which provide loans and funds needed for production work in all manufacturing, agriculture and tourism projects, as well as any other economic projects in Libya (CBL, 2008).

#### 2.2.2.1.3 The Libyan Commercial Bank

In a domestic Libyan context, until 1993, the commercial banking sector was composed of The National Commercial Bank, Gumhouria Bank, Umma Bank, Sahara Bank and Wahda Bank. These were owned by the government and directly controlled by the central bank (Otman & Karlberg, 2007).

Thus, the main results of the Banking Law (no 1/1993) were the establishment of the Bank of Commerce and Development in 1994, with 2,000 private shareholders. This was the only privately owned commercial bank in the Libyan market and eventually started operations in 1996 (Otman & Karlberg, 2007). Since then, this sector has grown rapidly and a number of private commercial banks have been established, as illustrated in Table 2.4. The number has reached 5 commercial banks and more than 50 private local banks.

In early 2006, the Libyan government started to sell state-owned banks to private investors in accordance with the framework of reforms recommended by the IMF and the LBL (1/ 2005). The first step was taken when the Libyan government privatised two large state-owned banks, the Sahara Bank and the Wahda Bank (Otman & Karlberg, 2007).

The Sahara Bank and Wahda Bank were privatised and a foreign partner was introduced with a 19% stake in each. Two of the other three state-owned banks, Gumhouria and Umma, were integrated into the Gumhouria Bank and 11% of its shares were offered to the private sector (CBL, 2009).

**Table 2.4 Structure of Libyan Commercial Banking to the end of 2004**

| Bank Name | No. Of Branches | No. Of Agencies | Assets | Paid Capital | Ownership % | |
|---|---|---|---|---|---|---|
| | | | | | Public | Private |
| Gumhouria Bank | 54 | 27 | 392,67 | 40,0 | 100 | - |
| National Commercial Bank | 48 | 12 | 344,41 | 35,0 | 100 | - |
| Umma Bank | 40 | 15 | 226,83 | 23,0 | 100 | - |
| Wahda Bank | 60 | 12 | 283,86 | 36,0 | 87 | 13 |
| Sahara Bank | 41 | 7 | 264,40 | 63,0 | 83 | 17 |
| Bank of Commerce & Development | 6 | 10 | 696,8 | 9,0 | 22.2 | 77.8 |
| National Tripoli Bank | 1 | 2 | 42,8 | 3,0 | - | 100 |
| El -Wafaa Bank | 2 | 1 | 54,4 | 1,5 | - | 100 |
| El -Aman Bank | 1 | 6 | 53,1 | 3,0 | - | 100 |
| Al-Ejmaa Alarabi Bank | 3 | 1 | 34,6 | 0,9 | - | 100 |
| Libyan National Banking Institution | 1 | - | 353,9 | 119 | - | 100 |
| The Local banks (48 banks) | - | 14 | 115,30 | 46,8 | - | 100 |
| Amounts are in million LD | | | | | | |

Source: Annual Report of (CBL, 2005).

Currently, the CBL is seeking to sell the rest of the Gumhouria Bank shares to the private sector, and to become a monetary authority, monitoring and supervising administration of the banking sector without owning and running those banks. Meanwhile, the National Commercial Bank is still owned by the government (CBL, 2009).

Thus, the following headings provide an overview of the Libyan commercial banks listed on the LSM.

**1. Wahda Bank**

Wahda bank is a Libyan Joint Stock Company, established under the "the Nationalization Decision" (153) of 1970, which demanded that all foreign banks shares were nationalized and completely owned by Libya. Its paid capital is LD 108 million (Kridan, 2006).

Upon issuing the "the Nationalization Decision" (153), Bank of North Africa, African Arab Bank Company, Al-kafela Bank, Al-nahda Bank and The Commercial Bank were

merged into one bank called the 'Wahda Bank', which until 2004 was 87% owned by the Libyan government (Eltawish, 2006; Kridan, 2006).

Wahda Bank provides all sorts of banking products and services through a network of 76 branches and 12 agencies spread across the country. It is supplied with modern technology and hardware, as can be seen in Table 2.4.

In 2007, the Wahda Bank was privatised in line with Libyan banking reform and the Banking Law of 2005. Its shares were transferred to the private sector and it became the first bank in Libya to enter into a strategic partnership with the 'Arab Bank' (2007) (Wahda Bank, 2008).

Currently, the ownership structure of the Wahda bank consists of:

- The Economic and Social Development Fund (ESDF): 54.1% of the stocks.
- The private sector: 26.9 %.
- Arab bank (The strategic partner):19% (Wahda Bank, 2008).

**2. Sahara Bank**

The Sahara Bank was established in 1964, as a foreign bank, and its owners were the Bank of America (29%), Banco di Sicilia (20%) and the Libyan government, which held the majority of shares (51%). In 1970, "the Nationalisation Decision" was taken, which demanded that all foreign banks shares were nationalised and became completely owned by Libya (Eltawish, 2006; Kridan, 2006).

In 2007, within the framework of CBL reform – restructuring, developing and upgrading the Libyan Banking services at local and international levels – the Sahara Bank was privatised and its shares transferred to the private sector. It became the second financial institution in Libya to enter into a strategic partnership, in this case with the 'BNP Paribas Group' in 2007 (Sahara Bank, 2008).

The Sahara Bank provides its services through a network of 41 branches and 12 agencies, and more than 1500 experienced staff in all the main regions of Libya (Sahara Bank, 2008). Currently, the ownership structure of the Sahara Bank consists of:

- The Economic and Social Development Fund (ESDF): 5% of the stocks.
- The Libyan Iron and Steel Company: 5%.

- The BNP Paribas Group: 19%.
- The private sector and individuals: 71% (Sahara Bank, 2008).

**3. Gumhouria Bank**

This bank is a Libyan Joint Stock Company established under the "the Nationalization Decision" (153) of 1970 to take over the Libyan operations of Barclays Bank (Eltawish, 2006).

Within the framework of implementing the strategy approved by the Central Bank of Libya for restructuring, developing and upgrading banking services at local and international levels, approval was given for Umma and Gumhouria to merge into one banking entity, on the basis of the decision of CBL (74/2007) (CBL, 2009). The new bank was named the Gumhouria bank.

Because of this merger, a unified Libyan bank, and one of the biggest (CBL, 2009), came into existence, with a budget exceeding LD 8 billion and a branch system network of 146 branches. Moreover, the CBL started to privatise Gumhouria Bank and 11% of its shares were offered to the private sector. As a result, the new ownership structure of the Gumhouria Bank consists of:

- The private sector: 11%.
- The CBL: 89% (CBL, 2009).

**4. Bank of Commerce & Development**

The Bank of Commerce & Development is a Libyan Joint Stock Company established under the Law no. 1/1993) as the first private bank with paid capital of LD 9 million. The bank was officially inaugurated in early 1996 and joined as a member of the Union of Arab Banks and the Libyan Banks Association in the same year, and of the Union of Maghreb Banks in 1998 (Bank of Commerce & Development, 2008).

The Bank of Commerce & Development provides services through a small network of 6 branches and 10 agencies covering the main big cities. In 2008, it was decided to raise the bank's capital to the value of 50 million LD by offering new shares in the market (Bank of Commerce & Development, 2008).

Currently, the ownership structure of the Bank of Commerce & Development consists of:

- The World Islamic Call Society: 5%.
- The Libya Insurance Company: 5%.
- The Investments of Tax Jihad Fund: 5%.
- The private sector and individuals: 85% (Bank of Commerce & Development, 2008).

**5. Assaray Bank**

The Assaray Bank is a Libyan Joint Stock Company established in 1997 under the name "National Tripoli Bank", in accordance with the provisions of Law no. 1/1993. It began with one branch in Tripoli with a paid capital of LD 900,000 (Alwaddan, 2005).

Upon the issuance of Banking Law (1/ 2005 ), and in order to meet its requirements, the name was changed to Assaray Bank and the paid capital raised to LD 10 million in 2006.

Currently, the ownership structure of the Assaray Bank consists of:

- The Libya Insurance Company: 8%.
- The private sector and individuals: 92%.

### 2.2.2.2 The Financial and Investment Institutions

There are many financial institutions other than banks in Libya. These are: The Insurance Sector, the Economic and Social Development Fund (ESDF), the Libyan Investment Institute, the Libyan African Investment Portfolio, Libyan Arab Foreign Investment Company and the Libyan Stock Market. However, this study will focus on the Insurance Sector, the Economic and Social Development Fund and the Libyan Stock Market as they are related to the research subject.

#### 2.2.2.2.1 The Libyan Insurance Sector (LIS)

In fulfilment of the need of the national economy, the Libyan insurance industry has witnessed major development in recent years. The latter has an important role in supporting economic activity by providing a network of trustworthy economic institutions in society ( CBL, 2008). The number of working insurance companies reached seven by the end of 2008, as illustrated in Table 2.5. It should be mentioned that the private insurance sector plays an important role in the national economy.

**Table 2.5 Operating Insurance Companies in Libya in 2008**

| Company Name | Year Established | Authorised Capital | Paid Capital | Ownership (%) | |
|---|---|---|---|---|---|
| | | | | Public | Private |
| Libya Insurance Co | 1964 | 70,0 | 70,0 | 44% | 56% |
| United Insurance Co | 1997 | 20,0 | 20,0 | - | 100 |
| African Insurance Co | 2004 | 15,0 | 5,4 | - | 100 |
| Sahara Insurance Co | 2005 | 10,0 | 15,0 | - | 100 |
| Libo Insurance Co | 2005 | 10,0 | 3,0 | - | 100 |
| Trust Insurance Co | 2006 | 10,0 | 3,0 | - | 100 |
| Takaful Insurance Co | 2007 | 10,0 | 3,0 | - | 100 |
| * Amounts are in million LD | | | | | |

Source: Annual Report of (CBL, 2008)

Only the Libyan Insurance Company was operating in that field until the end of 1990s, and it was a publicly owned company. However, under the framework of economic reform, it was privatised. As for the rest of the companies, they have been private sector companies since they were established (the CBL, 2008).

**Table 2.6 Premiums and Payouts of the LIS (2000-2008)**

| Year | Instalments | Rate of Growth (%) | Compensations (%) | Rate of Growth (%) |
|---|---|---|---|---|
| 2000 | 88,4 | ---- | 88.6 | ---- |
| 2001 | 97,9 | 9.8 | 91.7 | 3.4 |
| 2002 | 146,7 | 33.3 | 90.1 | -1.8 |
| 2003 | 201,5 | 27.2 | 120.2 | 25.0 |
| 2004 | 166,11 | -21.3 | 79.2 | -51.8 |
| 2005 | 192,5 | 13.7 | 66.0 | -20.2 |
| 2006 | 195,0 | 1.3 | 72.8 | 9.5 |
| 2007 | 192,0 | -1.6 | 82.9 | 12.2 |
| * Amounts are in million LD | | | | |

Source: The Annual Report of (CBL,2008).

With regard to the activity of the insurance companies between 2000 and 2008, there was an evolution in instalment size from one year to the next in all insurance branches, as illustrated in Table 2.6. The instalments in 2008 reached LD 275.1 million, as opposed to LD 192.0 million in 2007, which meant an increase of 43.3%. The compensations reached the amount of LD 110.4 million in 2008, as opposed to LD 82.9 million in 2007, realising a growth rate of 33.2%.

The following headings provide an overview of the Libyan insurance companies listed on the LSM.

### 1. Libya Insurance Company

The Libya Insurance Company (LIC) was founded in 1964, with capital of LD 100,000. It was the first company of its kind established and registered in Libya, and although some foreign insurance companies operated at that time, these were nationalized in 1970 and merged into two companies, the LIC and the Al-Mohktar Insurance Company (Alwaddan, 2005).

Subsequently, the Al-Mohktar Insurance Company was liquidated and merged with the Libya Insurance Company. The new insurance company was established in 1998 as a stated-owned company with capital of LD 50 million (Alwaddan, 2005).

In 2008, the LIC was privatised and its shares transferred to the private sector, which raised its capital to LD 70 million. This made it the largest insurance company operating in the Libyan market (LIC, 2008).

Currently, the ownership structure of the LIC consists of:

- The Economic and Social Development Fund (ESDF): 45% of the stocks;
- The Social Security Fund Investment Company: 10%
- Gumhouria Bank: 7%
- Private sector and individuals: 38%.

### 2. United Insurance Company

The United Insurance Company (UIC) is a Libyan Joint Stock Company established under Law no. 9/1992 in 1997 as the first private insurance company with capital of LD 20 million. The UIC, which was officially inaugurated in 1998 (UIC, 2008), is also a member of the Arab War Syndicate, African Insurance Organisation and Asian Insurance Federation.

The UIC provides its services through a small network of three branches located in the main Libyan cities of Tripoli, Benghazi and Misurata (UIC, 2008). The current ownership of the UIC consists of:

- The National Commercial Bank: 5%
- Sahara Bank: 6%
- Wahda Bank: 5%

- Gumhouria Bank: 10%
- Real Estate Development Company: 5%
- Private sector and individuals: 69%.

**3. Sahara Insurance Company**

The Sahara Insurance Company (SIC) is a Libyan Joint Stock Company established under the Law (no. 9/1992 ) in 2005 with paid capital of 15 LD million. Among its main objectives (SIC, 2007) are:

- to increase the awareness of insurance among policyholders and the community;
- to cooperate with insurance companies in order to strengthen the Libyan national economy; and
- to increase domestic savings rates and contribute to the national investment.

Currently, the ownership structure of the SIC consists of:

- Gumhouria Bank: 10%.
- The private sector and individuals: 44%.
- National Investment Company: 46% (SIC, 2007).

**2.2.2.2.2 The Economic and Social Development Fund**

The Economic and Social Development Fund (ESDF) was established in 2006 in accordance with the LGPC Decision no. 18/2006, and reorganised under the LGPC Decision ( no. 356/ 2009 ) as an investment organisation of independent entity and financial status. The ESDF was established by the Libyan government during the process of privatisation. Profits from the privatised companies would be allocated to low-income/ disadvantaged families (ESDF, 2009).

In an effort to elevate the standard of living, the ESDF manages and follows-up the investment of funds allocated to low-income families. However, the general aim of its formation is to realise social and economic development in different state activities (ESDF, 2009):

- to contribute to the creation and improvement of the economic situation of disadvantaged families, and to encourage them to integrate into the production base. This helps increase the wealth of society and improve living conditions;
- to contribute to the creation and improvement of institutions supportive of economic and social development;

- to manage the funds of disadvantaged families and their investment and development in all areas of productive projects and services; and
- to distribute profits to disadvantaged and low income families, in accordance with the rules and principles specified in the Decision of the LGPC (no. 18/2006 ).

Therefore, among its most important investment tools is the development and distribution of portfolios, which are managed for the interests of citizens, who benefit from the programme of wealth allocation (low-income citizens). The ESDF makes direct and indirect investments. The details of the former (2009) are summarised below:

1. Enmaa Services Investment Holding Company (35 companies, 24% of the total investment, LD 3.5 billion): engaged in several service areas, such as air and maritime transportation, insurance and oil services.
2. Enmaa Industrial Investment Holding Company (20 companies, 9% of the total investment, LD 1.5 billion): engaged in industrial sectors such as cement, glass, animal feed and electricity cables.
3. Enmaa tourism Investment Holding Company (13 companies, 9% of the total investment, LD 1.3 billion): engaged in tourism investment inside Libya, such as hotels and resorts.
4. Enmaa Construction and Real Estate Investment Holding Company (9 companies, 4% of the total investment, LD 521 million): engaged in construction and real estate development, such as building administrative and service towers, hotels and housing.
5. Libyan Holding Company for Development and Investment (22 Companies, 2% of the total investment, LD 219 million): engaged in real estate investment (ESDF, 2009).

In comparison, indirect investments are represented in foreign investments in bonds and shares and other financial securities (ESDF, 2009).

#### 2.2.2.2.3 Libyan Stock Market (LSM)

According to the LGPC Decision no.134/ 2006, there are three main reasons why the Libyan government believed it was essential to establish a stock market. First, Libya had seen successive reforms and movement toward a free market. Second, the government viewed as important the role which stock markets played in advanced, growing and, especially, transitional economies. Third, a framework of new modifications occurred in the Libyan economy, such as the adoption of the privatisation policy and enlargement of the ownership base.

Since the early 1990s, many Arab countries have embarked on economic diversification, liberalisation, privatisation and the creation of stock markets. There have been three main aims: first, to provide greater financial depth to their economies, making available finance to nascent indigenous companies for expansion and diversification; secondly, to provide absorptive capacity for privatisation; and thirdly, to improve corporate governance for an evolving private sector (Otman & Karlberg, 2007).

By 2007, there were stock markets in most of the Arab world. It is generally recognised that five Arab countries possess the largest and the most active markets: Egypt, Jordan, Saudi Arabia, Morocco and Tunisia. Four other countries have established stock markets (Libya, Iraq, Syria and Yemen), which are still in their infancy and have teething problems (Otman & Karlberg, 2007).

In line with the LGPC Decision (134/2006), the establishment of the LSM was assigned to the Libyan General People's Committee for Trade and Investment (LGPCTI). The LSM was created in the form of a 'joint stock company' with a capital of LD 20 million. It has two branches; the main branch is in Tripoli and the other in Benghazi (LGPC, 2006).

Article 3 of LGPC Decision(134/ 2006) specified the objectives and tasks of the LSM as follows:

- creating an investment climate for securities in the interest of the national economy;
- increasing awareness about investment and encouraging and directing savings toward economic sectors with the highest optimum profit rate;
- supervising the organisation and monitoring of security circulation and transfer of ownership operations;
- participating in the privatisation programme of state economic units, which contributes to the enlargement of the ownership base;
- organising the offering of shares for subscription in new corporate companies; and
- developing relations of cooperation between the LSM and Arab, regional and international markets, which enhances the investors' trust in the national economy.

As illustrated in Table 2-7, the number of listed companies at the end of 2008 was eight, as opposed to six in 2007. The trading value inside the LSM in 2008 reached about 5787 operations, amounting to a total of LD 36,810,380 thousands, as opposed to LD 25,460,000 thousands in 2007.

**Table 2-7 Listed Companies on LSM in 2009**

| Listed Company | Value (thousands of LD) | Volume | Number of Deals |
|---|---|---|---|
| Sahara Bank | 15,759,977 | 816,645 | 1492 |
| Wahda Bank | 9,136,346 | 415,506 | 1457 |
| Bank of Commerce and Development | 2,982,912 | 222,195 | 713 |
| Assaray Bank | 273,191 | 2,710 | 118 |
| Libya Insurance Co | 627,623 | 56,485 | 324 |
| United Insurance Co | 450,625 | 33,207 | 24 |
| Sahara Insurance Co | 453,380 | 2,468 | 13 |
| Libyan Stock Market (LSM) | 7,753,949 | 872,418 | 1646 |
| **Total** | 36,810,380 | 2,421,634 | 5787 |

Source The Annual Report of (LSM, 2008).

It is important to note that the listed companies on the LSM are all from the financial sector (banking and insurance) and the number is still small. The CBL stated in 2008 that the weakness of the LSM was due to the limited number of listed companies despite the fact that it had been established for three years (CBL, 2008).

In 2009, the CBL issued part of the shares of the Gumhouria Bank for the private sector and it was listed on the LSM (CBL, 2009). This step was taken by the CBL in accordance with the Banking Law 1/ 2005.

### 2.3 The Foreign Direct Investment in Libya (FDI)

In 2009, Oxford Business Group (OBG) reported that the economic problems of many Middle East and North Africa countries were due to lack of diversification in industry. This created dependence on the energy sector, low domestic agriculture production and narrow industrial focus (OBG, 2009).

On the one hand, Libya's transition from a state-planned to a market economy is driven largely by a need to diversify and to make the provision of public services more efficient. On the other hand, Libya is an oil producing country, whose budget reliance is on oil revenues, which generate 72% of GDP and 97% of export earnings. This affects the quality of the country's business environment in many ways, including investment and incentives for non-energy sector activities (OBG, 2009).

Therefore, the Libyan government has tried, since 1997, to open the way for FDI in all economic fields through the issuance of the Law (5 /1997),and the establishment of the

Libyan Foreign Investment Board (LFIB). However, the international sanctions imposed by the UN on Libya in this period hampered the goals of this law (Otman & Karlberg, 2007).

In 2003, the Libyan government amended Law (5 /1997) by issuing the Law (7/ 2003). This offered many incentives and guarantees to attract FDI to help accomplish economic development in Libya.

This law, according to Article 1, aims to achieve a number of vital goals including:

- transfer of modern technology;
- training and building Libyan technical cadres;
- diversification of income sources; and
- contribution to the development of local industries in order to compete in international markets and to realise economic potential.

**Table 2.8 Libyan Investment Projects According to Areas and by Type of Capital (2000-2009)**

| Area | Number of projects | Type of Investment | | |
|---|---|---|---|---|
| | | Size of Foreign Investment in LD | Size of Local Investment in LD | Total in LD |
| Industry | 54 | 1,001,447,812 | 793,061,533 | 1,794,509,345 |
| Tourism | 51 | 303,480,100 | 173,540,916 | 477,021,016 |
| Services | 28 | 147,670,645 | 148,123,291 | 295,793,936 |
| Health | 10 | 24,716,604 | 23,403,289 | 48,164,893 |
| Agriculture | 2 | 5,808,730 | - | 5,808,730 |
| Real Estate | 1 | 3,553,000 | 3,553,000 | 7,106,000 |
| **Total** | **146** | **1,486,721,891** | **1,141,682,029** | **2,628,403,920** |

Source: The Annual Report of (LFIB,2009).

The overall areas of investment in Libya are industry, agriculture, health, tourism and services. This is, more specifically, agricultural projects, industries and services, oil refining and petrochemicals, electricity generation, communications services, real estate, infrastructure and tourist projects (LFIB, 2009).

According to Table 2.8, the total number of investment projects was 146 between 1/1/2000 and 30/11/2009. Generally, the highest area of investment was the industrial sector with about 37%, and then, the tourism sector with 35%. However, the lowest areas of

investment were the agriculture and real estate sectors with just two projects and one project respectively (LFIB, 2009).

In terms of the type of capital, the total amount of investment was LD 2,628,403,920 divided into approximately 57% foreign investment (LD 1,486,721,891) and 43% local investment ( LD 1,141,682,029) (LFIB, 2009).

**2.4 The Accounting and Auditing Profession in Libya**

Historically, most developing countries have been subjected to long periods of colonisation by developed countries. Therefore, colonisers were responsible for administering the country's affairs and implementing their laws and systems. Libya was no exception. Western international accounting firms, mainly from the UK and the USA, were responsible for the establishment and development of the accounting system and profession in Libya. This continued to be the case even after the country's independence in 1954, as the lack of locally qualified and expert accountants reinforced the dominance of western companies (Bribesh, 2006).

However, the impact of the decision in 1969, which demanded nationalisation of all foreign companies and banks, was a lack of locally qualified experts and regulators of accounting and auditing standards and practices. As a consequence, there was an urgent need to set up a professional body to take responsibility for developing a general framework of accounting and auditing (Ahmad & Gao, 2004).

To meet the above demand, in 1975, the Libyan Accountants and Auditors Association (LAAA) was established under the Law (116/ 1973). This was the first law concerning the accounting and auditing profession. It had the following objectives:

- "To organise and improve the conditions of the accounting profession and to raise the standards of accountants and auditors professionally, academically, culturally and politically;
- To encourage the professions to organise and participate in conferences and seminars related to accounting internally and externally and to keep in touch with new events, scientific periodicals, lectures and so on;
- To establish a retirement pension fund for its members;
- To increase co-operation between its members and to protect their rights; and

- To take action against members who violate the traditions and ethics of the profession" (116/1973).

Kilani (1988) described how in Libya, as in several of its counterparts in the rest of the world, a number of laws had been issued to regulate accounting practices. Therefore, Libyan professional accountants and auditors, business accounting and auditing and financial reporting are influenced by the rules and regulations of the state, that is to say, the Libyan Commercial Code (LCC) and Income Tax Law (Ahmad & Gao, 2004).

For instance, under the rules governing corporation books and record-keeping and financial reporting, which is required by the LCC Article no. 580, each enterprise must have at least: i) a journal, (ii) an inventory book and (iii) a balance sheet book (LCC, 1972).

In addition, Article 570 of LCC requires joint stock companies to keep the following records: (i) a register of members, (ii) a register of bondholders, (iii) a minute book of members' meetings, (iv) a minute book of directors meeting, (v) a minute book of statutory auditor's meetings, (vi) a minute book of executive committee's meetings and (vii) a minute book of bondholders' meetings (LCC, 1972).

Further, the provisions of Article 573 of LCC state that every company's board of directors is responsible for preparing a balance sheet and a profit and loss account once a year, and reporting the financial statement to the AGM for approval (LCC, 1972).

According to the LAAA, an auditor must have at least a Bachelor's Degree in accounting as well as meet other training requirements (e.g., have five years' experience of accountancy related jobs in an accounting office after obtaining the Bachelor's Degree). In Libyan universities and higher institutes, auditing is taught as a part of the requirements for the Bachelor's Degree in Accounting (Khorwatt, 2006).

In 2005, Mashat reported that "the LAAA has so far done nothing to regulate and organize the Libyan accounting practices in terms of issuing or adopting accounting and auditing standards.... Many professional services accounting were not widely provided by the public accounting profession in Libya" (2005, p. 55). In addition, Libyan accounting firms were generally engaged in auditing and bookkeeping and tax and liquidation services. Therefore, the need for professional accounting services in Libya exceeded their availability to the business community (Mashat, 2005).

## Part Two: Corporate Governance in a Libyan Context

This section deals with corporate governance in the Libyan environment. It starts with the extent to which the Libyan legal framework accords with corporate governance principles of the OECD, followed by the Libyan code of corporate governance, which was issued by the LSM in 2007. In addition, some challenges in applying corporate governance in Libya are presented.

### 2.5 The Libyan Legal Framework and the OECD Principles

The legal regulatory system plays a significant role in strengthening corporate governance levels within companies. This is because the level of a country's legal system determines the company's level of corporate governance mechanisms (Johnson, Boone et al., 2000; Denis & McConnell, 2003).

In Libya, as in several other countries in the rest of the world, a number of corporate laws are considered the main reference for the control and supervision of the business environment. In addition, the basic regulations of each company, derived from the legal system of the state, are reference for the procedures and practices implemented by the management and employees to enhance and accomplish a company's goals (Otman & Karlberg, 2007).

Most contemporary commercial law originated from one of two main legal systems: English common law and Roman civil law (French, German and Scandinavian law) (Denis & McConnell , 2003). In Libya, the legal system is largely influenced by the French Civil Law (Otman & Karlberg, 2007). Therefore, the purpose of this section is to provide an overview of the Libyan legal system in accordance with the OECD principles (2004), namely, shareholders' rights, equitable treatment of shareholders, the role of stakeholders, disclosure and transparency and responsibilities of the board of directors.

#### 2.5.1 Shareholders' Rights

The LCC (1972) ensures the fundamental rights of shareholders; Article 522 stipulates that the AGM should be convened within three months of the end of the last financial year. The shareholders must be notified about the date and place of the AGM at least 15 days before it is held, and this information should also be published in two daily

newspapers. Moreover, shareholders must be provided with summaries of the financial statements, auditors' reports and the agenda of the AGM.

As regards voting rights, Article 522 of the LCC (1972) stipulates that shareholders who have paid 50% of the shares' issue value are entitled to all voting rights. They are allowed to vote in person or by proxy, although the latter is subject to some conditions: it should be written and kept in the company's office; it should appoint the agent of a shareholder. However, it is not permitted for a director or employees of the company to be an agent for shareholders.

In accordance with the provisions of the LCC (1972), the legal quorum to convene the AGM requires the attendance of at least three board members, the auditor and shareholders representing at least 25% of the issued and paid up share capital. However, if the first quorum is not reached, the invitation to the second meeting will have no requirements.

The LCC (1972) also allows shareholders, who represent 5% of the company's ownership structures, to call for the AGM (in case the board of directors does not do so) and to add items to the agenda. This must take place three days before the meeting. As for the right to transfer ownership, shareholders are entitled to sell or buy shares without referring to the company's management. Article 6 of the Law (no 65/1970) stipulates that there are no restrictions on transferring the ownership of shares.

### 2.5.2 Equitable Treatment of Shareholders

Article 500 of the LCC (1972) allows the issuance of different categories of shares, such as common and preferred shares, which are based on the company's statutes. These categories differ. For instance, shareholders of preferred shares category have three advantages: first, they may enjoy voting rights (e.g. multi-votes) according to the company's statutes. Secondly, they have the priority to obtain a specific dividend out of distributable profits. Finally, they have priority in the case of increasing share capital or liquidation.

Articles 541 of the LCC (1972) entitles all shareholders, including those holding shares of limited voting, to oppose decisions taken by the general assembly, if those decisions are contrary to the laws or the company's statutes. Moreover, shareholders have the right to participate in the company's decision-making, whether, for instance, to increase or decrease share capital, to modify the statutes, to change its original purpose or to add new objectives.

### 2.5.3 The Role of Stakeholders

In general, stakeholders include all people interested in the company's operations and who can affect or be affected by its success or failure. These are, for example, investors, employees, lenders, customers, suppliers and government, auditors, shareholders and community (Clement, 2005).

The LCC (1972), in provision of Articles 544 and 564, gives special protection for bondholders. For instance, they are allowed to form bondholders' associations and select a legal representative to act on their behalf. They are further entitled to attend the AGM without having the right to vote. But, the legal representative of the bondholders is permitted to obtain all the company's information that shareholders have the same right to obtain by law.

Article 577 of the LCC (1972) also gives the creditors special protection by stipulating that each company must have a legal reserve, which should not be less than 'one-fifth' of the capital.

Lastly, Libyan Legal framework protects stakeholders' rights through law and contracts such as the Environment Law and Labour Law. Furthermore, there are many organisations and official bodies, such as trade unions, federations and professional associations, which give special protection to the stakeholders.

### 2.5.4 Disclosure and Transparency

In Libya, the regulatory procedures of accounting disclosure are based upon the legislation of companies, as mentioned. Under the provisions of Article no. 573 of the LCC (1972), every company's board of directors is responsible for preparing a balance sheet and a profit and losses account once a year and for reporting the financial statement to the AGM for approval (LCC, 1972).

In relation to the banking sector, Article no. 83 of the LBL (1/2005 ) stipulated that each bank must assign the auditing of its accounts annually to two chartered accountants selected by the bank's general assembly from among the registrants in the register of the CBL, and each auditor must:

- Not be a member of the bank's board of directors, a bank employee or agent, or the recipient of a loan or facility from the bank with or without a guarantee.

- Not be related to any member of the board of directors or to the bank's other chartered accountant by a kinship tie up to the fourth degree.

Moreover, Article no. 84 of the LBL (1/ 2005 ) stipulates that each bank must display, throughout the year, and in a conspicuous place at its head office and at all of its branches, a copy of its most recent, audited financial statements.

As for transparency, Article no. 541 of the LCC (1972) requires that each board member and manager, who has a personal interest in an operation which conflicts with that of the company, must inform other board members and the control committee, and he/she is not allowed to participate in discussions within the decision process of this operation.

### 2.5.5 Responsibilities of the Board of Directors

The board of directors is one of the various interested parties that contribute to the proper functioning of the corporate governance system (Abdel-Shahid, 2001). According to the LCC (1972), the board of directors is responsible for managing the company by a delegation of the general assembly. The general assembly elects members of the board of directors and specifies the minimum and maximum number according to company statutes, except what is stated in Article 68 of the LBL (1/ 2005 ):

- "A commercial bank shall be directed by a board of directors comprising a minimum of five members and a maximum of seven members. The members of the board of directors shall be appointed, and their remuneration set, in a resolution issued by the bank's general assembly. The board of directors shall select a chairman from among its members. The bank's charter shall stipulate the tenure of the chairman and members of the board of directors.

- The bank shall have a general manager, who shall be appointed by its board of directors based on the recommendation of the chairman or two members of the board of directors.
- The chairman and members of the board of directors and the general manager must enjoy civil and political rights, possess a university degree, and possess adequate experience".

It is not required that the members of the board of directors should be among the shareholders in the bank.

The most important tasks and responsibilities of the board of directors are stated in the LCC (1972) and the LBL (1/ 2005 ). They are as follows:

- "Setting the general policies and objectives of the company.
- Setting and supervising the internal systems related to regulating administrative and financial matters.
- Specifying functions of company management and managers' compensation
- Inviting the general assembly of the company to convene.
- Preparing annual reports about the company's activities".

In terms of board composition, the Libyan legal framework does not deal with this subject despite its importance. There are no rules that govern how the board of directors' membership is formed of executive and non-executive directors. Additionally, there are no rules dealing with the independence of board members. However, there is a separation between the CEO and board chair positions in the banking sector, according to Article 70 of the LBL (1/ 2005), whereas there are no such rules in other types of business and by the LCC (1972).

Finally, it should be mentioned that despite the importance of, for example, audit, compensation and nomination board committees, according to the Libyan Legal framework, there are no rules for their formation.

Nevertheless, the LCC (1972), in Articles 547, 548 and 550, obliges all companies to form a control committee, consisting of five members, three of them originals and two spare, to be selected, appointed and supervised by the general assembly. The provisions of Articles 553, 555 and 556 of the LCC (1972) contains the duties and responsibilities of the control committee (see Appendix F).

### 2.6 Libyan Corporate Governance Code (LCGC)

The increasing concern about the subject of corporate governance in most developed and developing countries and, equally, in the international financial institutions, has had an influence on Libya, resulting in the manual of corporate governance for the banking sector. This manual, which was issued by the CBL in 2005, is considered an essential guideline for boards of directors of commercial banks. However, the rules of this manual are neither mandatory nor legally binding; rather, they promote and regulate responsible and transparent

behaviour in managing corporations according to international best practices (CBL, 2005). The document includes five main parts:

**Part one.** Introduction: identifies the essence of corporate governance and its importance in achieving safety in banking operations, as well as shedding some light on the best international practices.

**Part two.** Criteria of the board and its effectiveness: this part contains the criteria of the members of the board of directors and senior management, setting forth how they should perform their duties vis-à-vis shareholders, depositors and other stakeholders efficiently and effectively.

**Part three:** Choice of management and its supervisory role: this includes a description of the most important tasks of the board of directors and how they interact with the executive management.

**Part four:** planning and policy formulation: this includes a description of the responsibilities of the board of directors on the formulation and monitoring of plans and policies.

**Part five:** auditing and internal control: deals with the interaction of control systems, internal controls and internal and external audit (CBL, 2005).

In 2007, through cooperation with some Arab financial markets (Egypt, Jordan and Tunisia), the LSM issued the LCCG (see Appendix F), according to which rules, and besides other legislation, it was to function (LSM, 2007).

However, the rules of the LCCG are not mandatory. Rather it promotes and regulates responsible and transparent behaviour in managing corporations according to international best practices for joint-stock companies listed on the LSM The following, in brief (see Appendix F), are the most important clauses included in the LCCG in 2007 (LSM, 2007):

A) The rights of shareholders: shareholders are entitled to a share of the profits and of the company's assets upon liquidation. They have the right to attend the AGM, to vote on resolutions and to dispose of shares. Furthermore, they are permitted to control the board of directors and to file a complaint to the members of the board. Shareholders are afforded the right of inquiry and may request information which does not compromise the interests of the

company, and is not inconsistent with the market system and its regulations. All of these rights are dealt with in detail in the following clauses:

B) Facilitate the exercise of shareholder rights and access to information.
C) The rights of shareholders concerning the AGM.
D) Voting rights.
E) The rights of shareholders as regards payment of dividends.

F) Disclosure and transparency: all companies should develop policies and procedures of disclosure and supervisory regulations in written form in accordance with the rules determined by the LSM.

G) Disclosure in the report of the board of directors: addressing a range of important points that the board of directors should disclose in its annual report.

H) Board of directors: addresses the main tasks of the board of directors.

I) Responsibilities of the board of directors: includes the main responsibilities of the board of directors.

K) Composition of the board of directors: includes a range of important points related to board composition, such as numbers of board members, number of non-executive board members on the board, CEO duality with chairman of the board and board independence.

L) Audit committee: includes the structure of the audit committee and its tasks and responsibilities.

M) Nominations committee: includes the structure of the nomination committee and its tasks and responsibilities.

N) Board of directors meetings and their agenda: includes a range of important points related to board meetings.

O) Board of directors' compensation: the AGM has rights to determine the level of compensation for the board of directors' members. The compensation may be paid as a certain remuneration or allowance for attending meetings.

P) Internal audit: includes the structure of the internal audit and its tasks and responsibilities.

Q) Conflict of interest: companies are required to have a written code, which is known to employees, managers and the board of directors, in order to prevent conflicts of interest.

R) Control committee: includes the structure of the control committee and its tasks and responsibilities (LSM, 2007).

**2.7 Challenges of Applying Corporate Governance in Libya**

Despite the large number of rules governing corporate governance, in reality, the application of this system in Libya has faced a number of challenges, among which are the following:

### 2.7.1 Legal Challenges

The LCCG rules contradict some laws of the state, especially the LCC (1972). For instance, the provisions of the LCC (1972) state that the chairman of the board of directors is allowed to be the CEO at the same time. Meanwhile, article 3-K of the LCCG states that it is not allowed for one person to exercise both positions.

Also, the rules of the LCCG states in article 4-K that the majority of the members of the board of directors should be non-executive, while under the LCC (1972) and LBL (1/ 2005), there are no rules governing the executive and non-executive members structure of the board of directors.

The most important point is that rules of the LCCG require the formation of board committees – the audit and nomination committees – but it is not a legal requirement according to existing legislation in Libya.

In an assessment of Egyptian corporate governance, Fawzy (2003) revealed that its legal framework is among the most important fields, which requires additional efforts to raise the efficiency of its application in the country.

### 2.7.2 Cultural and Environmental Challenges

It is clear that the principles of the LCCG are based upon those of developed countries, which are advanced culturally and professionally and have democratic rules governing the development process. It is also necessary to take into consideration the local environment and general climate for investment in Libya, which is characterised by a lack of full recognition and understanding of the meaning of corporate governance, either by companies or by institutions supervising the application of this code.

It should be mentioned here that a corporate governance system requires the raising of the efficiency of supervisory, regulatory and judicial bodies and the establishment of special courts to deal with financial market cases. It also requires institutions to develop the skills of employees in order to raise governance levels, as performance requires training and a change in work culture, as well as sessions and conferences over the long term (Fawzy, 2003). For instance, in the UK, the Combined Code of Corporate Governance almost twelve years to be issued – from the appearance of the Cadbury report (1992) to the issuance of the first Combined Code of Corporate Governance in 2003.

### 2.7.3 Financial Challenges

The rules of corporate governance issued by the stock markets require the formation of various committees. The creation, for example, of the audit and nomination committees is required to be made up of about nine members. However, in most Libyan companies, especially those in the banking sector, the number of members does not exceed five or seven members, which is in accordance with the LBL (1/ 2005).

Moreover, there should be one individual in a company responsible for corporate governance and another responsible for risk assessment and internal control and audit. This leads to increased financial burdens incurred by the company.

This was confirmed in the USA by a survey of corporate governance, conducted by the Business Roundtable (BR) in 2006, about the cost to companies applying the Sarbanes-Oxley law (BR, 2006). This survey showed that:

- 40% of corporations are bearing costs of over US$10 million;
- 27% of corporations bear from US$ 6-10 million; and
- 33% of corporations bear from US$ 1-5 million.

This confirms the high costs to companies, even those internationally, which are required to commit to corporate governance processes.

## 2.8 Conclusion

This chapter has sought to discuss the Libyan economic environment and report on changes currently underway within the country to transform it to a more open and liberal economic model. Among the most important issues raised were:

The Libyan economy is currently over-dependent on oil revenues and vulnerable to fluctuations in world commodity prices. This has encouraged the state to seek to widen the range of economic activity within the country and broaden the ownership base of economically active organisations.

A more open economic model based on a broader base of corporate ownership requires a mature corporate governance code: to this end the LSM has published the LCGC. Adequate corporate governance safeguards can increase investor confidence in emerging sectors of a transition economy, such as tourism and export-based manufacturing.

Libya faces the difficulty that it must implement the LCGC in the context of an existing legal system, which includes influences from many legal traditions, and in some cases the requirements of the LCGC are not included in Libyan law, or even contradict Libyan law.

The financial sector in Libya in the form of the main state-owned banks and insurance companies were and remain the only entities listed on the LSM. The auditing profession has remained fragmented and isolated from international influence, leaving it unsuited to reacting to rapid changes in ownership structure and unsuited to providing leadership in the enforcement of new corporate governance code.

This chapter has reviewed the current state of corporate governance in Libya and reported on the problems facing it as a process, as they are stated in the extant literature. The literature indicates that there is a requirement for further research in the area process of corporate governance in Libya, and in particular the problems facing the process. The literature also highlights the complexities and issues being raised by the changes in Libya's political and economic systems. These changes make Libya a rich and interesting research environment and one as a point of transition that offers unique research opportunities in relation to corporate governance processes within a developing country.

Chapter three will build on this background by presenting a review of the literature on the theoretical foundations and mechanisms of corporate governance, and the extent of its implementation in both developed and developing countries, with particular focus on developing countries facing an economic situation similar to Libya's. Particular attention is given to studies which identify obstacles to corporate governance implementation, and how developing countries have overcome these obstacles

# Chapter Three

# Literature Review on Corporate Governance

## Part One: Overview of Corporate Governance

### 3.1 Introduction

Corporate governance became an international issue, in both academic and governmental debate, in the early 1980s. This concern emerged in the UK following the financial difficulties of the late 20th century and some corporate scandals such as Polly Peck, Maxwell Group, BCCI, Barings Brothers and Northern Rock (Pickett, 2007).

It also appeared during the 1997 Asian financial markets crisis (Johnson, Boone, Breach, & Friedman, 2000), as well as the collapse of large companies in different countries, such as Enron and WorldCom in the USA. These cases caused a loss of confidence in financial data and audit reports, and led to a pressing need for improvement in systems of corporate governance.

Consequently, in recent years, there has been a remarkable worldwide effort to issue and develop corporate governance principles, in order to ensure that good codes of practice are in place to protect companies from potential crises that poor standards could cause. Furthermore, some codes have been issued for specific continents or regions in the world, or by specialist organisations such as the Organisation for Economic Co-operation and Development (OECD).

The main purpose of this chapter is to present a review of the literature on corporate governance so to provide a general picture of current practices. The remainder of this chapter is organised in the following way: Section 3.2 describes the concept of corporate governance; Section 3.2 provides a brief historical background of corporate governance in the UK, the USA and in the OECD; Section 3.3 presents the theoretical framework of corporate governance; and Section 3.4 discusses corporate governance mechanisms, which includes ownership structure, shareholders' rights, boards of directors, board committees and disclosure and transparency. The final section, 3.5, examines corporate governance practices in developing countries.

### 3.2 Definition of Corporate Governance

Corporate governance has gained a lot of attention in the last decade from different interested parties such as regulators, professional bodies and academics. However, despite this fact, no specific definition has won general agreement among these parties (Solomon, 2007). Therefore, the traditional literature on corporate governance approaches the subject from various angles and reveals a number of definitions based on different business environments and corporate systems.

Solomon (2007) argues that the existing literature on corporate governance tends to share similar ideas about the definition of corporate governance, one of which is the concept of accountability. Therefore, corporate governance can be addressed from 'narrow' or 'broader' perspectives: the narrow perspective is orientated toward only corporate accountability to shareholders. In this respect, the main goal of companies is to serve the interests of their shareholders. Within the broader perspective, corporate governance requires corporate accountability to shareholders and other stakeholders (such as investors, employees, lenders, customers, suppliers and government auditors). In this latter regard, shareholders are regarded as just one of a range of stakeholders groups.

In its narrowest sense, corporate governance can be defined as "the set of rules and incentives by which the management of a company is directed and controlled in order to maximize the profitability and long term value of the firm for shareholders" (Shahid, 2001, p. 3). This definition tends to accord with the agency theory, in which companies should act in favour of shareholders by maximising their profits (Shahid, 2001).

In the context of finance, the focus is on the protection of outside investors from expropriation by insiders. This definition, given by Shleifer and Vishny (1997, p. 737)"deals with the ways by which suppliers of finance to corporations assure themselves of getting a return on their investment".

This is similar to Prowse's definition of corporate governance: "rules, standards and organisations in an economy that govern the behaviour of corporate owners, directors, and managers and define their duties and accountability to outside investors, i.e., shareholders and lenders" (1998, p. 2).

A broader definition provided by the OECD (2004, p. 1) describes corporate governance as: "the rules and practices that govern the relationship between the managers

and shareholders of corporations, as well as stakeholders like employees and creditors contributing to growth and financial stability by underpinning market confidence, financial market integrity and economic efficiency".

Solomon (2007, p. 14) defines corporate governance in broad terms as: "the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity".

In the same context, corporate governance can be defined as: "the manner in which companies are controlled and in which those responsible for the direction of companies are accountable to the stakeholders of these companies" (Dahya, Lonie & Power, 1996, p. 72). In addition, Sir Adrian Cadbury defined corporate governance as: "The system by which companies are directed and controlled"(Cadbury, 2002, p. 11).

An assessment of the above definitions appears to suggest that not all of them limit the responsibility of companies to shareholders. These are based on a narrow agency perception of corporate governance as an internal task of a company. Instead, the definitions tend to argue that a good corporate governance system should determine the responsibility of companies to a range of stakeholders beyond only their investors.

Therefore, it can be concluded that there are four key players affected by and who, in turn, affect the proper application of this concept and determine, to a large extent, its success or failure (Shahid, 2001):

**First,** shareholders provide capital for the company through their ownership of shares. They obtain profits from their investment and are able to select and elect the members of board for the protection of their rights.

**Secondly,** the board of directors represent the basic rights and interests of shareholders and the other interested parties (stakeholders at large). They are responsible for the selection of a qualified management team, setting out company policies and objectives, as well as evaluating management performance by comparing the actual performance and the targets.

**Thirdly,** the management reports to the board about all the company's activities and achievements and is responsible for running the day-to-day operations. It is tasked with achieving set goals and purposes.

**Finally**, stakeholders, mainly creditors, are strongly interested in the high probability of repayment of their debt. Other stakeholders also need protection, among them suppliers, customers, employees, government and the public at large.

## 3.3 A Brief Historical Background of Corporate Governance

As mentioned earlier, the number of significant events that have occurred over the past ten years or so, has led to heightened concern about the standard of corporate governance around the world (Pickett, 2007). These cases led to a pressing need for improvement and development in this system of checks and balances. However, the history of concern over corporate governance dates back to the start of business (Vinten, 2003). In the UK, for instance, the first corporate failure was in the 1700s, which became known as the 'South Sea Bubble' (Dragomir, 2008), while in the USA, this was the stock market crash of 1929 (Clarke, 2004).

### 3.3.1 Corporate Governance in the UK

In the UK, there is a well-developed market with different shareholders types among others institutional investors, financial institutions and foreign investors. However, the development of corporate governance in the UK was originally driven by corporate failures and scandals of some big companies (Mallin, 2007).

In 1720, the earliest corporate collapse in UK history became known as the 'South Sea Bubble'. As a consequence, the laws and regulations governing UK business were changed to protect investors trading on the stock exchange from corporate collapses such as this (Dragomir, 2008).

In the early 1990s, a number of high profile corporate failures led to a growing lack of confidence in financial data and audit reports. This attracted the attention of the UK government (Dulewicz, 2004). A range of significant changes were made to British corporate governance by different committees, whose aims were to restore investor confidence in the system (Arcot & Brun, 2006). The UK's approach involved the creation of committees to deal with the issues of corporate governance, starting from the Cadbury report in 1992 and ending with the combined Code on Corporate Governance in 2003.

Following a number of corporate scandals (e.g. Coloroll and Polly Peck), the Cadbury Committee was formed in 1991 by the British government and regulators (Arcot & Brun,

2006). The scandals at Maxwell and BCCI happened while the committee was being set up (Solomon, 2007). The Cadbury committee took the name of its chairman and its report became known as the 'The Cadbury Report'. This report was issued in 1992 with special focus on financial reporting and accountability (Dragomir, 2008).

According to Solomon(2007), the Cadbury Report covered three main aspects of corporate governance, namely, the board of directors, shareholders and auditing. First, they stated that the most important corporate governance mechanism, which required constant monitoring and assessment, was the board of directors. Secondly, corporate transparency was also shown to play an important role for their shareholders and other stakeholders. Finally, the essential role in good corporate governance was the function of both financial accounting and internal auditing.

The Cadbury report has had a major influence, not only on the UK corporate governance system, but also on an international level, with many countries around the world adopting a similar code of best practices to Cadbury.

In 1995, the Greenbury Report was issued in response to shareholders' concerns about the structure of boards' and directors' remuneration. The committee investigated directors' remuneration in large UK quoted companies. The main recommendation was for remuneration committees and the disclosure of directors' remuneration in annual reports to their shareholders. Mallin (2007) states that strengthening accountability and enhancing the performance of directors were essential recommendations of the Greenbury Report, and this could be done by disclosing the directors' remuneration to their shareholders annually, linked to performance measures of individual directors.

In 1998, the Report of the Hampel Committee was issued, reviewing the implementation of the recommendations of the Cadbury and the Greenbury committees. The Combined Code was published in the same year. The Hampel Report also emphasised similar issues considered by Cadbury. The Combined Code consisted of 18 principles and 48 code provisions related to the Cadbury, Greenbury and Hampel recommendations published by the London Stock Exchange (Keasey, Thompson et al., 2005).

The Enron collapse in the USA spurred the UK and the rest of the world into re-evaluating issues related to corporate governance, particularly the role of non-executive directors. In the UK, the Higgs Committee report was published in 2003 with special focus

on the effectiveness of non-executive directors. In 2003, the UK reviewed the Combined Code, which was originally published in 1998, to cover a number of key Higgs recommendations (Solomon, 2007).

### 3.3.2 Corporate Governance in the USA.

In the USA, economic prosperity in the 1920s ended with the Wall Street stock market crash of 1929 (Clarke, 2004). This market collapse revealed manipulation in the market, internal trafficking, mismanagement and reckless violation of the rights of shareholders that led to a long recession between 1929 and 1933. As a consequence of these problems, the Securities Act 1933, as well as the Securities and Exchange Act 1934, were put in place by the US government (Clarke, 2004).

In 2001, the massive bankruptcies of Enron and WorldCom, and the relatively smaller corporate debacles of companies like Tyco, Aldephia Communication and Global Crossing, served as catalysts for change (Holmstrom & Kaplan, 2005). This corporate governance crisis reflected a need to reform US corporate governance and increase regulation, because shareholders no longer had confidence in corporate reports. Therefore, the US Congress, in 2002, responded to these corporate governance failures by enacting the Sarbanes-Oxley Act (2002), which is considered as the most sweeping reform of American business law since the 1930s (Litvak, 2007).

Cornelius and Kogut (2003) argue that the Sarbanes-Oxley Act of 2002 was a compromise bill, which gained support among both Republicans and Democrats. It was intended to highlight and strengthen criminal penalties against top management who falsified financial statements, and engaged in other unethical behaviours. While the Sarbanes-Oxley Act of 2002 required the chief executive to carefully consider and thereafter sign-off the audited company reports, it also played a major influence on strengthening the powers of the audit committees and highlighting the regulatory oversight of audit firms.

### 3.3.3 The OECD Principles of Corporate Governance.

In 1999, the OECD provided the first worldwide corporate governance model (Mallin, 2007). It was the very first model to be proposed and implemented by countries which were members of the Business Sector Advisory Group in 1996. A task force formulated a set of major principles of good corporate governance. While business crises experienced in Asian

countries revealed a complete failure in corporate governance, this led to the publication of the Corporate Governance Principles by the OECD. The same framework of principles was approved and authorised by the World Bank (Mallin, 2007).

The OECD revised its principles in 2003, to take into consideration developments since 1999. Furthermore, general and open consultations with non-OECD countries sought to include other regional corporate governance. In April 2004, OECD governments accepted the new principles, which encompass six important areas of corporate governance listed below:

1. **Ensuring the basis for an effective Corporate Governance framework:** a good corporate governance framework should clearly show the responsibilities of every group in the company management to avoid conflicts of interest and to ease performance evaluation.
2. **The right of shareholders and key ownership functions**: a good framework of corporate governance should seek to defend the shareholders' interests and help them exercise their rights.
3. **The equitable treatment of shareholders:** a good framework should ensure all types of shareholders are protected and treated equally, including minority interest shareholders and foreign shareholders.
4. **The role of stakeholders in corporate governance:** a good framework of corporate governance should extend the company responsibilities to all stakeholders established by law.
5. **Disclosure and transparency:** a good framework of corporate governance should ensure accuracy and timeliness of a company's reports. In addition, it should ensure that all significant matters regarding company operations are clearly disclosed, such as financial status, performance and ownership, corporate social responsibility and the organisation's corporate governance.
6. **The responsibilities of the board:** a good framework of corporate governance should strategically guide the company toward the attainment of its targets and ensure growth through the effective monitoring and evaluation of management by the board. Moreover, the board is accountable to the company, as a whole, as well as its shareholders (OECD, 2004).

In summary, this historical background has set out the development of corporate governance both in the US and the UK, as well as underlining the similarities and differences

between them. It emphasised the importance of good corporate governance in detecting unethical management practices.

## 3.4 Theoretical Framework of Corporate Governance

The development of corporate governance, as seen earlier, is a worldwide issue, concerning law, culture and capital structure (ownership), as well as relations between companies. Corporate governance may, therefore, be applied differently from one region of the world to the next. Indeed, certain practices may be more vital to some countries than to others. And in an individual country, they may be more appropriate at different times depending on the stages of development (Mallin, 2007).

However, the main corporate governance problems are based upon the conflicts of interest between various parties, the shareholders and management of company on one hand and with other stakeholders on the other hand. Therefore, the concept of corporate governance was driven by two theories. First, the agency theory addresses the relation between the shareholders and the management of a company as proposed by Jensen and Meckling (1976). Secondly, the stakeholder theory, proposed by Freeman (1984), examines the relation between multi-parties inside and outside the company.

### 3.4.1 Agency Theory

The extraordinary economic growth after the Second World War, especially in developed countries, led to the formation of multi-national companies and joint ventures. The emergence of such companies has shaped economies and businesses as well as our corporate environment. In every company, the shareholders are the owners of the company, whereas the directors and managers are to control all business activities and to ensure that the company is operating in the interest of its shareholders (owners).

Indeed, directors and managers have high influence on company operations as well as on the decision regarding the projects to be undertaken. On the other hand, shareholders, who are the owners of the company, delegating the authority to the managers to exercise all relevant duties on their behalf. In this respect, the owners (shareholders) of the company are the principal and the directors and managers are the agent (Mallin, 2007). Shailer (2004) argues that apart from attending the annual general meetings, shareholders do not normally participate in company management or in the control of the company's activities.

Jensen and Meckling (1976, p. 5 ) define "an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent" (Jensen and Meckling, 1976). They discuss and clarify the impact of the separation of ownership from company management, which, in turn, leads to the development of 'agency theory' and the agency problem. Agency theory creates a relationship between two parties, whereby the owners are known as principals, who contract specialists (agents) to manage the business on their behalf.

In other words, the shareholders are the owners of the company, whereas the directors and managers are there to ensure that the business is operating in the interest of its shareholders (owners) (Shleifer and Vishny, 1997). In this regard, company directors and managers have high influence on company operations as well as the decision on the projects to be undertaken (Staikouras & Staikouras et al., 2008).

In some cases, the agent (management) does not necessarily act in the best interests of the principal (shareholders) and, as a result of this relationship, there arises what is known as the 'agency problem' (Solomon & Solomon, 2007).

The agency theory suggests that most of the times, the manager's decisions are not necessarily directed toward the single aim of maximising the value of the firm. Instead, they have many other goals which align with their own interests. In addition, the principals do not have access to all types of information. This causes information asymmetry between the agent and the principal because they will have different levels of information access (Mallin, 2007).

For instance, the shareholders' ability to control all managers' decisions and the activities taking place in the company may be limited by the rights or interests of other stakeholder groups, which also need to be considered. This control may also be limited to a decision-making level. Thus, shareholders may not have, for example, the right to monitor the methods employed and the reasons why these were used in recording transactions. Hence, agency problems arise (Brenna, 1995) because of the impossibility of the agent to track all the decisions and actions that are likely to affect both his own interest and the interest of the principal.

The conflicts of interest between the principals and agents lead to 'agency costs'. Jensen and Meckling (1976) classified the agency costs into three main types: first, monitoring costs, which are incurred by shareholders in controlling and ensuring managers' activities and behaviours are in line with their interests; secondly, bonding costs, which are incurred by managers to indicate that shareholders' interests are being protected and fulfilled; and thirdly, residual agency costs, which are incurred in case bonding and monitoring does not eliminate the conflict of interests and information asymmetry.

Therefore, the corporate governance concept came about as a result of the agency problem, which arose when the company owners were separated from the decision-making process (Solomon, 2007).

Hart (1995) points out two reasons why corporate governance issues must arise in an organisation. The first reason is the presence of conflict of interest or agency problem between the owners (shareholders) and company management (managers or directors). The second reason is that conflict of interest or an agency problem cannot be solved through the use of contract.

Hart (1995) gives several reasons why solving an agency problem through the use of contract might not always be possible. In particular, all business events and transactions may not be done through the use of contract. In addition, there are costs associated with negotiating contracts and enforcing them known as agency costs. Agency costs would be extreme if shareholders tried to ensure that all managers' decisions and actions are aligned with the shareholders' interests.

Shleifer and Vishny (1997) argue that the adoption of corporate governance practices push directors and managers to plan and make decisions which will align their interest with those of the shareholders and help increase share value. Moreover, Walsh and Seward (1990) state that there are available governance mechanisms that might be used to assimilate the interests of shareholders with those of management. One of the mechanisms would be associated with individual performance; managers' rewards reflect performance level. Another mechanism is to reward managers by giving them the opportunity to subscribe shares at a lower price. In this way, they encourage them to go for projects that will increase the shareholders' value.

Shleifer and Vishny (1997) conclude that an effective corporate governance system may be driven by the legal consideration of all types of investors as well as the presence of concentrated ownership. Companies need a proper governance to protect the interests of their shareholders. In addition, small investors (minority interest) need to be legally protected against the unethical practices of large investors.

As result, strong legal protection of especially minority shareholders' interests may reduce the agency problem, while poor legal protection of shareholders' rights may increase the agency problem, which leads to an increase in agency costs (Claessens, 2003). However, Mallin (2007) notes that in many countries there is no strong law protecting minority shareholders, especially those which use a code of civil law as opposed to the common law.

### 3.4.2 Stakeholder Theory

The stakeholder theory emerged in the 1970s and developed slowly. It was explored by Freeman in his 1984 work, "Strategic Management: A Stakeholder Approach". The same author is recognised as having built a strong foundation for the development of this theory (Solomon, 2007).

According to Freeman, stakeholders can be defined as all people who have interest in an organisation and, therefore, can affect or be affected by its decisions and performance (Freeman & Vea, 2001). In other words, stakeholder theory, rather than focusing on shareholders, seems to include a wider group, such as customers, suppliers, employees, government, auditors, community and others (Letza, Sun et al., 2004).

In the traditional concept of corporate governance, the director's responsibility is mainly focused on shareholders' interests (increasing shareholders' wealth) as they are the providers of the funds and the owners of the company. However, in the modern concept of corporate governance, a set of legislative, regulatory and legal market mechanisms are put in place inviting companies to consider all other interest groups associated with the social, environmental and ethical aspects of the company (Pease & Macmillan, 1993).

Collier (2008) concludes that stakeholders have significant influence on the organisation and, for this reason, they need recognition from the directors and managers. Simmons (2004) argues that stakeholder theory helps the organisation to identify and protect

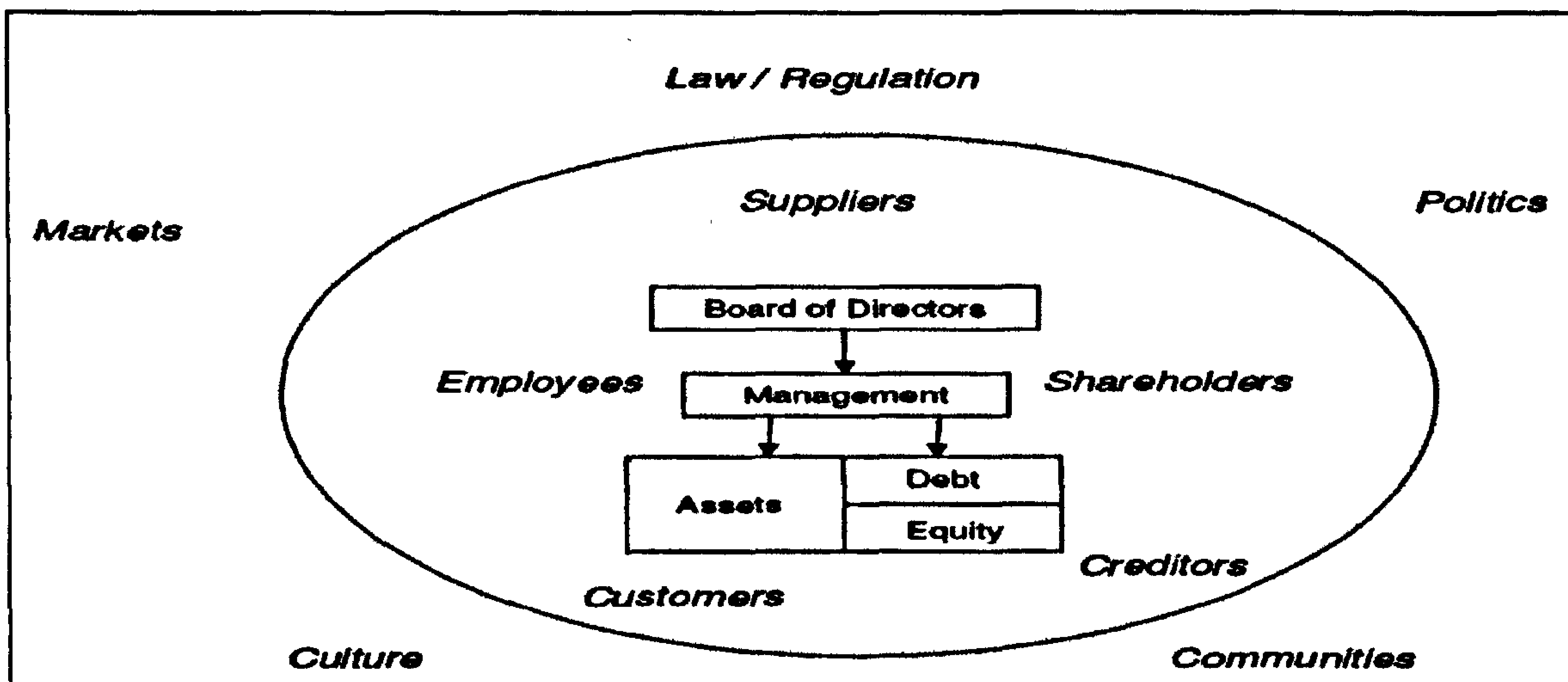
interests by extending the organisational obligations to a wider range of stakeholders and more ethically concerned constituents.

This means that a company's goal should be extended to all people interested in its operations and who can affect or be affected by its success or failure. This includes other investors, employees, lenders, customers, suppliers, government, auditors, shareholders and the community. These may have financial, social, economical, environmental and technological effects (Clement, 2005).

Collier (2008) classified stakeholders into two categories, taking into account the governance structure:.primary or contractual and secondary or diffused stakeholders. While primary or contractual stakeholders have a direct relationship in the form of a contract with the firm (i.e. creditors), secondary or diffused stakeholders do not have a direct relationship with the company. However, the latter may still be affected by the company's activities.

Gillan (2006) provides a broader perspective of the firm and its governance in contrast to the narrow perspective of the firm as consisting of the company board, company managers, and shareholders, as shown in Figure (1).

Figure 1 Stakeholder in the Corporate Structure




Source: Gillan (2006, p. 20)

Clement (2005) argues that companies are under constant pressure to review their corporate governance process by including all stakeholders. Luoma and Goodetein (1999) found that many companies tend to include on their boards of directors people selected from stakeholders, such as customers, suppliers, employees and members of the public. They also

suggested some reasons for such a selection. One pivotal factor is the enforcement of laws in the majority of countries giving the boards of directors the powers to consider and protect stakeholders' interests. Another reason is that a company expects people coming from different corporations, those mostly from highly regulated industries, to act effectively on behalf of the community and government (Luoma & Goodetein, 1999).

Hence, the OECD principles argue that "The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises" (OECD, 2004, p. 12).

In summary, agency theory is focused on the protection of shareholder interests and the separation of ownership from company management. However, the stakeholder theory exposes the responsibility of a company management, which is to maximise shareholders' wealth by supplying a variety of needed products and services to a range of stakeholders. There is also emphasis on corporate efficacy in a social context (Letza, Sun et al., 2004). Therefore, using both theories (shareholder theory and stakeholder theory) may prove more clear and comprehensive as they all involve corporate governance.

## Part Two: Corporate Governance Mechanisms and Practices

## 3.5 Corporate Governance Mechanisms

### 3.5.1 Ownership Structure

Ownership structure refers to the characteristics of equity shareholders and their shareholding capacity in any firm (Shleifer & Vishny, 1997). It can also be described as the capital composition of a firm and the size of each source of capital. Ownership and control are linked in most cases and they are rarely split within any company.

Commonly, company management (directors and managers) have some level of ownership in the firms they manage. The firm's ownership may be classified into two forms: ownership by management, also called "inside ownership", and ownership by other shareholders, known as "outside ownership" (Setyadi, Rusmin et al., 2008). This is for motivation reasons, and helps to reduce the conflict of interest between shareholders and company management. Some owners effectively have some control over the firms they

possess. Thus, ownership structure is a very important component in a firm as well as in corporate governance (Denis and McConnell, 2003).

Governance by shareholders relies on their degree of control. In addition, it depends on whether a group of shareholders are both motivated and have a strong ability to participate in the monitoring of all management actions and decisions (Hart, 1995; Denis and McConnell, 2003; Berglof & Claessens, 2004).

In some cases, conflicts of interest between shareholders and company management can be avoided because the equity is held by the majority shareholders and inside investors. This can act as a governance mechanism to align the interests of shareholders with those of managers (Claessens and Djankov, 1999). Shleifer and Vishny (1997) consider legal protection and concentrated ownership to be the key for a good corporate governance system.

However, corporate governance may be affected either positively or negatively by ownership concentration. On the one hand, concentrated ownership may act as a way of monitoring managers' actions and decisions (Shleifer & Vishny, 1997). The greater ownership control held by the largest shareholders leads them to make decisions that increase the value of the firm as a whole, benefiting even the minority interest. On the other hand, concentrated ownership structure can also empower shareholders with a large degree of control to make decisions and pursue activities, which will benefit them at the expense of other shareholders (La Porta, De-Silanes et al., 1999).

Therefore, Setyadi et al. (2008) argue that "Ownership structure is a primary determinant of the extent of agency problems between controlling insiders and outside investors" (p.3). This is because outside investors influence the appointment of directors and managers, who are to work in a firm to reduce the agency costs. Furthermore, Florackis, Kostakis and Ozkan (2008) find that managerial ownership and ownership concentration seem to play an important role in solving agency problems and in mitigating agency costs.

Denis and McConnell (2003, p. 11) states that "of the various corporate governance mechanisms that have been studied in the US, ownership structure is the mechanism that has been studied most extensively in the rest of the world". In general, they found that the results of empirical studies conducted in various places revealed very different ownership structures and types of shareholders, who can also influence corporate governance. Research should consider all these factors when examining the corporate governance systems in different

countries (Denis & McConnell, 2003). In the model developed by Shleifer and Vishny (1986), concerning the role played by majority shareholders, the latter monitor all the firms' management activities and decisions, and engage themselves in proxy contests and takeover activity as needed.

In developing countries, Berglof and Claessens (2004) argue that concentrated ownership is the key mechanism of a good corporate governance system. Majority shareholders play a vital role in the firm's management and this is reflected in management and board turnover following majority-block trading. When a large number of shares is held by a single shareholder or a small number of shareholders, it motivates the shareholders to change management whenever it is needed and to match the organisation's activities and needs to the current competitive environment (Berglof & Claessens, 2004).

Boubakria, Cosset, and Guedhamic (2005) investigated the role of ownership structure and investor protection in post privatisation corporate governance. They used a sample of 209 privatised firms from 39 countries over the period 1980 to 2001. The findings revealed that the firm's size, the industry affiliation and growth, the privatisation method employed, as well as the level of institutional development and investor protection, explained the cross-firm differences in ownership concentration. It was also seen that in countries with weak investor protection, the positive effect of ownership concentration on firm performance mattered more compared to countries with strong investor protection.

In addition, Omrana, Bolbol and Fatheldin (2008) investigated the determinants of ownership concentration on a sample of 304 firms from different sectors of the economy, and from a representative group of Arab countries (Egypt, Jordan, Oman and Tunisia). They concluded that ownership concentration is an endogenous response to poor legal protection of investors, but which seems to have no significant effect on firms' performance. This should put the urgency of corporate governance reforms at least on par with real sector and commercial reforms.

In the literature, different views are presented regarding the role of shareholders types (institutions, foreign investors and government) with respect to corporate governance in any organisation (Banerjee, Leleux et al., 1997; Claessens & Djankov, 1999).

The first type is institutional shareholders, who may also play a key role in corporate governance, especially in reducing the agency problem (Shin-Ping & Tsung-Hsien, 2009).

An institutional shareholder of a firm may take the role of monitoring all the actions and decisions taken by the top management (Baek, Kang et al., 2004).

An institutional shareholder may also act as an agent of change in a firm through shareholder activism efforts regarding corporate governance issues. He may, for example, influence change in the system of laws and rules, as well as in factors that control the day-to-day operations of a firm (Gillan and Starks, 2003).

Hartzell and Starks (2002) found evidence that institutional investors play a big role in monitoring executive compensation contracts. Their findings indicated a positive association between institutional ownership concentration and the performance-related pay of a firm's executives, and a negative association between institutional ownership concentration and excess salary for these executives.

Chung, Firth and Kim (2002) concluded that when institutional shareholders hold a large percentage of a firm's equity shares, there is less use of discretionary accruals, which results in a decrease in the levels of opportunistic earnings management.

Secondly, when a government holds a large proportion of a company's shares, this may also play a key role in corporate governance. Wei and Geng (2008) conducted a study on listed companies in China, and concluded that government ownership, as the majority shareholder, exercised a strong control over corporate governance and, consequently, impaired the rights of other minority shareholders in the arrangement of corporate governance.

However, Shin-Ping and Tsung-Hsien ( 2009) argued that in companies with high government ownership, decisions which are made by the board of directors have to be approved first by the government authority. This imposes a lack of flexibility in decision-making, which can also impact the performance of these companies.

Finally, foreign investors play an influential role in the corporate governance of a company. Generally, foreign investors participate in monitoring functions and improve corporate governance (Robertson, Gilley et al., 2003).

Arun and Turner (2004) argue that the entry of foreign investors into developing countries, especially in the banking sector, may strengthen practices, as many western companies emphasise the need for implementing sound corporate governance.

The findings of Khanna and Palepu (2000) revealed that foreign investors perform a valuable monitoring role, particularly in the period of transition from a control to a market economy. Henry (2000) pointed out that foreign investors provided economic benefits by sharing risk between domestic and foreign participants. In addition, Stulz (1999) argued that international investors provided developing and transitional economies with enough capital needed to finance their activities, and that they have contributed much to the success of Asian economies (Stulz, 1999).

Zelenyuk and Zheka (2006) examined the effects of different ownership structures on corporate efficiency in a set of Ukrainian joint-stock companies. First, the results indicated that domestic ownership of the company was the most important factor in improving efficiency. Secondly, managerial ownership has a weak effect on efficiency. Thirdly, concentrated ownership rights (government or non-government) improve efficiency, possibly reflecting country-specific factors. Finally, foreign ownership was found to have a positive and significant effect on the corporate governance quality of an organisation.

### 3.5.2 Shareholders' Rights and Legal Protection

The legal regulatory system across countries plays a significant role in strengthening corporate governance levels within companies. This is because the level of a country's legal system determines the company level of corporate governance mechanisms, among which are the board structure, the ownership structure, transparency and discourse, board committees and their composition (Johnson, Boone et al., 2000; Denis & McConnell, 2003).

Ensuring and shielding the rights of shareholders is fundamental to good corporate governance, and must be an inevitable policy goal. Achieving and supporting the shareholders' rights incorporates various facets. Shareholders must be empowered to choose and change directors and to promote formally minority interests so that they are fairly represented on the board. Finally, shareholders should be provided with information pertaining to directors' votes on major issues regarding the firm's decisions (OECD, 2004).

The Cadbury Report (2002) specified how the UK Companies' Act recognised shareholders as highly ranked corporate members, who are always mandated to determine the required size and composition of boards at their general meetings. To be more specific, it is the responsibility of directors to exercise the powers granted to them by shareholders at the firm's board meetings.

Traditionally, the legal system in many countries is regarded as a growing process, which generally arises and reflects the traditions and cultural history of particular people. Most contemporary commercial law originated from one of two main legal systems: English common law and Roman civil law. The origin of civil law can be further divided into three main groups: French, German and Scandinavian. The majority of legal systems originate from one of these four legal systems (Denis & McConnell, 2003).

Some empirical studies have been carried out focusing on the impact of different legal systems on the structure and effectiveness of corporate governance across countries. In this regard, (La Porta et al., 1997; La Porta, De-Silanes et al., 1998) have pointed out the impact of country legal systems on corporate governance as well as shareholders' protection. They argue that countries with English Law (common law) have the strongest legal protection for minority shareholders compared to French Law countries, which offer the weakest protection. German Law countries fall in between in terms of investor protection.

Johnson et al. (2000) found that common law countries better protect their minority shareholders than civil law countries. In civil law countries, transactions are not assessed in terms of fairness to minority shareholders, but rather in terms of conformity with statutes. This system is likely to favour the majority shareholders, in terms of control, at the expense of minority shareholders' interests (Denis & McConnell, 2003).

La Porta et al, (1999, p. 4 ) clarify this issue, arguing that protecting minority shareholders is very important to good corporate governance. They state that "corporate governance is, to a large extent, a set of mechanisms through which outside investors protect themselves against expropriation by insiders". They further suggest that investors are confident and feel encouraged when the company develops effective rules to protect minority shareholders' interest and includes them within the legal and corporate governance framework (La Porta, De-Silanes et al., 1999).

This is confirmed by Klapper and Love (2004), who found that firm-level corporate governance provisions were more important in countries with weak legal systems since firms have sufficient flexibility to affect corporate governance. However, firm-level corporate governance is not a replacement for reform of the country-level legal system because governance indices are influenced by country-level legal protection.

Krishnamurti, Sevic and Sevic (2003) argued that companies with a high degree of control, and situated in countries with weak legal protection for minority shareholders, generally receive lower scores in corporate governance indices because they do not voluntarily improve their governance environment. In contrast, high control firms situated in countries with a strong legal protection for minority shareholders generally receive higher scores because they improve their governance by adopting measures to strengthen their discipline.

However, the differences in corporate governance across countries have not been fully explained by the legal approach. According to Licht, Goldschmidt and Schwartz (2005), in the counties that implemented several legal reforms to improve corporate governance practices during the 1990s, some of the changes were not successful.

They continue to argue that "at the turn of the millennium, commentators came to share the view that simply writing investors rights into the law is not enough, more fundamental issues must be confronted" (p. 8 ). This means that passing new laws protecting investors does not guarantee their application in improving corporate governance (Licht, Goldschmidt et al., 2005).

Furthermore, some empirical evidence underlines the importance of law enforcement in the development of financial markets. Among these researchers are Shleifer and Wolfenzon (2002), who argued that the enforcement of law and the structure of a society are much more important to effective investors' protection than mere existence of statutes. They suggest that legal rules are only a reflection of a broader societal stance.

Another area of relevant research is the Brazilian corporate law reform. Gorga (2003) studied the impact of economic incentives in Brazil, and the findings of this research indicated that the aim of Brazilian Corporate Law of 2001 was to provide efficient corporate governance practices and to promote market development. However, during the initial legal reforms, some important aspects were dismissed from the legislative process due to pressure mounted by rent-seeking groups.

Ultimately, it seems that the impact of a regulatory environment depends on the type and effectiveness of the legislation that is in place. For instance, flexible mandatory disclosure of rules tends to discourage investors from buying shares due to insufficient information about the companies (De-Jong & Semenov, 2002).

As a result, a debate has arisen among researchers on how legal change can be better advanced across countries. A number of researchers argue that there is a tendency to converge toward internationally accepted good corporate governance practices. O'Sullivan (2003) states that significant change has occurred in the governance systems in some countries, such as France and Germany. He, however, argues that controlling shareholders does not normally support legal reforms that would transfer their wealth to minority shareholders, and they are likely to lobby against this practice.

Therefore, it may be difficult to alter the country-level legal protection system, and it could take considerable time. However, it is possible to strengthen the organisational level of governance by implementing various strategies such as board monitoring and an audit committee.

In a nutshell, the legal mechanism varies from country to country. Corporations operating in a given country are affected by the existing legal mechanism despite its own corporate governance style. Changes in the regulatory system at corporate level do not affect the national legal system, but rather changes in the national legal system require strategic flexibility of corporate governance.

### 3.5.3 Board of Directors

Fama and Jensen (1983) noted that two roles are played by the board of directors in ensuring good corporate governance: decision-making and decision-control. Under the decision-making role, also known as the decision management role, the responsibility of the board is to act in the interests of its shareholders and the company as a whole by participating in and ensuring proper screening, selection and implementation of projects (Maharaj, 2009).

Although the first responsibility of directors is to increase value by protecting shareholders' interests, in law this is undefined and at worst unenforceable (Parkinson, 2002). Directors are always expected to act in the best interest of shareholders and to ensure their interests are aligned with those of managers.

In addition to that, they are required to avoid actions that promote self-interest and are expected to take into account the interests of others. Failure to align their interests with others might bring a negative impact on shareholders as well as affects the performance of the company as a whole (Parkinson, 2002; Tudway & Pascal, 2006). On the other hand, the

decision control process is achieved through monitoring and evaluating management decisions and implementations (Tudway & Pascal, 2006).

The board of directors is one of the various interrelated factors that contribute to the proper functioning of the corporate governance system (Abdel-Shahid, 2001). As a board of directors has crucial accountability for all the mistakes in the execution of company strategy, they serve two general functions (Monks & Minow, 2008). The first role of the board of directors (Jensen & Fama, 1983; Chen, 2008) is to advise managers about the overall strategy of the firm's business. This is also called the advisory function. The second crucial responsibility of the board is to monitor the general performance of each manager in a firm (Booth & Deli, 1999; Song & Thako, 2006; Monks & Minow, 2008).

In essence, the conflict of interest between shareholders and managers is known as the agency problem, and it always takes place during the decision-making process, when the managers ignore the main role of the organization (Mallin, 2007). Therefore, it is very important for shareholders to choose for themselves a board of directors composed of qualified people, who are concerned to make decisions that will benefit the company as a whole and increase shareholder value (Mallin, 2007; Solomon, 2007).

#### 1.5.3.1 Board Responsibilities

The board of directors is entrusted with roles and responsibilities which vary across countries and companies. According to the Western style model, the role of the board of directors is to protect the interests of shareholders, especially minority shareholders (Dahya, Karbhari et al., 2002). Their main tasks are to monitor managers and to require them to maximise the company value and shareholders' wealth (Denis & McConnell, 2003; Allen, Carletti et al., 2009). For example, in the US and the UK, boards of directors focus on maximising shareholders' wealth, while in other countries, such as Germany and Austria, the role is to maximise all stakeholders' wealth.

Monks and Minow (2008) suggest that the two duties to be exercised by the directors are loyalty and care. The first requires directors to display complete loyalty to the company's shareholders. Importantly, they should not act as directors in two different companies as this would constitute conflict of interests. This could also affect them in decision-making because they may not demonstrate equal loyalty to the owners of the two companies concerned. In

such cases, it is necessary that they understand this matter and be able to show that, in reaching a decision, they have considered all reasonable alternatives.

In the 1990s, several guidelines for corporate practices and codes of conduct were published. These were aimed at providing advice about "what is acceptable conduct and practice and to spread and reinforce high standards of corporate conduct" (McCabe and Nowak, 2008, p. 55 ).

In fact, due to the strategic role of boards of directors, corporate governance codes have strongly emphasised the role of boards in companies. For example, the "Principles of Corporate Governance", developed by OECD (2004) (April 1999, revised in June 2004), suggested some specific recommendations on how to make boards more effective. This included the optimum number of board membership and its composition and committees.

According to the UK Combined Code (2006), the role of the board is to provide skilful leadership designed with prudent and effective control mechanisms and aimed at both risk assessment and management. Furthermore, the UK Combined Code (2006, p. A.1) emphasised that some of the duties for the board of directors should include the following:

- "Directors should make decisions in an objective way and in the company's best interests;
- The board should have regular meetings, with an agenda;
- There should be a formal schedule of matters over which the board has the right to make decisions;
- There should be appropriate reporting procedures defined for the board and its sub-committees;
- All directors should have access to the company secretary and also be able to take independent professional advice
- Directors should receive appropriate training when they are first appointed to the board."

In Egypt, the corporate governance code on the board of directors stresses the importance of independent directors, separation between the chairman and CEO and the need to have a proper disclosure system (Egyptian Institute of Directors, 2005). The Jordanian code of corporate governance, furthermore, stresses the need to have different types of committees in order to assist the board to carry out its functions. The code provides

recommendations for increasing the effectiveness of some of the duties and responsibility of the board of directors (Central Bank of Jordan, 2007).

According to Mallin (2007), the board responsibilities are to determine the direction of the company by elaborating its aims, plans, policies and strategies for success. Maharaj (2009) emphasised the fiduciary role of the board of directors, where the latter not only has the legal power to oversee management operations, but also to determine the future direction of the firm. He further remarks that the board must be responsible for the overall well-being of the firm and is always expected to act in good faith with regard to the interests of the corporation and its stakeholders.

Petra (2005) identified two major characteristics that help the board fulfil its responsibilities: having a vigorous and diligent board of directors. They should be in a position to understand their responsibilities, such as evaluating and approving the corporation's long-term strategies; possessing a clear understanding of the position of the firm in the industry, and overseeing management performance.

#### 3.5.3.2 Board Structure

The structure of a board refers to its size and its composition as per the distinction between executive and non-executive directors, the separation of the CEO and board chair positions and board independence (Berghe & Levrau, 2004; Webb, 2004).

Nam and Nam (2004) state that the main determinants of effectiveness are board size and composition. Jensen (1993, p. 20 ) comments: "when boards get beyond seven or eight people they are less likely to function effectively and are easier for the CEO to control". In addition, Lipton and Lorsch (1992) recommended a preferred size of eight or nine with a limit of ten people.

Nam and Nam (2004) argue that the size of the board should be large enough to ensure expertise flows from the many members. He, however, cautions that the board should not be so large as to make free discussion impossible among directors.

However, Salmon (2000) suggests that eight and fifteen members would constitute a good board for large companies. He believes that with fewer than eight members, boards are more exposed to difficulties when formulating, for instance, audit, nomination and compensation committees.

In terms of board composition, Xie, Davidson and DaDalt, (2003) suggest that the board may consist of three types of board members: inside, grey and outside directors. Inside directors are employed by firms in an executive or operational capacity, whereas outside directors have only a relationship with the firm or executives through the board of directors. Outside directors should be independent directors who have no affiliation with the firm other than membership of the board of directors.

The third type, grey, is outside directors who have some relationship with non-board members. They are, for example: relatives of management; consultants to the firm; involved in other related party transactions; affiliated to the firm's banks; lawyers receiving a fee income; retirees of the corporation; or engaged in investment banking, which may impair their real and perceived independence (Beasley, 1996; Carcello & Neal, 2000).

According to Fama and Jensen (1983), independent directors are considered better overseers than other directors because they tend to demonstrate their expertise in decision-making, control and monitoring and evaluation. Solomon (2007) states that a good board composition should include a minimum of three independent directors capable of influencing the members' decisions. The contribution that independent directors could make during board decision-making meetings is of special importance in setting and maintaining well balanced standards of a firm's corporate governance (Mallin, 2007).

Another important issue of board composition, which contributes to its independence, is the separation of the positions of chief executive officer (CEO) and chairman of the board (Webb, 2006). Jensen (1993) suggests that "duality" reduces the monitoring power of the board of directors. Thus, a board with individuals controlling the firm is more likely to protect shareholders from agency problems.

In addition, the OECD (2004) states that the CEO and chairman positions should be separated for an effective monitoring system, since the CEO is mainly responsible for corporate management, whereas the chairman is the head of the board of directors, which monitors management. Therefore, the prevention of duality of CEO and chairman may guarantee the equality in authority between the two people, so as to avoid excessive powers of decision-making by either individual (Webb, 2006).

The investigations by Kaplan and Minton (1994) of the effectiveness of boards in Japan, revealed that appointments of outside directors increased following poor stock

performance and earnings losses. They further found that the appointment of outside directors was a characteristic of firms with significant bank loans, concentrated ownership, as well as a firm's members of a corporate group. Additionally, the results showed that outside directors are very important in corporate governance.

An examination of the UK code of practice by Dahya and McConnel (2005) recommends that boards of UK corporations should include at least three outside directors. It also advised a split between the chairperson and CEO with regard to the positions they held within the board. Additionally, Long (2006) investigated the UK code of corporate governance and shareholder expectations that have led the boards of directors to demonstrate effective leadership, quality decision-making processes and the ability to exercise corporate controls. The results indicated that the board structure and composition, as well as its non-executive independence, were the indicators shareholders and stakeholders focused on as a measure of effectiveness.

McCabe and Nowak (2008) examined the views of directors of companies listed on the Australian stock exchange regarding the role of the independent director. The results indicated that the directors who participated were persuaded that many of the non-executive directors provided a protection of relationships between managers as well as the balance of power in the board.

Abor and Adjasi (2007), who conducted a study on Ghanaian corporate governance structures, argued that while the existence of external independent directors on boards improved corporate governance structures, their presence also increased company competitiveness and provided new strategic thinking.

In Bahrain, Hussain and Mallin (2003) examined corporate governance by analysing the board structures of companies listed on the Bahrain Stock Exchange Market. They employed a survey questionnaire. Their findings revealed that non-executive directors dominated the board composition. Moreover, the key factors which influenced the appointment of these directors related to relevant skills, business experience and reputation. The average board size is nine, with the insurance sector respondents having the largest average number of directors, eleven. More importantly, they found that Bahrain does not have a corporate governance code.

### 3.5.4 Board Committees

A number of studies and regulatory bodies have indicated that corporate governance codes should regulate companies to establish necessary committees, which are required by the stock markets in which the companies are registered (Vafeas, 1999; Spira and Bender, 2004; Chhaochharia & Grinstein, 2007; Minichilli, Gabrielsson et al., 2007).

There are several types of board committees, but the most common are nomination, audit and remuneration committees. These are of a great importance in that they contribute to the performance of the board. This is necessary given the various tasks, duties, functions and responsibilities of a company's board of directors. It is evident that most lateral committees derive from the board and are temporarily delegated some authority to exercise the functions, duties and responsibilities of the directors (Spira & Bender ,2004; Minichilli, Gabrielsson et al., 2007) There are many other board committees which should not be ignored in a corporate governance system. These include the committee on information technology, the committee on governance, the committee on risk and the environmental committee.

However, regardless of the many possible committees which may be incorporated in a corporate governance mechanism, this study will focus on the role of audit, nomination and remuneration committees.

#### 3.5.4.1 Audit Committees

The focus on audit committees has drawn the attention of both regulatory bodies and researchers, especially after international companies faced failures and financial troubles (McMuUen, 1996).The need to formulate audit committees as a corporate governance mechanism was in response to the fact that they inspire and increase the transparency and trust of the financial statements that are produced by companies (Piot and Janin, 2005).

In the UK, the Cadbury Report in 1992 recognised the role the audit committee plays in making sure that financial reports produced by their companies represent a fair valuation of the company's affairs, and are of high integrity. Furthermore, the Turnbull Report issued in 1999, confirmed the audit committee's importance and the key role it plays in improving and supporting the controllability of the internal corporate system.

In addition to this, the Smith Report, which was issued in 2003, recommended that companies should stipulate the role and responsibilities of audit committees in their annual

reports. It further suggested that the audit committees should publish an annual report which described the duties that were performed by each of the members in the course of the fiscal year.

In the USA, the Sarbanes-Oxley Act in 2002 determined the method of audit committee formulation and its duties. It suggested that corporations which have securities circulating in the stock exchange market should be obliged to have an audit committee because of its importance with regard to corporate governance.

Pomeranz (1997) suggests that the audit committee is being recognised as vital to an entire board, with whom it works in collaboration. Moreover, Smith (2003, p. 22) claims that the "benefits of the audit committees as corporate governance mechanisms are not only limited to increasing the level of assurance of corporate performance, or rule out catastrophic failure and gross malpractice; it also often incorporates elements that help to improve the overall standard of corporate governance of implementing company".

Corporate governance recognises the audit committee as an important aspect of the corporate governance mechanism process. Klein (2002) argues that if it is possible to improve corporate governance, then there is a need for the firm's corporate mechanism to have an active audit committee, which is deemed to be independent.

In the paper of the Basel Committee on internal audit in banking organisations and the relationship of the supervisory authorities with internal and external auditors, it was recommended that constituting an independent and permanent audit committee is a probable solution to meeting practical challenges arising from the board of directors' responsibilities to ensure the protection of an adequate system of internal corporate controls (Basel Committee, 2002).

Steinthorsdottir (2004) credits audit committees for assuming the responsibility to represent boards of directors on very important matters related to financial information reporting, auditing and the overall mechanism of corporate governance. Shareholders' interests are protected by audit committees as they monitor the entire management system, including both the external auditor and the internal auditor (DeZoort, 1997).

Several studies have listed the numerous functions and responsibilities that should be performed by an audit committee. These functions have been classified under three main

board categories of oversight of the financial statements, the external auditor process and the internal control system (Piot & Janin, 2005; Zain & Subramaniam, 2007).

In addition, Pickett (2005, p. 39) listed other components that may be incorporated in the role and responsibilities of the audit committee. These are listed below:

- "To review the external audit process and make recommendations to the board where appropriate;
- To consider the annual accounts and the external audit report that attaches to these accounts;
- To consider the adequacy of systems of internal controls;
- Involvement in the appointment of the internal auditors and ensuring that the internal audit function operates to professional standards;
- The audit committee will ensure that there is an effective system of risk management within the organisation;
- An oversight of systems and procedures is in place to ensure compliance with regulations, policies, laws and procedures and the organisation's code of conduct;
- To consider the finances and expenditure of the organisation and ensure that there is a good financial reporting and budgeting system in place".

In most countries, the role and responsibilities of the audit committee are usually and clearly stated by accounting regulatory bodies and codes of corporate governance. However, it is evident from most previous studies that for the audit committees to be effective and efficient, they must be influenced by their formulation and the working conditions that are availed to the committee members (Carcello & Neal, 2000; Abbott, Parker et al., 2003).

Among the very important working conditions, that should be available to audit committees, is that its members are experts in financial matters. Also, they should work independently given their responsibility for monitoring corporate financial information. In practice, it is recommended that membership of the audit committee should be limited to non-executive directors, due to their independence with regard to corporate management (Abbott, Parker et al., 2003).

Carcello and Neal (2003) state that if audit committees members are independent of corporate management, they are likely to be more effective in protecting the credibility of a firms' financial reports. Additionally, Abbott (2003) states that since audit committee members have a greater concern for maintaining their reputation and integrity than non-independent directors, they are more efficient and effective. It is evident that firms with

independent audit committees are more likely to select external auditors, who are specialists in that company's industry, in order to enhance audit quality (Abbott and Parker, 2000).

Additionally, the results of different surveys by Raghunandan, Read and Rama (2001) on the relationships between audit committee members and internal auditors, indicated that independent audit committees were more likely to have a good working relationship with internal auditors compared to audit committees dominated by executive directors.

The accounting and audit expertise held by members of the audit committee is another important aspect that is fundamental to efficiency and effectiveness, given their responsibility for monitoring corporate financial statements. Furthermore, DeZoort (1997) states that it should not be mandatory that members of the audit committee are independent of a company's management. Rather, expertise in financial matters should be more emphasised.

In the USA, the Sarbanes-Oxley Act established a number of fundamental requirements for members of the audit committee. He or she should be an expert external auditor or accountant, or qualified in the field of auditing and accounting. Such a person should also be conversant with generally accepted accounting principles (GAAPs), familiar with the preparation of financial statements and knowledgeable of the roles and responsibilities of the audit committee.

A number of studies have focused on the importance attached to the expertise of audit committee members, external auditors and internal auditors. A survey on members of audit committees by DeZoort (1997) found that the respondents unanimously confirmed the necessity of financial and accounting expertise. The general belief was that all audit committee members should be familiar with matters of accounting and auditing oversight areas, in addition to issues relating to the law.

The results of a survey by Kalbers (1992) on external auditors and internal auditors indicated a high degree of agreement between both groups with regard to audit committee members' expertise. A survey by Raghunandan et al. (2001) of chief internal auditors noted that of all audit committee members, at least one member possessed or had familiarity with accounting or finance matters.

A study by DeZoort (1998), on a sample of 87 audit committee members involved in an assessment task, investigated the influence of audit committee members' expertise on the

quality of their work. It was found that an audit committee whose members had experience in financial matters made better assessment compared to less experienced audit committee members.

An experiment conducted by DeZoort and Salterio (2001) to examine the association between audit committee expertise and the ability to resolve auditor and management disputes, found that audit committee members with more experience, especially accounting expertise, and familiarity with auditing procedures, would not be pressured to support management when a dispute arose between the latter and auditors.

#### 3.5.4.2 Nomination Committee

As discussed earlier, one of the fundamental committees related to the board of directors in corporate governance is the nomination committee. The appointment, development and retention of boards of directors are of great importance in corporate governance. Companies are required to be objective in decisions pertaining to the selection process of directors. According to Jackson, Farndale and Kakabadse (2003), the board of directors needs to be made up of members with a balanced portfolio and appropriate business skills. Therefore, the nomination committee is required to assist the board in the process of employing qualified individuals with the necessary skills to perform corporate responsibilities.

In the USA, the NYSE Corporate Governance Rules (2004) emphasised that all listed companies should have a nominating committee, which entirely consists of non-executive directors. The committee must have written guidelines that include its roles, goals and responsibilities and the modalities of the committee's annual performance evaluation. The committee's rationale must at least include:

- The search for qualified individuals to serve on the board of directors.
- The recommendation of the identified nominees to the board for the next annual general meeting.
- The formulation of a set of corporate governance principles approved by the board and which were to be followed by the company (NYSE, 2004).

In the UK, great importance is attached to the nomination committee with regard to the appointment of directors. A report by Higgs (2003), further based on the Combined Code recommendations, advises appointment of a nomination committee with a majority of independent directors. The recommendations suggest that the nominating committee should be preferably led by a chairperson, who is an independent director.

While a fundamental duty of the nomination committee is the appointment of new directors, it also serves the purpose of developing and retaining the directors already serving on the board. It is additionally tasked with evaluating the qualities of the individual directors and assessing the effectiveness and efficiency of the board, including their skills, technical knowledge and expertise in corporate governance mechanisms (Higgs Report, 2003).

#### 3.5.4.2 Remuneration Committee

Kiel and Nicholson (2003) presented board compensation as another feature that is considered an essential area of discussion. Wan-Hussin (2009) also recognises the important role played by the remuneration committee in solving some issues associated with the directors, such as retirement benefits, bonuses and share options.

The expectation and requirement of the remuneration committee is to design strategies guiding the firm-specific executive compensation. These must be in line with the overall corporate strategy (Rowe and Liu, 2010). In the USA, the rules of corporate governance require all companies listed on the stock exchange to have a compensation committee consisting wholly of independent directors. This latter process is similar to the appointment of the nominating committee (NYSE, 2004).

Additionally, it is a requirement for the compensation committee to have a written license called a charter that shows the purpose, goals and responsibilities of the committee as well as its annual performance appraisal. The duties and responsibilities of the committee should at least comprise the following:

- To review and approve the overall corporate objectives that are importantly linked to CEO remuneration, and to relate the CEO's performance appraisal with these objectives in order to decide the CEO compensation; and
- Look at non-executive remuneration committee recommendations and plans concerning inducement and equity-based compensation (NYSE, 2004).

The Combined Codes (2006) in the UK emphasises that the remuneration committee should be exclusively composed of independent non-executive directors. The responsibility of this committee is to determine the salaries and other benefits of directors and senior management. Furthermore, the Combined Codes provide that the committee should make all possible disclosure regarding its terms of reference and whether or not external consultants are used (The Combined Codes, 2006).

Researched was conducted by Conyon (1997) on the influence of remuneration committee adoption in UK companies. The findings revealed that in some cases the adoption of such a committee reduced the growth rates in top director remuneration. Further findings by Conyon and Peck (1998) suggest that the influence of outside directors on remuneration committee decisions augments the pay-for-performance sensitivity.

In comparison, some other studies in the US by Anderson and Bizjak (2003) revealed insufficient results as regards the influence of remuneration committee independence on the level of CEO pay. Recently, Sun and Cahan (2009) investigated the same topic and attempted to give explanations for the mixed. findings. While other researchers only focused on committee independence, Sun and Cahan (2009) used a broader and richer measure of remuneration committee quality. The results of the study showed that for all US companies with fully autonomous remuneration committees, the governance quality of the committee had a direct relationship to the sensitivity of CEO remuneration to accounting performance.

### 3.5.5 Internal Audit

The Cadbury Report (1992) considered the internal audit mechanism to be a good practice of corporate governance, which helps companies in setting up internal audit functions for monitoring and evaluating the different key controls and procedures to be used in an organisation. The report recommended that regular monitoring is very important for a company's internal control system, and that this contributes, to a large extent, to its effectiveness. The Cadbury Report requested that the internal audit function should be there to carry out all necessary investigations on behalf of a firm's audit committee. It also made clear that the chairman of the audit committee should be available whenever needed by the chief internal auditor. This ensured independence of their positions as they need each other to work effectively.

Recently, a revised definition of internal auditing was approved by the Institute of Internal Auditors (IIA). In the approved definition, internal auditing was referred to as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes"(The IIA, 1999, p. 2).

With this new definition, it may be argued that there is a certain improvement in the new concept of internal audit compared to the old concept. Whereas the old concept assumed that the internal audit function added value to the organisation as a whole by improving its operations, and evaluating and increasing the efficiency and the effectiveness of the its operations, with emphasis on risk management and the control of the entire governance processes (Goodwin, 2004), the new definition of the internal audit function changed its role to a value added function as well as a management consulting function.

Rolandas and Romas (2005) indicate how organisational changes have significantly impacted the organisational internal audit function. These changes have enabled the use of the internal audit function by management as an appropriate tool in decision-making. It is now evident that the audit committee, internal auditors together with management, and external auditors are considered the foundation on which efficient and effective corporate governance must be built.

In this respect, Frederick (2004) points out that both internal and external auditors have to play their essential roles for the firm's governance to work effectively. He further states that the auditors should assure the directors as well as management on the truthfulness of financial statements as well as the extent of internal controls.

After a succession of scandals, especially subsequent to times of recession, it is not surprising that the auditing profession becomes the centre of all sorts of criticism (Percy, 1997). Sarens and Beelde (2006) argue that a change has been noticed in internal auditing after the recent failures in corporate governance and accounting scandals in both the US and the UK.

The Turnbull Report (1999) identifies the following criteria as the basis of an effective Internal Audit:

- Assurance that the management processes are adequate to identify and monitor significant risks.
- Confirmation of the effective operation of the established internal control systems.
- Credible processes for feedback on risks management and assurance.
- Objective confirmation that the Board receives the right quality of assurance and information from management and this information is reliable.

According to Daykin (2006), the internal audit is considered a key element of a good and effective corporate governance structure. It is important to mention that the IIA's definition of internal auditing states that the profession is essential for evaluating and refining the effectiveness and efficiency of a company's governance mechanism (Daykin, 2006).

Pickett (2005) believes that importance is increasingly being placed on the expanded roles of internal auditing in ensuring high quality corporate governance mechanism. It is also useful to recognise that the IIA has already changed its Standards for the Professional Practice of Internal Auditing. These changes, primarily, place emphasis on the merits of planning and communication, information technology, mode of governance and consultation procedures (Pickett, 2005).

It is mandatory that internal auditors contribute to corporate governance processes by assisting the directors and management, and helping them in activities which will help to improve the board's relationship with corporate management and external auditors. They should also serve the purpose of an educational recourse regarding trends in the business and the legal environment (The IIA, 2009).

It is commonly recognised that the internal auditing function is one of the most fundamental in the corporate governance mechanisms. Applegate (2003) indicates that internal auditors offer a unique and independent point of view on the quality of financial disclosures that was different to corporate accountants or external auditors. In this regard, Orsini (2004) identifies clearly, at strategic level, the shift of focus by internal auditors, in a move that better evaluates and contributes to the improvement of the corporate governance process.

It is worth mentioning that the interactions between internal auditing and the audit committee are of paramount importance in sound corporate governance. Empowering the two mechanisms can enhance the quality of corporate governance and strengthen the organisational development (Bishop, Hermanson et al., 2000).

### 3.5.6 Disclosure and Transparency

According to Abdel Fattah, Dixon, and Woodhead (2008), disclosure and transparency are essential in any corporate governance model. There are two categories of information, namely, voluntary and mandatory. Mandatory disclosure encompasses all information which must be revealed in accordance with rules set out by, for example, the Companies Act, stock exchange regulations and accounting standard boards (Akhtaruddin, 2005; Cheung, Jiang et al., 2010). In comparison, voluntary disclosure is described as release of financial and non-financial information through annual reports regardless of the requirements by the regulatory bodies (Barako, Hancock et al., 2006).

For Healy and Palepu (2001), the term disclosure defines the various forms of information that a company produces, this being annual reports, such as the director's statement, the income statement, balance sheet, cash flow statement, statement of owner's equity and other mandatory items. It also encompasses all forms of management voluntary communications, such as forecasts, presentations, the AGM, press releases, information placed on company websites and other reports, such as corporate social responsibility disclosure.

Nam and Nam (2004) give two main reasons that are crucial for timely disclosure of accurate information on important firm-related matters, and which protect shareholders' rights. First of all, shareholders need to have accessibility to information about important corporate matters in order to make crucial decisions meant to protect their interests and rights. Secondly, information disclosure is of great importance in preventing managers from making sub-optimal decisions and dominant shareholders from engaging in activities that are detrimental to minority shareholders rights.

Given the disclosure role, managers and dominant shareholders will be more hesitant to engage in sub-optimal activities when they anticipate that shareholders will come to know about their dealings and may take corrective action against them. Additionally, failure to disclose information about illegal activities by managers and dominant shareholders will put them under the risk of violating corporate laws (Nam & Nam, 2004).

According to Healy and Palepu (2001), corporate disclosure is very crucial for the smooth functioning of an effective and efficient capital market. Where markets operate

freely, full disclosure will be of great help to users by allowing them to make informed decisions and also by enhancing the preconditions of an open competitive market.

Solomon (2007, p. 143) states that "transparency is an essential element of a well-functioning system of corporate governance... corporate disclosure to stakeholders is the principal means by which companies can become transparent".

Chen,Chung, Lee and Liao (2005) argue that information asymmetry is a result of companies which adopt poor information disclosure and do away with transparency practices. Since information irregularity is a result of poor corporate governance, liquidity providers will incur reasonably higher unfavourable information risks and will, therefore, put forward higher irregular information mechanisms in their effective bid communication.

Bushman, Piotroski and Smith (2004) assert that corporate transparency can be classified into two categories: governance related transparency and financial related transparency. They believe that financial transparency concerns the integrity, intensity and timeliness of financial reports, while governance transparency deals with corporate governance disclosures that help outside investors and other stakeholders to hold officers and directors accountable.

Patel and Dallas (2002) stressed that a measure of corporate governance transparency, which was provided by the Transparency and Disclosure of Standard & Poor's (S&P) in 2001 and 2002, is based on the amount of corporate governance-related disclosures. Three types of disclosures are suggested: (1) ownership structure and investor rights; (2) financial transparency and information disclosure; and (3) board and management structure and mechanisms (Patel and Dallas, 2002).

The Basel Committee guidance on bank transparency (2006) acknowledged that transparency is very important for efficiency and effective corporate governance. "It is difficult for shareholders, other stakeholders and market participants to effectively monitor and properly hold accountable the board of directors and senior management when there is a lack of transparency. This happens in situations where the shareholders, other stakeholders and market participants do not receive sufficient information on the ownership structure and objectives of the bank with which to judge the effectiveness of the board and senior management in governing the bank" (Basel Committee, 2006, p. 15).

Although there are different codes and approaches regarding corporate governance, transparency aims at ensuring that all major stakeholders have access, on a regular basis, to reliable information about the value of their firm. The aim is also to inspire corporate managers to maximise the value of the firm rather than pursue sub-optimal objectives (Anand, Milne et al., 2005).

A study by Collett and Hrasky (2005), furthermore, on Australian listed companies, found that voluntary disclosure of corporate governance practices was basically driven by the fact that it attracted shareholders to raise more equity capital. Archambault and Archambault (2003) identified that culture, the country's political and economic mechanisms, was the basis for developing a model for predicting levels of corporate disclosure.

**3.6 Corporate Governance Practices in Developing Countries**

The corporate governance mechanisms described in the previous section, which have reduced the possibility of mismanagement arising from fraud or errors and increased the investors' confidence in developed market economies, have not worked as well in other parts of the world, particularly in developing countries (Okeahalam &Akinboade, 2003; Black & Khanna, 2007). Developing countries have a weaker market for corporate control (Gibson. 2003; Singh. 2003), more concentrated ownership ((Shleifer & Vishny. 1997), stronger political connections (Johnson & Mitton. 2003; GUL. 2006), significant family and government ownership in publicly listed companies (Young, Peng et al.. 2008), and ineffective shareholder rights protection (La Porta, De-Silanes et al.. 1998).

In addition, Samaha (2010) argues that developing countries are very different between themselves. Specifically, they are an amorphous and heterogeneous group, showing diversity in many respects. Samaha (2010) accounts for this diversity. First, the group includes countries in different geographical locations (Oceania and Eastern Europe, Latin America, Africa, Asia and the Middle East). Secondly, these countries are at different stages of political development and have adopted conflicting economic philosophies. The list includes countries which were colonised (e.g., Mozambique) and former imperial countries (e.g., Portugal), communist and capitalist governments and, further still, countries which changed from capitalist economies to communism and then back again (e.g., Egypt). Thirdly, developing countries are at different stages of economic development. Included are the

rapidly industrialising countries like Hong Kong and Singapore, and those with rich natural resources like Kuwait and Angola, or poor in natural resources such as Tanzania.

In terms of Libya itself, there were not any relevant literature addressing corporate governance in Libya, and to some extent this reflects both the novelty of this concept for Libyan society, and the difficulties faces by Libyan institutions in grafting a system of corporate governance onto a business environment with almost no history of independent management, shareholder rights or concepts such as the protection of the interests of stakeholders. It is difficult to compare Libya with other developing countries, because its economic development is highly unusual. While its progress from colonial control, through a brief period of constitutional monarchy to a long stage of authoritarian socialism on to a relaxation of central control and movement towards a free market is by no means unique, what makes Libya different is its relatively small population, vast area and the enormous oil wealth that has sustained its outmoded institutions through periods of recession as relatively unchanged.

Until very recently, Libya was characterised by stasis and immobility, and therefore comparisons with other developing countries, even within the Arab, oil-wealthy nations of the Middle East, is problematic. Studies conducted in such countries, such as that of Al-Ajlan (2005) in Saudi Arabia, suggest that while attempts have been made to introduce corporate governance practices, the effects are mainly superficial and that the concepts central to the practice of corporate governance alien to the culture into which they have been transplanted. In Libya, the private sector and the Libyan Stock Market and nascent institutions with no history of administration to draw on, and that, nearly three years after its launch, only the founding eight companies are still the only ones listed on the LSM, is illustrative of the enormous task facing Libya in developing a flourishing private sector, let alone a code to govern it. Libya is in the position of attempting to enforce international standards developed over decades, even centuries of corporate evolution, on companies that until recently were under the control of a tightly planned economy. These issues underscore the novel nature of Libya as a research environment and support the rationale for its selection as the locus of this research.

However, it would be inappropriate not to make reference to the literature derived from countries in the developing world and from countries some commentators regarded as

relevant because they refer to transition economies. This material assists in providing a more holistic view and ensuring that a firm foundation for this research is established.

Nam and Nam (2004) investigated corporate governance practices in four Asian countries, namely, Indonesia, Korea, Malaysia and Thailand, by employing a questionnaire survey. Their sample consisted of 307 companies listed on these four countries' stock exchanges and covered seven selected industries. In addition, the main participants in this opinion survey were directors and executive managers.

Their results showed that the rights of shareholders in these countries were relatively well protected because they were allowed to participate in decision-making and other activities. Board sizes varied significantly among the sample countries, with the median being 12 in Thailand, 8-10 in Malaysia, 6-7 in Korea and 4 in Indonesia. The share of independent directors on boards is typically between 25% and 50%. Unlike in Korean companies, the CEO position and board chairman are separated in more than 80% in the other three remaining countries. Moreover, the board is weak at selecting, monitoring and replacing CEOs in all four countries. Finally, they concluded that the quality of corporate governance is generally poor in these four Asian counties.

Another Asian countries study was conducted by McGee (2008), who examined the application of corporate governance principles, as identified by, the World Bank, IMF and the OECD, in eight selected Asian countries (Vietnam, Malaysia , Philippines, Pakistan Korea, Thailand, India and Indonesia). His study focused on the main issues of corporate governance practices, that is to say, shareholder rights, board responsibilities and structure, auditing and accounting, transparency of ownership and control. The major finding indicated that corporate governance practices in these countries were still weak, which meant they all were facing challenges in applying their own corporate governance guidelines.

In Thailand, Limpaphayom and Connelly (2004) investigated governance practices in the areas of effectiveness of boards of directors, shareholder rights, and the role of stakeholders by employing a survey questionnaire. Their study was conducted using a sample of 61 Thai companies in eight sectors. Their results demonstrated that ownership is highly concentrated in more than 50% of the sample. While more than half the firms are stand-alone companies, slightly more than one fourth has ties to a family group or holding company.

Though very few of the companies surveyed are even partially owned by the government, many have a significant foreign-ownership stake.

In Malaysia, Sori and Karbhari (2006) examined the impact of four corporate governance programmes on auditor independence from the perspective of Malaysian auditors, loan officers and senior managers of public listed companies. Questionnaire and interview surveys were employed in order to ascertain the respondents' views on these issues. Their results documented that auditor independence would be safeguarded in the following: the compliance with the Financial Reporting Standards (FRS) of the Malaysian Accounting Standard Board (MASB) was legally mandated; the establishment of the Malaysian Institute of Corporate Governance (MICG); the establishment of the Minority Shareholders Watchdog Group (MSWG); and the implementation of mandatory director accreditation training programme (MDATP).

Solomon, Lin, Norton and Solomon (2003) investigated current corporate governance practices in Taiwan. They employed questionnaire surveys to examine the attitudes of board of directors on the role and function of its members in Taiwanese listed companies. Their findings suggested that the most important factor in Taiwanese corporate governance was the board of directors and the role played by outside directors. Furthermore, they provided that the important role played by outside directors supported the agency theory perspective on corporate governance as the responses considered the existence of outside directors' improved corporate accountability to shareholders. Finally, their results revealed that few Taiwanese companies had established remuneration and audit committees.

In the Philippines, Wong (2009) conducted investigation on the various reforms of corporate governance in the Philippines after the adoption of the 2002 Code of Corporate Governance issued by the Philippine Securities and Exchange Commission. The study found that the Philippines have not been short of reforms or lacking in laws that promote corporate governance. However, there are two inherent weaknesses in its legal and regulatory framework that critically impedes the progress of the various governance initiatives. One of the more prominent weaknesses is the enforcement power of regulatory bodies. This is primarily due to the lack of funding and qualified personnel. Likewise, the Philippine judiciary system remains ineffective in protecting the rights of shareholders and minority interest as it continues to be slow issuing final resolutions and decisions on cases. The light

sanctions for non-compliance and the absence of serious penalties associated with fraud are further major hindrances.

In the Indian banking sector, Gupta (2008) examined the practices of corporate governance in six public and four private banks. The study found that the Indian corporate governance of the banking sector was at a formative stage compared to developed nations. Therefore, it needs more transparency and disclosure mechanism in order to avoid even the slightest of financial irregularities. The results also revealed that there was no significant difference in practices of corporate governance by public sector banks and private sector banks. Finally, the compliance of certain non-mandatory requirements by some banks suggests that they were quite serious in bringing about effective implementation of corporate governance practices.

In Eastern European countries, Duca et al., (2007) evaluated the institutional and legislative progress made in Romania during the last years in terms of corporate governance, the challenges facing this process and proposals for improving the corporations' administration practices. Their findings provided a picture of the current state of corporate governance in Romania. The results indicated that most of the companies consider the adoption of corporate governance principles as complicated because it involves change in the company's memorandum of association and huge legal and financial-accounting consultancy expenses. In addition, in the emerging economies, similar to Romania, the corporate governance standard of a company is not so important to the funds suppliers, whether they are banks, investment funds or individual investors. For this reason, companies do not feel rewarded in any way for making efforts to improve their administration practices.

In Latin America, Arce and Robles (2005) conducted a survey to determine the status of corporate governance of Costa Rican companies. The study estimated corporate governance charter measures using firm-level data for 87 firms. Their results suggested that firms must implement a set of additional measures to compensate for the weakness of the legal environment. Also, they concluded that better practices were associated with publicly traded firms (not family owned), using foreign capital, and members of a Free Zone enterprise.

Alberto Chong and López-de-Silanes (2007) conducted a cross-continent investigation using a corporate governance index in six Latin American countries (Argentina,

Brazil, Chile, Colombia, Mexico and Venezuela). This study employed a questionnaire survey as a method of collecting data. The questionnaire covered corporate governance principles and the target respondents of this questionnaire were the board members of each company. Their key findings indicated that, first, the countries under analysis suffered from a generally lower level of legal protection, which weakened the region's capital markets. The poor enforcement levels of their laws constituted a key challenge to effective corporate governance practices in this region. Secondly, there was low corporate governance practice in these countries, in general, and wide variation in the practices across firms within each country.

Black, Carvalho and Gorga, (2008) provided an overview of the corporate governance practices of Brazilian private listed companies. They used a corporate governance index and employed a questionnaire survey, which was sent to 116 private companies. The main findings indicated that corporate governance in Brasilia was considered relatively weak. They found that the boards of most Brazilian companies were almost completely comprised of insiders or representatives of the controlling family or group, and many companies had no independent directors. However, the minority of shareholders have legal rights to representation on the boards of many companies. In addition, financial disclosure was poor in many companies due to the lack of adoption of international accounting and auditing standards. Audit committees were also uncommon.

As regards the Latin American banking sector, Geller (2009) conducted a study of Brazil, Chile, Colombia, Peru and Mexico, focusing on the characteristics of 198 directors in a sample of 17 banks in the period between 2001 and 2007.

The study found a low proportion of female directors (5,6%), a high proportion of directors with previous banking experience (76.5%) and with previous education in finance, economics or accounting (52.5%), and a high proportion of directors with higher levels of education from abroad, mainly in the US, followed by Europe. Also, Geller's results revealed that the board sizes varied from a minimum of 4 directors to a maximum of 17; the average size in the sample was 9.62 directors. However, the proportion of bankers in relation to total directors was 76.89%, and the proportion of independent directors who have banking background in relation to total directors was 30.85%.

Turning attention briefly to the African continent, Nganga, Jain and Artivor (2003) evaluated the state of corporate governance practices in nine countries: Kenya, Mauritius, Egypt, Morocco, Tunisia, Ghana, Nigeria, Zimbabwe and Botswana. Their study focused on the shareholder rights and their equitable treatment, the law and regulation, accounting and disclosure and board of directors. The main finding of this study was that there was a high level of ownership concentration, where owners (mainly multinational firms and family interests) on most stock markets. Moreover, the legal and institutional protection to the minority shareholders was still weak, especially when investing alongside governments and family interests. This was due to the lack of efficiency and enforcement of laws. In addition, their results indicated that the majority of countries have enforced governance requirements, introduced a 'Corporate Governance Code of Best Practices' and adopted International Accounting Standards (IAS) or standards with similar disclosure requirements.

Okike (2007) examined the mechanisms for corporate governance, including the Code of Best Practices, in Nigeria. In particular, he examined the roles of the government, the Corporate Affairs Commission, the Securities and Exchange Commission, the Nigerian Stock Exchange, the "representatives of the shareholders of the company", directors, auditors and audit committees within the corporate governance framework. His findings indicated that despite the government efforts to initiate an effective system of corporate governance by changing company legislation and establishing the Code of Best Practices for all Nigerian listed companies, the effectiveness of the corporate governance mechanisms is still in doubt, due to the fact that the enforcement mechanisms are weak.

In Uganda, Musaali (2005) evaluated the current state of affairs after the various efforts to enhance corporate governance were made by many organisations – including the Bank of Uganda, the Institute of Corporate Governance of Uganda and the Capital Markets Authority – and to introduce Ugandan Corporate Governance Guidelines in 2003. His study revealed that the majority of the firms did not adhere to corporate governance standards, and that only 42 % of the companies had board committees. The roles of board chairman and the CEO were also combined; 43% of the companies had a board chairman who also doubled as the CEO. There was a high level of compliance with the requirement to have audited accounts. However, this was attributed to the requirement also for audited accounts for tax purposes. Hence, the survey revealed that 99% of the firms had accounts that were audited by an external auditor.

Wanyama, Burton and Helliar (2009) also investigated views about corporate governance practices in the developing African nation of Uganda. Their findings indicated that corporate governance standards in developing countries may appear on paper to be broadly similar to those in developed countries, however, a common perception exists that Ugandan frameworks were not yet strong enough to support what might normally be considered to be "good" practice. Furthermore, their results also suggested that attempts to improve governance standards in a particular nation require more than the simple publication of codes of best practice. Root and branch changes are needed in a wide range of areas, including at political and cultural levels, in order to provide the conditions in which meaningful improvements in corporate governance will occur.

In relation to Arab regions, the IMF published Reports on the Observance of Standards and Codes (ROSC), entitled 'Corporate Governance Country Assessment', in Morocco (2003), Egypt (2001; 2004) and Jordan (2004). The key findings of these studies are that the legal and regulatory frameworks in most assessed Arab countries seem to be largely compliant with the OECD principles of corporate governance. However, practices are not due to the inefficiency and weakness of enforcement. Also, the results revealed that the issues of corporate governance have not been ignored in public debates in the region. Practitioners from capital markets, banks, public and private sector representatives and other civil society groups have accepted the need to address corporate governance reforms as one of the crucial topics affecting the economic growth and development of firms, industries and whole economies in their region.

In Egypt, Fawzy ( 2003 ) evaluated corporate governance rules, laws and standards in accordance with the five OECD principles. The results revealed that Egypt's corporate governance standards improved significantly, as reflected in the overall assessment of all five OECD principles.

The degree of progress, however, varied from one principle to another. Also, the study pointed out that Egyptian companies were still far from properly implementing corporate governance principles.

In addition, Dahawy (2008) conducted a study which focused on disclosure and transparency by analysing the financial statements and websites of 30 of the most active companies in the Egyptian stock market. The study started with an assessment of recent key

developments in Egypt related to corporate governance disclosure, including reforms to the regulatory framework. His key findings indicated that the level of disclosure in Egypt was low. He also showed that some of the non-conformity might be due to lack of knowledge about the needs and benefits of corporate governance. Furthermore, among the main recommendations of this study was the need for increased focus on training and education, explaining to all stakeholders the means and benefits of disclosures in general, and disclosures related to corporate governance in particular.

Abd-Rahman (2008) also carried out a survey investigating general board practices among the 30 most active companies in the Egyptian stock market. The findings showed that there is a need for greater improvement in order for them to become more effective. This demonstrates that Egyptian listed companies have, to some extent, tried to use best practices, but this has not yet reached the level of global corporate governance.

Recently, Samaha (2010) examined the impact of board independence and the presence of an audit committee at the level of disclosure of different corporate governance information categories (i.e. ownership structure and exercise of control rights, financial transparency and information, auditing, corporate responsibility and compliance and board and management structure and process). Samah studied 30 of the most active companies in the Egyptian stock market, using the data of actual disclosure practices measured and published in the report by the United Nations Conference on Trade and Development in 2007. His findings indicated that there was no significant association between the existence of audit committees and the different corporate governance disclosure categories. Therefore, education and training, incentives or disincentives to disclose, including the nature of enforcement regimes, are possible policy recommendations in Egypt. Furthermore, the results revealed that the practices and advantages of such disclosures may not have been fully realised in the Egyptian market due to the fact that corporate governance information disclosure is, in general, a relatively new requirement for Egyptian companies.

Sourial (2004) overviewed the governance models of the corporate sector and the securities market of eleven Middle East and North Africa regions; Morocco, Jordan, Lebanon, Egypt, United Arab Emirates, Bahrain, Saudi Arabia, Kuwait, Tunisia and Qatar. His study found that the Arab markets in the last decade underwent a number of reforms and restructuring in terms of legislation and infrastructure. However, the key issue was the gap between legislative framework and enforcement. Furthermore, the study recommended that

traditions and cultures should be allowed implicitly to choose their acquaintance with the number reforms measures that yield to better corporate governance practices, however, the system with new wave of ideas might create resistance to reforms and deterioration. Another key recommendation of the study is that banks should play their proper role as main stakeholders because they are far developed in comparison to the securities markets in the region.

In Lebanon, Saidi (2004) investigated the practices of the OECD principles by conducting a questionnaire survey. His results revealed that the Lebanese legal system suffers from a lack of efficiency and consistency and, therefore, requires more reform to meet the corporate governance principles. Also, the findings indicated the need for an independent body to monitor the implementation of corporate governance in Lebanon.

Al-Ajlan (2005) examined the roles and responsibilities of the boards of directors in the Saudi banking sector. Interviews and surveys of banks' directors indicated that boards in banks played a significant part in strategic planning. The results revealed that in relation to strategic planning, the board of directors in Saudi banks appeared to fulfil the role of setting plans; guiding top management; approving strategy; defining the main goals; and discussing the strategy submitted by the top management. However, as regards the role of boards in monitoring and controlling top management, the results indicated that there was a mix of views among the participants in relation to whether directors in Saudi banks were actually controlling the performance of top management. The major shareholders played a significant role in monitoring these banks as most of them were board members or had a representative on the board.

The Union of Arab Bank, UAB (2007), conducted a survey on the perceptions of senior key personnel in a number of Arab countries (Jordan, Egypt, Oman, United Arab Emirates, Qatar and Yemen) on the banks' level of compliance with international best practice in corporate governance.

A total of 67 banks participated in the survey. The survey results revealed that shareholders in most of the banks enjoyed considerable rights in terms of access to secure methods of ownership registration, the ability to transfer shares, to obtain relevant information on a timely basis and to participate and vote in general shareholders meetings, the sole authority to elect and dismiss board members and profit sharing. However, more

policies need to be in place to protect minority rights. Regarding disclosure, the majority of banks enjoyed a high level of disclosure of material information and financial transparency in line with international standards. The survey also revealed that the majority of banks had written policies concerning codes of ethics and corporate governance systems. Finally the study recommended that more emphasis was needed on designing and implementing special training programs for corporate governance and internal control practice for employees.

From the above discussion, it can be concluded that many developing regions have been paying increasing attention to the issues of corporate governance, especially in the Arab countries, on the level of official bodies, such as the World Bank, OECD and IMF and on the academic level. This is due to the importance of corporate governance in these countries. Unfortunately, there have been no studies conducted in Libya concerning the issue of corporate governance. There is also no published report from the official bodies (World Bank, OECD and IMF) that describe corporate governance practices in this country.

The survey of the literature has also shown that a large number of studies have examined the subject of corporate governance in more than one country (Chong & López-de-Silanes, 2007; Geller, 2009; Nam & Nam, 2004; Nganga, Jain, & Artivor, 2003; Sourial, 2004), while others have focused on a particular mechanism of corporate governance (Abd-Rahman, 2008; Al-Ajlan, 2005; Dahawy, 2008; Samaha, 2010) such as shareholder rights, the role of the board of directors, ownership structure, and disclosure and transparency.

In addition, the majority of previous studies focused on examining corporate governance practices by using single methodological approaches as the qualitative approach (Al-Ajlan, 2005; Nganga et al., 2003) or the quantitative approach (Arce & Robles, 2005; Black, Carvalho, & Gorga, 2008; Musaali, 2005; Nam & Nam, 2004; Saidi, 2004; Wong, 2009). In contrast, the present study has used both approaches. It has used questionnaire surveys and semi-structured interviews to overcome the weaknesses of using one method and to obtain reliable, accurate results. This study has adopted both qualitative and quantitative methods for collecting data.

An overview of the established literature indicates there is a dearth in research examining the views of regulators and officials in reducing the obstacles of applying corporate governance in different countries. The current study surveyed the perceptions of listed companies' staff and Libyan financial experts regarding the application of corporate

governance and the obstacles that faced these practices. This study also has examined the views of regulators and officials with regard to reducing the obstacles to applying corporate governance in Libya.

## 3.7 Conclusion

This chapter has provided an overview of the literature on corporate governance, with an explanation of its emergence as a concept and development as an element of business management. The key issues arising from the chapter are:

Despite its long history in the developed world and the importance attached to it in political and legal terms, corporate governance codes have not been able to provide complete protection to investors and several recent scandals have damaged confidence in corporate governance as a process.

The literature also indicates that for organisations to adopt corporate governance codes enthusiastically, they need to believe that the implementation of such a code will confer benefits on the company in the form of greater inward investment, an improved public profile and favourable treatment in the awarding of public contacts.

The benefits to investors (and to organisations themselves) can be explained with reference to theoretical concepts of corporate governance, in particular agency theory and stakeholder theory. Therefore, the conceptualisation of corporate governance has been driven by two theories: firstly, agency theory addresses the relation between the shareholders and the management of a company, as proposed by Jensen and Meckling (1976); secondly, the stakeholder theory, proposed by Freeman (1984), examines the relationship between a range of interested parties both inside and outside the company. This research follows in these traditions in its treatment of the conceptualisation of corporate governance.

In terms of the development of corporate governance in developing countries, many previous studies have concluded that each country has different factors that have an effect on the practice of corporate governance, and which influence the structure of corporate governance mechanisms. Therefore, the differences in these factors between countries may explain the differences of their corporate governance frameworks. This expectation gives the study its theoretical argument and leads to the assumption that corporate governance in Libya

is a distinctive and unique process and therefore cannot be explained by frameworks developed for other contexts.

The main learning points which arise from the literature on corporate governance in Libya in chapter two, and the background on global corporate governance in chapter three, indicate that a country's adoption of corporate governance systems is influenced by a wide range of factors, which are distinctive to each country in their nature and extent. Established legal, societal, political and business norms each have their role, and as such this study investigating corporate governance as the first of its kind in a country, requires a methodology that can identify the unique features of the Libyan context, while also providing guidance for future implementation of corporate governance. The following chapter therefore critically examines the methodology adopted to meet the study's aim to investigate current corporate governance practices, perceptions and obstacles to implementation within Libya.

# Chapter four

# Research Methodology

## 4.1 Introduction

Having, in the previous chapter, reviewed the relevant literature in order to place this research into a wider context, and in particular considered the nascent state of corporate governance in the developing economies, this chapter provides an overview of the research methodology adopted in this study, which is designed to measure the extent to which corporate governance has been adopted in Libya, and how it can be improved in the future.

Denscombe (2007) states that in the process of producing a valuable piece of research, the social sciences researcher is faced with a variety of options and alternatives. Furthermore, he maintains that each choice that is made can be associated with a certain set of assumptions about the social world it investigates; including within this certain inherent advantages and disadvantages. Denscombe also asserts that there is no 'one right' direction to take, although acknowledging that some strategies are better suited than others for addressing specific issues. This chapter is therefore divided into three key sections: section one gives an overview of research philosophy; section two deals with data collection methods; and, finally, section three is dedicated to a discussion of the design of the current research.

## 4.2 Research Philosophy

For researchers in the social sciences it is essential to appreciate the implications of the research concept. In this context, Saunders et al. (2009), describe a research philosophy as reflecting the way a researcher thinks about the development of knowledge, and how theory can be transformed into knowledge through the proper manipulation of data; meanwhile Easterby-Smith, Thorpe and Lowe (2002) observe that the relationship between data and theory has been an issue of contention between philosophers for many centuries.

Easterby-Smith et al. (2002) propose three reasons which underscore the importance of philosophical assumptions to scientific research. The first reason is that knowledge of philosophy can inform and clarify research design. This involves not only a consideration of the kind of evidence needed to achieve research objectives, and how it is to be collected and interpreted, but also the extent to which this will provide useful answers to the fundamental

questions being investigated by the research. The second reason they propose is that knowledge of philosophy can help the researcher to identify which designs will achieve objectives and which will not, and thus maximise the chance of avoiding errors by identifying the limitations of particular approaches. Finally, knowledge of philosophy can enable researchers to recognise, or even create, designs that may be outside their previous experience, as well as facilitating the adaptation of research designs within the constraints that different subjects impose.

When researchers consider research philosophy, this raises questions of ontology and epistemology, which are crucial to the successful completion of social and behavioural research. It is essential to adopt the ontological and epistemological positions that are most suitable to a particular area of research.

According to Crotty (2003), ontology is the study of the nature of reality and existence. As such, it may be regarded as the starting point of all research, from which the researcher's epistemological and methodological positions logically follow. The ontological debate is related to the nature of reality, and questions whether it exists in hard, tangible and relatively immutable structures which are independent of the perceiver, and capable of accurate measurement and analysis. The ontological position that hold that this is the case is known as realism: (Crotty, 2003). The other related concept is epistemology. This term derives from two Greek words: "'episteme', which means 'knowledge' or 'science', and logos, meaning reason, which is defined by Crotty, (2003, p. 63 ) as being "the theory of knowledge embedded in the theoretical perspective and thereby in the methodology" Therefore, if a researcher adopts a realist ontological position, certain epistemological and methodological assumptions therefore follow from this position. Crotty describes epistemology as the branch of philosophy that deals with the theory of knowledge.

Epistemology can therefore be said to be concerned with assumptions about the nature of knowledge and the grounds for adopting certain methods to increase knowledge, and is as a result related to the meanings attached to reality (Crotty, 2003). A range of epistemological standpoints have been identified in the literature of the social science, (positivism, interpretivism, etc.). In the objectivist epistemology, for example, the researcher position to the production of knowledge is based on the notion that knowledge exists independently of any consciousness which comprehends it. Subjectivism, on the other hand, assumes that knowledge is to some extent imposed on the object by the subject, and that the act of

perception informs knowledge of the object being perceived (Crotty, 2003). A variety of different approaches is embedded in these and other epistemological positions, each with their relevance to a particular way of conducting research and acquiring knowledge. Therefore, the different ontological and epistemological stances of researchers can lead to widely divergent research approaches, and to different perceptions of the same social phenomena.

**4.3 Research Paradigm**

A paradigm may be described as being very closely related to the philosophical assumptions of research mentioned previously, and the term is indicative of a worldview stance adopted by a researcher that informs all aspects of a research project (Tashakkori & Charles, 2009). As the result of philosophical discourse, paradigms are social constructs and as such they are historically and culturally embedded practices. Byrne and Humble (2006) regard paradigms as reflecting the basic belief systems or worldviews of researchers, and as such they enable researchers to move beyond the general to a study of specifics while maintaining a rigour and consistency in terms of philosophy and approach. Paradigms therefore involve ideas around how knowledge is established, and the ways change can be achieved or facilitated.

These differences in looking at how knowledge can be obtained have created different schools of thought and created what is known as the paradigm war, a decades-long academic debate as to the best way to conduct research.

The three principle philosophical orientations are outlined in Table 4.1. The first is often called the purist stance, and within this position researchers argue against the mixing of paradigms. Within this orientation there are two extreme positions - positivism and constructivism – which a diametrically opposed paradigms. Secondly, researchers within the post-positivism paradigm believe that a degree of reconciliation is possible between the two extremes mentioned previously. Thirdly, researchers holding the pragmatic stance considers paradigms to be compatible models, and therefore posit their coexistence within the same research project as a complementary way as attain valuable conceptual constructions.

This paradigm bases practical methodological decisions on contextual responsiveness and relevance thereby often including diverse methods.

**Table 4.1 Key Social and Behavioural Research Paradigms**

| Paradigm | positivism | Post Positivism | Pragmatism | Constructivism |
|---|---|---|---|---|
| **Methods** | Quantitative | Primarily quantitative | Quantitative + Qualitative | Qualitative |
| **Logic** | Deductive | Primarily deductive | Deductive + Inductive | Inductive |
| **Epistemology** | Objective point of view. Knower and known are dualism. | Modified dualism. Findings probably objectively true. | Both objective and subjective points of view. | Subjective point of view. Knower and known are inseparable. |
| **Axiology** | Inquiry is value-free | Inquiry involves values, but they may be controlled. | Values play a large role in interpreting results. | Inquiry is value-bound |
| **Ontology** | Naive realism | Critical or transcendental realism. | Accept external reality. Choose explanations that best produce desired outcomes. | Relativism |
| **Causal Linkages** | The Real causes temporarily precedent to or simultaneous with effects. | There are some lawful, reasonably stable relationships among social phenomenon. These may be known imperfectly. Causes are identifiable in a probabilistic sense that changes over time. | There may be causal relationships, but we will never be able to pin them down | All these entities simultaneously shaping each other. It's impossible to distinguish causes from effects. |

Source: Tashakkori and Charles (1998).

Finally, in the dialectical stance, people view paradigms as vital guides for practice and regard the inevitable tensions invoked by juxtaposing diverse paradigms as potentially generating more complete and more insightful, even transformed evaluation understandings (Greene and Caracelli, 1997).

## 4.3.1The Pragmatism Paradigm

The compromise position of the pragmatism paradigm has emerged as a result of a long debate into the kind of methodology that best enables researchers to combine the strengths of different approaches while minimising their drawbacks (Easterby-Smith et al., 2002). In the social sciences, since the late 1970s qualitative methods have come to be regarded as indispensable to constructing knowledge about human activities, and many

advocates of qualitative methods have forcefully argued that this paradigm should take precedence over quantitative methods as the dominant methodology (e.g. Seale, 2004; Marshall & Rossman, 2006; Denzin & Lincoln, 2008). Contrary viewpoints have emerged from supporters of the quantitative method, who strongly oppose this assumption of superiority (e.g. Swift & Piff, 2005). Further to this intense debate, a growing number of researchers have advocated study approaches that combine both quantitative and qualitative methods (Greene & Caracelli, 1997; Tashakkori & Charles 1998; Creswell & Clark. 2007). Because of the potential advantages of combining the strengths of mixed paradigms, some commentators have argued that this approach should form the basis of a dominant methodology in the future (Creswell & Clark, 2007).

Such a movement suggests an end to the era of methodological segregation in applied social science (e.g. interpretivist, positivist, activist, literary, feminist), and this harmonisation of methods in theory has encouraged researchers to embrace multiple methodologies in practice, within the same study (Creswell & Clark, 2007).

A pragmatist holds the view that although existing philosophical assumptions are logically independent, they can be combined, in conjunction with decisions with regard to methods, and provided the methods of data collection, analysis and interpretation remain discrete, and to arrive at a combination that best suits a specific research problem. Furthermore, in the practice of social inquiry these paradigm differences are of relatively little consequence because paradigms can be regarded a descriptive of consequent methods, not prescriptive, (Patton, 2002).

According to Patton, (2002b) what is most important within the pragmatism paradigm, and what should inform all methodological decisions in social research, are the practical objectives of the research problem. Therefore, "inquirers should be able to choose what will work best for a given inquiry problem in a particular context without being limited or inhibited by philosophical assumptions" (p. 117). Throughout the last three decades adherents of the pragmatism paradigm have produced a number of logical and rational arguments that have attracted an increasing number of researchers (e.g. Patton, 2002; Creswell & Clark, 2007; Tashakkori & Charles, 2009).

Patton (2002), is an influential advocate of the pragmatic paradigm who argues that "pragmatic differences are real in that they describe much research practice. Interpretivist

typically use qualitative methods, post positivists typically use quantitative methods, and these two types of studies typically vary along such dimensions as induction-deduction and context specificity- generalizability" (Patton, 2002b, p. 118). Further scholars have given their support to this position by stating that the pragmatism paradigm provides the best justification for employing a mixed method approach and mixed model studies (Patton, 2002; Creswell & Clark, 2007; Tashakkori & Charles, 2009).

Furthermore, Tashakkori and Charles (1998) consider the pragmatist position to be appealing to the researcher "because it gives us a paradigm that philosophically embraces the use of mixed method and mixed model designs, it eschews the use of metaphysical concepts (Truth, Reality) that have caused much endless (and often useless) discussion and debate, and it presents a very practical and applied research philosophy: study what interests and is of value to you, study it in the different ways that you deem appropriate, and use the results in ways that can bring about positive consequences within your value system" (p. 30). As a result, at the present time most researchers in the social sciences use whatever method is appropriate for their studies, or for a particular part of their studies, instead of confining themselves to one method exclusively (Creswell & Clark, 2007; Tashakkori & Charles, 2009).

### 4.4 Quantitative and Qualitative Methods

Research methods may be categorised into two distinct types: quantitative and qualitative (Neuman, 2006). That is, much of the debate on the choice of research methods has tended to concentrate on and revolve around the choice between quantitative and qualitative methods.

Quantitative research is concerned with numbers and shows how the variables are organised, measured and analysed (Punch, 2005). On the other hand, qualitative research is concerned with words, coding and categorising the main themes in order to construct generalisations or theories (Punch, 2005). Neuman (2006) pointed out that quantitative researchers adopt a deductive approach, which involves a well-planned approach to the research design, measurement and sampling, before collecting and analysing the data. In contrast, qualitative researchers adopt an inductive approach, characterised by concern for the richness, texture and feeling of the data in order to construct generalisations or theories from these data (Neuman, 2006).

Another difference is related to the sample size. In quantitative research, samples are larger than in qualitative research and generalisation through sampling to the sampling frame and population is essential (Punch, 2005). In qualitative research, theoretical generalisation is used. It should be highlighted that "despite constituting alternative strategies for research, quantitative and qualitative methods are not seen as mutually exclusive" (Patton, 2002b, p. 118). Both types of data can be and have been collected in the same study (Easterby-Smith et al., 2002).

The mixed methods approach of data collection is a new and growing trend in social and behavioural sciences (Tashakkori & Charles, 1998). The logic of this trend is based on the principle that "no single method ever adequately solves the problem" ( Denzin, 1978 cited in Perlesz & Lindsay, 2003, p. 28) and using only one method is more vulnerable to error linked to that particular method (Patton, 2002).

Johnson, Onwuegbuzie and Turner (2007, p. 123) have tried to define more broadly the mixed methods. They state that "mixed methods research is the type of research in which a researcher or team of researchers combines elements of qualitative and quantitative research approaches (e.g. use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the broad purposes of breadth and depth of understanding and corroboration".

According to several authors (Tashakkori & Charles, 1998; Creswell & Clark, 2007; Johnson, Onwuegbuzie et al., 2007; Saunders, Lewis et al., 2009) the main purpose of this approach (mixed research) is not to replace either of the quantitative nor the qualitative approaches, but rather to draw from the strengths and minimise the weaknesses of both in single research studies and across studies. For example, Johnson et al. (2007) identify several reasons for conducting this kind of research. These include:

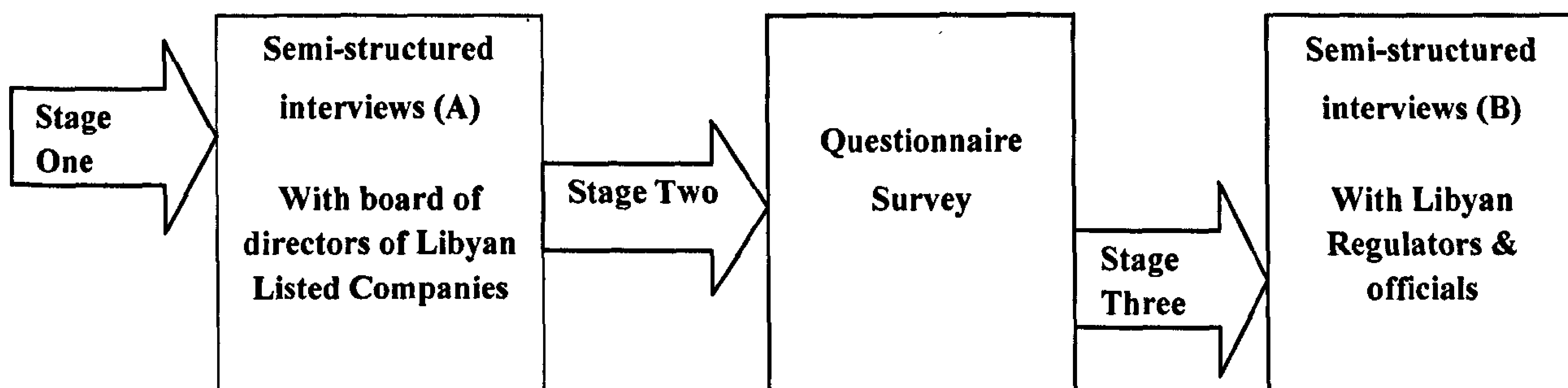
- "Enhance description of the investigated phenomena and provide a fuller picture and deeper understanding.
- Validate and explicate findings from another approach and produce more comprehensive, internally consistent, and valid findings.
- Provide more elaborate understanding and greater confidence in conclusions.
- Handle threats to validity and gain a fuller and deeper understanding.
- Provide richer/more meaningful/more useful answers to research questions" (Johnson et al., 2007, p. 122).

## 4.5 Overview of the Current Research Design

For the purposes of achieving the objectives of this research, using both qualitative and quantitative approaches will be extremely valuable in this study. This combination falls into what is known as the pragmatism paradigm, which uses mixed methods that reconcile the two extremist paradigms: the positivistic (or the pure quantitative) and the constructivist (or the pure qualitative).

Based on these approaches, research objectives and methods were designed. Semi-structured interviews and questionnaire surveys were conducted sequentially. Additionally, there is very little known about the Libyan market, which necessitates using such mixtures of research design to explore other important aspects about corporate governance practices in the country. In the current study, the sequential design has been adopted as it appears below:

**Figure 4.1 Field Work Process**




The above figure gives an overview of the three main stages that were followed in order to collect the required research data. The study started with semi-structured interviews (A) conducted on September (2009) followed by a questionnaire survey performed between October and December (2009). Finally, the study concluded this process with semi-structured interviews (B) conducted between May and June (2010), which are explained further in this chapter. The rationale for this sequence of stages was as follows:

**Stage one**, a qualitative investigation of the opinions and experiences of senior personal tasked with implementing the LCGC in Libya's publically listed companies, was intended to provide an overview of how the code was being managed in practice, attitudes to the code from those bound by its strictures, and to develop themes that would be investigated in more detail in the second and third stages. Specifically, this stage was intended to canvass opinion about the obstacles to the code that Libyan directors considered the most serious

barriers to its implementation, so that these barriers could be incorporated into the questionnaire employed in stage two.

**Stage two** was the primarily quantitative phase of the research, and was intended to provide a broader overview of the implementation of the LCGC in Libya, canvassing a wider range of stakeholders and interested parties. Questions within the questionnaire on the requirements of the code itself were decided before stage one was conducted, primarily based on the literature review, but questions on the obstacles to implementation were based on the responses given in stage one, and these questions were written after preliminary thematic analysis of the data from stage one.

**Stage three** adopted a qualitative method, involving semi-structured interviews similar to those employed in stage one, but this time taking as a sample officials involved in the supervision and regulation of the LCGC. It was anticipated that these respondents would provide a broader to the participants in stage one, giving a view of how the LCGC has the potential to affect the whole economy and boost its standing in international trade. These respondents were the decision-makers with regard to the state's oversight over the whole economy, and as such their interests were expected to be broader than the respondents to stage one. They therefore were able to offer option on not only the obstacles faced, but also provide suggested mitigations to addresses the perceived concerns.

Overall, the qualitative elements of the study were intended to establish themes and identify barriers and obstacles to the LCGC, while the quantitative element (stage two) measured attitudes at a wider level but in less detail, based on themes established by stage one and the literature review. The research as a whole aimed to establish how Libya was implementing its code of corporate governance as a country, and to provide data on how obstacles to this implementation can be overcome in the future, on a national level.

### 4.5.1 The Objectives of the Study and the Research Questions

The main aim of this research is to investigate the current corporate governance practices, perceptions and obstacles in Libya following the introduction of the LCGC. The rationale is to draw attention to the limitations and shortcomings, if any, of such frameworks, with particular focus on the question of whether the LCGC currently adds significant value to these companies and potential for improvement and enhancement.

**To achieve the above aim, the study has several broad objectives:**

1. To explore the nature and extent of applying current corporate governance within eight listed Libyan companies following the introduction of the LCGC.
2. To survey the perceptions of listed companies' staff (senior managers and employees in financial function) and Libyan financial experts (academics and auditors) regarding the introduction of the LCGC.
3. To identify the current obstacles facing the application of the LCGC.
4. To examine the views of the Libyan regulators and officials in relation to the obstacles identified and how they may be reduced.

**The study endeavours to answer the following questions:**

1. What are the nature and extent of current corporate governance practices within eight listed Libyan companies following the introduction of the LCGC?
2. What are the perceptions of listed companies' staff and Libyan financial experts regarding the introduction of the LCGC?
   - 2.1 What are the perceptions of both groups regarding the rights of shareholders as set out in the LCGC?
   - 2.2 What are the perceptions of both groups regarding the board structure as set out in the LCGC?
   - 2.3 What are the perceptions of both groups regarding the board responsibility as set out in the LCGC?
   - 2.4 What are the perceptions of both groups regarding the internal auditing as set out in the LCGC?
   - 2.5 What are the perceptions of both groups regarding the disclosure and transparency as set out in the LCGC?
   - 2.6 What are the perceptions of both groups regarding the conflict of interest as set out in the LCGC?
   - 2.7 What are the perceptions of both groups regarding the board committees as set out in the LCGC?
3. What are the current obstacles to the application of the LCGC?
4. What are the views of the Libyan regulators and officials in relation to the obstacles identified and how they may be reduced?

**Table 4.2 Relationship between Research Questions, Objectives, Methods and Process**

| Research Questions | Research Objectives | Methods | Research Process |
|---|---|---|---|
| What are the nature and extent of current corporate governance practices within the eight listed Libyan companies following the introduction of the LCGC? | To explore the nature and extent of applying current corporate governance within the eight listed Libyan companies following the introduction of the LCGC. | Semi-structured interviews (A) With board of directors of Libyan Listed Companies. | Stage One |
| What are the perceptions of listed companies' staff and Libyan experts regarding the introduction of the LCGC? | To survey the perceptions of listed companies' staff (senior managers and employees in financial function) and Libyan experts (academics and auditors) regarding the introduction of the LCGC. | Questionnaire Survey | Stage Two |
| What are the current obstacles facing the application of the LCGC? | To identify the current obstacles facing the application of the LCGC. | Questionnaire Survey & Semi-structured interviews (A) | Stage One & Two |
| What are the views of the Libyan Regulators in relation to the obstacles identified and how they may be reduced? | To examine the views of the Libyan Regulators in relation to the obstacles identified and how they may be reduced. | Semi-structured interviews (B) With Libyan Regulators & officials. | Stage Three |

Table 4.2 presents the relationship between research questions, objectives, methods and process. In the first stage, information from the semi-structured interviews (A) was used to achieve objectives relating to applying current corporate governance practices in Libyan listed companies. In the second stage, information from questionnaires revealed the opinions of listed companies' staff and Libyan experts about the LCGC. Information from both questionnaires and semi-structured interviews (A) was also used to determine the current obstacles facing the application of the LCGC. In the last stage, semi-structured interviews (B) were the method used to achieve the last research objectives – ascertaining the views of the Libyan Regulators in relation to identified obstacles.

### 4.6 Data Collection Methods

There are two main sources from which data can be collected; primary and secondary. Primary data refers to information collected by the researcher on the variables of interest for the specific purpose of the research; for example, focus groups, case studies, interviews,

observations and questionnaires. Secondary data refers to information that already exists. These sources might include books, journals, theses, company records and government and professional bodies' publications. According to Sekaran (2003) questionnaires, interviews and observations are the three main data collection methods in survey research. It has been argued that there is no single best way of collecting data; the method chosen depends on the nature of the research and the specific questions needed to be asked. In similar previous studies to this one, interviews and questionnaires were the most popular methods of collecting data.

As mentioned earlier, to achieve the research objectives, and in the light of the research methodology standpoint, this study adopts the qualitative method of semi-structured interviews and a quantitative method of a questionnaire survey as the methods of collecting the primary research data divided into three stages. This section highlights the different issues in relation to the research methods and the reasons for these choices.

### 4.6.1 Stage One: Semi-Structured Interviews (A)

At this stage of the study, the qualitative method of semi-structured interviews was employed. This is one type of interview method in social sciences research. Other interview methods are unstructured, structured and focus group. Interviews are considered to be useful methods, enabling interviewers to obtain a rich insight into interviewees' lives, experiences, opinions, values, aspirations, attitudes and feelings (May, 2005).

The differences between structured and semi-structured types of interviews are noted by May (2005):"In moving from the structured interview to the unstructured interview, researchers shift from a situation in which they attempt to control the interview through predetermining questions and thus `teach' the respondent to reply in accordance with the interview schedule (standardization), to one in which the respondent is encouraged to answer a question in their own terms". (p. 121)

Bryman (2007) describes the process of a semi-structured interview: "The researcher has a list of questions or fairly specific topics to be covered, often referred to as an interview guide, but the interviewee has a great deal of leeway in how to reply. Questions may not follow on exactly in the way outlined on schedule. Questions that are not included in the guide may be asked as the interviewer picks up on things said by interviewees. But, by and large, all of the questions will be asked and a similar wording will be used from interviewee to interviewee" (Bryman, 2007, p. 321).

A semi-structured interview is the most appropriate method consistent with the purpose of this stage of the study. One of the main reasons for choosing a semi-structured interview as the primary method in gathering data is its flexibility. The flexibility of the interview depends on the extent of freedom that the interviewer has to raise questions that are generated from the issues being investigated through the meeting, whereas the interview can be inflexible if the interviewer has to follow strictly ordered questions (Kumar, 2005).

Therefore, this method permits the coverage of general themes that have been identified in the literature on corporate governance practices. The study at this stage seeks to explore the nature and extent of current corporate governance practices in the eight listed Libyan companies, and attempt to identify the current obstacles facing the application of the LCGC. Furthermore, this method was adopted to enable the board members of these listed companies to give answers in specific areas suggested by the general literature as being important. This approach also gives the respondents a chance to discuss any related issues that they think are pertinent to the area of study.

Accordingly, for the purpose of this stage of the study, the researcher has developed an interview guide, which contains a list of topics followed by some questions (see Appendix A) that need to be covered during the interviews. Patton (2002) indicates that the interview guide can be developed in more or less detail, depending on the extent to which the interviewer is able to specify important issues in advance and on how important it is to put questions in the same order to all respondents. The topics and questions are mainly generated from the literature on corporate governance generally and in developing countries specifically, in an attempt to cover the most significant issues related to these practices in Libya following the introduction of LCGC. This is in response to the lack of resources within this field both in the published literature and in official reports.

The interview guide has three main parts. The first part covers the background information of the interviewees, while the second part covers six main topics and some important aspects of corporate governance – the ownership structure, shareholder rights, and board of director's structure and responsibilities, conflict of interest, discourse and transparency and board committees. The last part covers the current obstacles facing the application of the LCGC.

The questions of the interview guide were originally written in English and then translated into Arabic. This process needed some additional care in order to avoid any mistranslation of the words, expressions and concepts that were used in the construction of the questions. As regards this issue, a number of steps were taken to construct the Arabic version. These included the following:

1. The questions of the interview guide were firstly translated by the researcher and then discussed in detail with one of supervisory team whose native language is Arabic.
2. The Arabic copy along with its English version was given to an expert translator for comments and amendments if necessary.

After considering all the procedures that were necessary for ensuring an appropriate translation, the researcher was satisfied with the accuracy of the Arabic version.

The semi-structured interview (A) was conducted in September 2009 with eight members of a board of directors and a general manager. According to Kumar (2005), in qualitative research, the issue of sampling has little significance as the main aim of this type of enquiry is either to explore or describe the diversity in a situation, phenomenon or issue. Therefore, the interview samples were chosen to cover eight Libyan listed companies: five commercial banks and three insurance as indicated in Table 4.3. These are the only companies registered in the LSM and subject to the LCGC.

**Table 4.3 Listed Companies and Interviewees Positions**

| | |
|---|---|
| **Company Name** | Wahda Bank |
| | Gamhuria Bank |
| | Alsari Bank |
| | Sahara Bank |
| | Bank of Commerce & Development |
| | Libya of Insurance Co |
| | Al-Sahara Insurance Co |
| | United Insurance co |
| **Interviewee Position** | Member of board of directors |
| | Chairman of the board of directors |
| | General Manager |
| | Member of board of directors |
| | Member of board of directors |
| | Member of board of directors and general manager |
| | Member of board of directors |
| | Member of board of directors |

The particular interviewees were selected based upon their position in high level management in these companies. Another factor that influenced the selection of interviewees was their knowledge, experience and participation in the field of corporate governance. All interviews were conducted at the offices of the respondents at the time and date of their choice, and the duration was one hour on average.

It is important to note that all interviewees agreed to the interviews being recorded. Rubin and Rubin (2005) pointed out that audiotapes enable the researcher to retrieve data in an accurate form. Similarly, Kvale (1996) remarked on the importance of the tape-recorder: "The usual way of recording interviews today is with a tape recorder. The interviewer can then concentrate on the topic and the dynamics of the interview. The words and their tone, pauses, and the like, are recorded in a permanent form that can be returned to again and again for re listening" (Kvale, 1996, p. 160).

### 4.6.2 Stage Two: Questionnaires Survey

As previously mentioned, one research objective is to survey the perceptions of listed companies' staff (senior managers and employees in a financial capacity) and Libyan experts (academics and auditors) regarding the introduction of the LCGC.

Therefore, distributing a questionnaire survey was the second method of data collection. According to Collis and Hussey (2003, p. 173), "a questionnaire is a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample ".

Similarly, Sekaran (2003, p. 236) defines the questionnaire as: "a reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternative".

Questionnaires are an important and efficient tool for collecting primary data when the researcher knows exactly what information is required and how to measure the variables of interest (Oppenheim, 2000). Questionnaires can be distributed by two main methods: personal distribution or mailed distribution. Personal distribution questionnaire can be used when the sample is situated in one location such as a place of work. The main advantages of this method are:

- All completed responses can be collected within a short period of time.

- Any doubts that the respondents might have on any question could be clarified.
- The researcher has the opportunity to introduce the research topic and to motivate the respondents to offer frank answers.
- Good response rates can be ensured.
- This is less expensive and consumes less time than interviewing, and it does not need as much skill to administer the questionnaire as to conduct interviews. (Oppenheim, 2000).

### 4.6.2.1 Design and Contents of the Questionnaire.

#### 4.6.2.1.1- Questionnaire Design

Designing an effective questionnaire that takes into consideration Libyan society, which differs in characteristics, circumstances, culture, and corporate environment to developed and other developing countries, marks a significant challenge for this study. Libya's transition economy is facing a problem of under-research of corporate governance practices, which makes this process more crucial, as there is a scarcity of reliable references to act as input to the current study. Therefore, a rigorous review of international corporate governance research was undertaken at the outset.

However, the literature suggests that the researcher must consider some important aspects in the design of a questionnaire. These are as follows: the questionnaire should incorporate particular specifications; it should have the correct length and attractive layout; and it should be constructed in steps. There should also be consideration of the type of questions provided (open, closed ended or both). A questionnaire has to be designed according to particular specifications and with specific aims so that a considerable amount of relevant information can be obtained with low expenditure of both time and effort (Oppenheim, 2000).

Accordingly, the questionnaire was designed to satisfy at least the above conditions. First, the questions must be constructed in such a way that they are relevant to the themes of the study. Secondly, all respondents must be given the assurance of anonymity so as to give free answers – therefore, there is no scope for divulging any confidential information such as names. Thirdly, according to the previous conditions, close-ended questions are utilised, which offer a choice of answers in the form of a rating scale, since this would allow a numerical value to be given to an opinion. This is also simpler for respondents to complete and easier for the researcher to code and analyse (Oppenheim, 2000).

Additionally, this technique is very important, since this study has two different respondent groups that may have diverse beliefs. For this reason, it may not be appropriate to use open-ended questions. However, closed-ended questions may have inherent limitations resulting from loss of expressiveness (Oppenheim, 2000, p. 114) and limited space for reasoning on answers. To overcome these limitations, a half-page space was provided in the final section for respondents to provide further comments they considered relevant to the study topic.

In terms of length, the questionnaires (Appendices B and C) are divided into three sections and consist of seven pages when set out on a single-sided A4 paper. Additionally, a covering letter was attached to the questionnaire. This letter, which introduces the author as the researcher and the research objectives, asks for assistance from the respondents and confirms that all information would be treated in the strictest confidence. The intention of this letter is to increase respondents' trust in the research project and to encourage them to cooperate with the researcher.

It is widely agreed that a long questionnaire will result in a low response rate, but it has also been observed that the latter is likely to be enhanced by an attractive layout (Bryman, 2007). Therefore, the correct layout was considered important in this study and, accordingly, a set of themes were grouped together in the questionnaire under one theme in order to order ideas chronologically.

Conversely, a five-point Likert scale was used in the questionnaire to obtain respondents' opinions on the issues being studied (Saunders, Lewis et al., 2009). A Likert scale comprises a set of response categories constructed around a range of agreement/disagreement levels. Participants tick the appropriate level on the Likert scale.

The following the Likert scales was used:

1- This Likert scale was used in some questions to obtain respondents' level of agreement with specific statements presented under it.

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| 5 | 4 | 3 | 2 | 1 |

2- This Likert scale was used in some questions to obtain respondents' views on the importance of specific statements presented under it.

| Very Important | Important | Don't know | Not very important | Not important at all |
|---|---|---|---|---|
| 5 | 4 | 3 | 2 | 1 |

#### 4.6.2.1.2 Questionnaire Contents

As mentioned earlier, the main goals of the questionnaire were, first, to collect the required primary data to answer the research questions. Secondly, the respondents' opinions and general attitudes were sought regarding the introduction of the LCGC by the LSM. And, thirdly, the opinions and general attitudes of the respondents were determined regarding the current obstacles facing the application of the LCGC. Accordingly, two different questionnaires were used (see Appendix B and C). Both questionnaires included similar questions with differences in the first page that contain respondents' background so to identify the two groups from each other. Therefore, the questionnaire content was split into the following three main sections:

**Section One – Respondents' Background:** In this section, the respondents were asked six questions, which would provide information, such as job position, length of experience, level of qualification, place of study and fields of knowledge. The main aim of the questions was to obtain the background details of respondents who participated in this study. This is very important for obtaining high quality information. The first section was specifically designed for a particular group of respondents, while the remaining sections applied to all groups of respondents.

**Section Two – General Perception of the LCGC:** The second section of the questionnaire focused on respondents' general perceptions of the LCGC. This section was comprised of five subsections:

Under the first subsection, respondents were asked to provide their views on the rights of shareholders as set out in the LCGC. This subsection covered three main issues, namely, voting rights, other rights of shareholders and the rights of shareholders at the AGM as defined in the LCGC.

Under the second subsection, respondents were asked to provide their views regarding the board of directors and internal auditing. This subsection covered board structure, responsibility and internal auditing structure and functions as set out in the LCGC.

Under the third subsection, respondents were asked to provide their views on the issue of disclosure and transparency, while in the fourth subsection they included opinion regarding conflict of interests.

Under the finally subsection, respondents were asked to provide their views on board committees structure and functions (audit committee, nomination committee and control committee, as set out in the LCGC).

**Section Three – The Obstacles Affecting the Applications of the LCGC:** In this section the respondents were asked to provide their views on obstacles affecting the applications of the LCGC.

### 4.6.2.1.3 Piloting the Questionnaire and Assessment of Validity

The final and most important step in the design process of the questionnaire is the piloting stage. Oppenheim (2000) listed the following aims for conducting a pilot study:

1- To test the reliability and validity of the instrument to avoid any future problems.
2- To ensure the accessibility to the study participants.
3- To confirm the future co-operation with the participants.
4- To test the methodological techniques.

Therefore, a number of procedures were employed before conducting the final survey. The first step in piloting the questionnaire involved the first draft of the questionnaire being formulated in the English language. It was presented to the supervisory team and some university staff to give their comments on the questionnaire. Other copies were given to my colleagues (PhD students) and they were asked for their comments and advice. Based on the feedback from these individuals, several modifications were made to the wording of some questions, some of which were also clarified.

In the second stage, the questionnaire was translated into Arabic. Similar procedures to those used in the preparation of the questions of the semi-structured interviews (A) were followed in the design of the questions of the questionnaire.

The final step was conducted in Libya. Fink (2003) argues that the minimum number of ten copies is sufficient for a pilot test. The Arabic version of the questionnaires was personally distributed to the two main targeted groups. These included 9 external auditors, 7 academic and 12 members from companies listed staff. Out of the 26 personally distributed questionnaires, 20 usable questionnaires were received making an overall response rate of 77%.

The purpose of conducting the pilot study in three stages was to reveal any weaknesses or contradictions in the questions, to correct them prior to the main survey and, at the same time, to test and improve reliability and validity where the questions posed elements of vagueness and difficulty. It was also essential to assess the length of time respondents might need to complete the questionnaire. In this respect, the researcher had two purposes in mind: to maximise response rate and to minimise error frequency. Finally, and most importantly, it was necessary to test the questionnaire's ability to do the job for which it was designed. However, at every stage, points emerged, indicating that changes needed to be made before the final draft of the questionnaire could be completed and distributed. Moreover, the positive reactions of the pilot study were taken into account in constructing the final questionnaire.

#### 4.6.2.2 The Population and Sampling of the Research

The choice of research participants is one of the most important issues that determine the quality of the produced data. Therefore, it is highly recommended by Denscombe (2007) that researchers choose the right population to participate in research studies. According to Sekaran (2003), population refers to: "the entire group of people, events or things of interest that the researcher wishes to investigate" (Sekaran, 2003, p. 265).

The populations identified for this study comprised of two Libyan groups; the first consisted of the staff of companies listed on the LSM (senior managers and employees in the financial function), and the second consisted of Libyan experts (external auditors and academics). The main reason for choosing these particular groups was based on previous research that had identified them as the most relevant groups as regards the issue of corporate governance (Kadir, 1999; Nganga, Jain et al., 2003; Solomon, Lin et al., 2003; Limpaphayom and Connelly, 2004; Al-Ajlan, 2005; Sori & Karbhari, 2006; Okike, 2007; Gupta, 2008; Wanyama, Burton et al., 2009; Wong, 2009). Thus, these groups' perceptions of corporate

governance practices are worthy of study. In addition, these two groups include professionally qualified and trained individuals, who are capable of making informed judgements about the subject of this study. The justification for targeting these groups is as follows:

**Internal group:** The first group consisted of the staff of companies listed on the LSM (senior managers and employees in a financial capacity). They were selected because they were responsible for the implementation of the LCGC in their companies. It was very beneficial to know their views regarding the issue of corporate governance in general and the LCGC in particular. Furthermore, it was very important at this stage to see how this group perceive the current obstacles to the application of the LCGC that were mentioned by the board of directors in the first stage of semi-structured interview A.

**External group:** The second group consisted of Libyan experts (external auditors and academics). They were selected because of their expert knowledge and their understanding of the importance of corporate governance. Furthermore, external auditors, who are members of the Libyan Accountants and Auditors Association (LAAA), are legally allowed to practise accounting and auditing. They are professional persons expected to detect the application of corporate governance and to report any incompliance with LCGC from their auditing findings. Therefore, they should have authority and be less biased in providing information on corporate governance issues.

Academics, furthermore, are involved in teaching accountancy, finance, management, and economy modules in the Faculty of Business of Libyan universities. Those academics are very important subjects for a survey due mainly to their knowledge and experience. For the purpose of the current study, the academics interviewed are all working as full time members of staff in the Faculty of Business in the three main Libyan universities (El-Fateh University in Tripoli, Garyounis University in Benghazi and the Academy of Graduate Studies in Tripoli and Benghazi).

Having defined the populations intended for this study, a sample has to be selected which can be seen as representative. This process is known as sampling. Sekaran (2003, p. 266) defines sampling as: "The process of selecting a sufficient number of elements from the population, so that a study of the sample and an understanding of its properties or characteristics would make it possible for us to generalise such properties or characteristics to

the population elements ". The main reason for using samples, rather than collecting data from entire populations, is that it is less prohibitive in terms of time, cost and other resources, especially when a large number of elements are involved and sometimes in different geographical areas.

There are two main forms of sampling: probability and non-probability. In probability sampling, each unit will have a known, non-zero chance of being selected, while in non-probability sampling, the chances of being selected are not equal for each unit (Sarantakos, 2005). Probability and non-probability sampling are also known respectively as random and non-random sampling. Moreover, probability sampling is employed in many forms (e.g. simple, systematic, stratified, cluster and other random sampling), while non-probability sampling is employed in four forms: accidental, purposive, quota and snowball sampling (Sarantakos, 2005).

It is important to note that information on an individual group is not publicly available in Libya. In the light of this as well as other factors – the limitation of resources, the lack of a post-coding system to use, and the fact that no reliable list of names of all groups was available – the non- probability sampling 'non-random' was used.

The researcher mainly used purposive sampling. According to Saunders et al.(2009), purposive sampling enables researchers to use their judgement to select cases that will best enable them to answer their research questions and to meet the research objectives. Purposive sampling maximises the chance of obtaining accurate information about the studied phenomenon as it relies upon choosing those who have both the experience of the phenomenon and also the ability to communicate their experience of that phenomenon (Sarantakos, 2005). Therefore, the specific individuals were selected based upon their availability and willingness to participate in the survey. A major consideration was whether individuals belonged to those two groups that would be likely to have up-to-date knowledge of, and concern about, issues relating to the corporate governance in Libya.

#### 4.6.2.3 Questionnaire Distribution and Collection

Because the survey was confined to some specific locations (the main cities in Libya), the method of personally distributing and collecting questionnaires was adopted in the current research. The main advantages of this method, as Sekaran (2003, p. 187 ) mentions, are:

- "The researcher or a member of the research team can collect all the completed responses within a short period of time;
- Any doubts that the respondents might have on any question could be clarified on the spot;
- The researcher is afforded the opportunity to introduce the research topic and motivate the respondents to offer frank answers;
- Administering questionnaires to a large number of individuals is less expensive and consumes less time than interviewing;
- It does not require as much skill to administer the questionnaire as to conduct interviews".

The distribution and collection process of the questionnaires were conducted with the assistance of the companies listed on the LSM and its branches, Faculty of Business in the three main Libyan universities, the LAAA and its branches and accounting and audit firms. The distribution and collection process was conducted in Libya between October and December 2009 and planned as follows:

**First**, the handing-over visits. The questionnaires with the attached covering letters were personally delivered to the coordinators, such as managers of departments or directly to the selected subjects from the two targeted groups.

**Secondly**, other visits were made in order to collect completed questionnaires from coordinators and to thank them. They were also asked to inform non-respondents that there was a ten day deadline for completing the questionnaire.

**Finally**, a final visit was made to collect the remaining completed questionnaires.

Based on the above procedures, 208 usable questionnaires out of the 300 personally distributed questionnaires were collected making a response rate of 69%. A summary of the number of the distributed and collected questionnaires for each group of the targeted population is illustrated in Table 4.4.

**Table 4.4 Responses to the Questionnaire Survey for Each Group**

| Type | Distributed Questionnaires | Received Questionnaires | Unanswered Questionnaires | Answered Questionnaires | Percentage |
|---|---|---|---|---|---|
| **Companies' staff** | 150 | 106 | 6 | 100 | 67% |
| **Libyan Experts** | 150 | 110 | 2 | 108 | 72% |
| **Total** | **300** | **216** | **8** | **208** | **69%** |

### 1- Responses to the Questionnaire of Company's Staff

Table 4.5 shows the responses from Libyan company staff in forms of frequency and percentages.

With regard to responses to the questionnaires distributed to staff, 8 companies were consulted to provide respondents. Of the 100 questionnaires returned, 13% were from Wahda Bank, 13% were from Gamhuria Bank, 9% were from Alsari Bank, 10% were from Sahara Bank, 14% were from Bank of Commerce and development, 15% were from Libya insurance company, 11% were from Al-Sahara insurance company and, finally, 15% were from Al-Sahara insurance company.

**Table 4.5 Responses to the Questionnaire of Company's Staff**

| N | Company Name | Frequency | Percentage |
|---|---|---|---|
| 1 | Wahda Bank | 13 | 13% |
| 2 | Gamhuria Bank | 13 | 13% |
| 3 | Alsari Bank | 9 | 9% |
| 4 | Sahara Bank | 10 | 10% |
| 5 | Bank of Commerce & Development | 14 | 14% |
| 6 | Libya of Insurance Co | 15 | 15% |
| 7 | Al-Sahara Insurance Co | 11 | 11% |
| 8 | Al-Sahara Insurance Co | 15 | 15% |
| | **Total** | **100** | **100%** |

### 2- Responses to the Questionnaire of Libyan Experts

Table 4.6 shows the responses from Libyan experts in forms of frequency and percentages. Questionnaires were distributed to academics and external auditors. As regards the percentage of respondents, 67.6% academics returned the questionnaires and 32.4% external auditors.

**Table 4.6 Responses to the Questionnaire of Libyan Experts**

| N | Job position | Frequency | Percentage |
|---|---|---|---|
| 1 | **Academics** | 73 | 67.6% |
| 2 | **External Auditor** | 35 | 32.4% |
| | **Total** | **108** | **100%** |

#### 4.6.2.4 Reliability of the Study

Assessing the reliability of the data is important prior to any statistical analysis. Reliability analysis allows for study of the properties of measurement scales and the items that make them up.

According to Collis and Hussey (2003), reliability is concerned with the results of the research. Sekaran (2003) states that: "The reliability of a measure indicates the extent to which it is without bias (error free) and hence ensures consistent measurement across time and across the various items in the instrument "(Sekaran, 2003, p. 203).

Many approaches can be utilised to assess the reliability of the data. However, in this study, Cronbach's Alpha was used due to its relevance to the analysis of questionnaires based on the five-point Likert scale. These measures the internal consistency of the questionnaire based on the average inter-item correlation of the items. Moreover, Pallant (2007) states that Cronbach's Alpha Coefficient is one of the most commonly used indicators of internal consistency.

Table 4.7 below shows the results of the reliability analysis of the six dimensions that were included in the questionnaire. As can be seen, the Cronbach's Alpha Coefficient is 0.87. Sekaran (2003) mentions that the closer the reliability coefficient gets to 1.0, the better. In addition, he states those reliabilities less than 0.60 are considered to be poor, while those in the range of 0.70 are acceptable. Thus, the internal consistency reliability of the measures used in the current study can be considered to be acceptable.

**Table 4.7 Reliability Analysis**

| No | Statements | Number of items | Alpha |
|---|---|---|---|
| 1 | Shareholders Rights | 18 | 75.44 |
| 2 | Board of Directors | 22 | 65.45 |
| 3 | Disclosure and Transparency | 20 | 76.31 |
| 4 | Conflict of Interests | 6 | 60.47 |
| 5 | Audit Committee | 13 | 72.96 |
| 6 | Nomination Committee | 7 | 86.12 |
| 7 | Control Committee | 7 | 62.56 |
| 8 | Obstacles affecting the applications of the LCGC | 15 | 96.60 |
| | **Total** | **108** | **87.16** |

### 4.6.3 Stage Three: Semi-Structured Interviews (B)

In the last stage of this study, the qualitative method of semi-structured interviews (B) was employed. The main purpose of this method was to examine the views of the Libyan officials and regulators in relation to removing the obstacles – identified in the first two stages – facing the application of the LCGC.

Therefore, for the above purpose, the researcher has developed an interview guide which contains a list of topics followed by some questions (see Appendix D and E) that need to be covered during the interviews. The interview guide has four main sections: the first section concerns general information about the interviewees; the second section contains an overview of current corporate governance practices; the third section deals with the identified obstacles; and the last section is about future development.

The questions of the interview guide were originally written in English and then translated into Arabic. The translation process needed some additional care in order to avoid any mistranslation of the words, expressions and concepts that were used in the construction of the questions. Therefore, similar procedures to those used in preparing the questions of the semi-structured interviews (A) were followed in the design of the questions of the semi-structured interviews (B).

The semi-structured interview (B) was conducted between May and June 2010. Twelve interviews represented four Libyan officials and four regulatory bodies –the Ministry of Trade and Economy (MTE), the Libyan Stock Market (LSM), the Insurance Monitoring Body (IMB) and the Central Bank of Libya (CBL) – as illustrated in Table 4.8. Indeed, the decision in choosing these four groups depended on their relationship with the scope of this study and its objective as mentioned earlier.

Hence, it was decided to interview participants from four groups. First, the MTE was approached, since it represents the highest authority and oversees all economic sectors in Libya. Secondly, the LSM is also essential as it issued the LCCG and is regarded as the only means to monitor the application of this code. Thirdly, IMB and the CBL were included because they supervise the insurance companies and banking sectors. They were investigated in the first stage of this study. Furthermore, those particular interviewees were selected based upon their position in these four Libyan officials and regulatory bodies. Another factor that

influenced the selection of those interviewees was their knowledge, experience and participation in the field of corporate governance.

**Table 4.8 Libyan Official Bodies and Interviewees Positions**

| No. | | |
|---|---|---|
| 1 | Official Bodies | Ministry of Trade and Economy (MTE) |
| 2 | | Libyan Stock Market (LSM) |
| 3 | | Central Bank of Libya (CBL) |
| 4 | | Insurance Monitoring Body (IMB) |
| | | |
| 1 | Position | Manager of corporate department |
| 2 | | Deputy - manager of corporate department |
| 3 | | Member of corporate department |
| 4 | | Chairman of the board |
| 5 | | Ex- deputy chairman of the board |
| 6 | | Head of Supervision and control department |
| 7 | | Ex-Member of control committee |
| 8 | | Deputy - manager of bank monitoring board |
| 9 | | Head of documentary credit department |
| 10 | | Manager of auditing department |
| 11 | | Department manager |
| 12 | | Member of corporate department |

## 4.7 Data Analytical Techniques

### 4.7.1 Analysing Qualitative Data - Stages 1 and 3

Unlike quantitative data analysis, qualitative data analysis does not have a standardised approach to the analysis of data (Collis & Hussey, 2003; Punch, 2005; Saunders, et al., 2009). For the purpose of answering the research questions, thematic analysis technique was used to analyse data that was collected from the semi-structured interviews A and B. Saunders et al., (2009) provided a general strategy for qualitative data analysis:

- Categorisation – to understand the statements and establish meanings within the current context. This is important to generate the meanings based on the purpose of this research.
- Data rearrangement and reduction – guided by the literature and the purpose of the research, to identify related ideas or discussions for broad themes development.

Recognising relationships and forming additional categories – to analyse the reorganised data and to generate key themes, patterns, or relationships.

According to Brauna and Clarkeb (2006), "thematic analysis is a method for identifying, analysing and reporting patterns (themes) within data. It minimally organises and describes your data set in (rich) detail. However, frequently it goes further than this, and interprets various aspects of the research topic". Furthermore, Brauna and Clarkeb (2006) provide an guide for the six phases of analysis, and offer examples to demonstrate the process as summarised in Table 4.9.

**Table 4.9 Phases of Thematic Analysis**

| N | Phase | Description of the process |
|---|---|---|
| 1 | Familiarizing yourself with your data | Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas. |
| 2 | Generating initial codes | Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code. |
| 3 | Searching for themes | Collating codes into potential themes, gathering all data relevant to each potential theme. |
| 4 | Reviewing themes | Checking if the themes work in relation to the coded extracts (Level 1) and the entire data set (Level 2), generating a thematic 'map' of the analysis |
| 5 | Defining and naming themes | On-going analysis to refine the specifics of each theme, and the overall story the analysis tells, generating clear definitions and names for each theme. |
| 6 | Producing the report | The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis to the research question and literature, producing a scholarly report of the analysis |

Source:(Brauna and Clarke, 2006)

According to these phases, the qualitative data was analysed by using thematic analysis. These procedures were applied in order to determine the themes and patterns in the data. Concepts underlined in the analysis were analysed according to the research framework. Also, new themes or concepts that were highlighted in the interviews were handled in a flexible way and considered in relation to the research framework.

### 4.7.2 Analysing Quantitative Data – Stage 2

There are numerous statistical techniques, which can be used in analysing the data captured by the questionnaire employed in this study. According to Oppenheim (2000), different statistical tools will have to be used for different purposes depending on the nature of the data. In this respect, Pallant (2007) suggests that when designing research, this gives

them a wider range of possible techniques to use for the analysis of data. Therefore, the methods and techniques utilised in this study include (1) descriptive statistics and (2) non-parametric tests (i.e. testing the differences between independent samples).

#### 4.7.2.1 Descriptive Techniques

With regard to the use of the descriptive techniques, Pallant (2007) states that descriptive statistics (e.g. mean, median, standard deviation, etc) have different usage, for example, to describe the characteristics of the participants of the study, to check the variables for any violation of the assumptions underlying the statistical techniques that will be used to address the research questions, and to address any specific research questions.

Therefore, descriptive statistics were used in this study to describe the characteristics of the participants of the study and to assist in answering the questions of the research. The main aim of the questionnaire is to seek the respondents' opinions and general attitudes toward the introduction of the LCGC by the LSM and as regards the current obstacles facing the application of the LCGC.

The 'mean' was the main statistical method employed in this study to analyse the participants' returns. The idea is that for a particular item on the questionnaire, the researcher aims to compute the mean value that underscores the respondents' behaviour with respect to the stated research question. The questionnaire in this study utilises a five-point scale in the majority of the questions (strongly agree = 5, agree = 4, neutral = 3, disagree = 2, strongly disagree = 1), where 1 represents the lowest point and 5 indicates the highest point. The respondents' average (i.e. the mean) response to a question or an issue is ranked in order. That is to say, a response with a mean score of 4.5 is ranked higher than the one with a mean score of 3.5. This ranking represents the strength of responses from 'important' to 'not important', or from 'agree' to 'disagree'. However, it is important to note that this was the case with regard to the positive statements, while the negative statements were scaled in reverse order (strongly disagree = 5, disagree = 4, neutral = 3, agree = 2, strongly agree = 1).

Robson (2002) argues that "the most common is to have five fixed-alternative expressions, labelled 'strongly disagree', 'disagree', 'neutral', 'agree', 'strongly agree'. Weights of 1, 2, 3, 4, and 5 whether the statement is positive or negative (e. g. 5 for a 'strongly agree' with a positive statement, and 'strongly disagree' with a negative statement". Such a ranking order is particularly important for this study because it indicates respondents'

opinions in terms of their perception of the importance of a specific problem or an issue, plus their preferred solutions from the alternatives provided.

#### 4.7.2.2 Non-Parametric Test

Bryman (2007) indicates that there are two broad classifications of statistical tests used in data analysis, namely parametric and non-parametric. The use of parametric tests is said to be appropriate when the following assumptions are adhered to:

1. The observations must be independent of error.
2. The observations must have equal variance in the various treatment populations.
3. The observations must be drawn from normally distributed scores in the treatment of the population.
4. The variables must have been measured in at least an interval scale.

Conversely, non-parametric tests in social science research are equally as important as their parametric counterparts. Siegel and Castellan (1988) argue that behavioural scientists rarely have data that satisfies the assumptions of the parametric test, which includes achieving the sort of measurement that permits meaningful interpretation of parametric tests. Hence, non-parametric statistical tests play a prominent role in behavioural and social sciences.

This technique is considered distribution-free due to the fact that it makes no assumption about the distribution of scores in the population. In fact, non-parametric techniques do not necessitate measurement on an interval scale and do not require the data to fulfil the strict assumptions of parametric methods, such as normality and homogeneity of variance (Siegel and Castellan,1988). From the above discussion, the non-parametric test was clearly preferable and therefore employed in this study to analyse questionnaire survey data, because the data collected did not meet the conditions necessary for the application of parametric testing, such as being an interval scale and the sampling employed is not random. However, it is important to recognise that it is disadvantageous to use non-parametric methods when all the assumptions of the parametric procedures are met and the data is to be measured on either an interval or ratio scale.

**Mann-Whitney U test:**

The Mann-Whitney U test is a non-parametric test of the differences between two independent groups on a continuous measure (Pallant, 2007). More specifically, it compares two sample means on a continuous measure and determines whether two population means significantly differ. It converts scores on the continuous variable to ranks across two groups and assesses significant differences between two groups. It is an alternative to the independent sample t-test for two independent samples in the parametric test when the assumption of normal distribution of population is held (Pallant, 2007). This technique was applied to test the difference in perceptions between two Libyan groups: the Libyan listed companies' staff and the Libyan Experts.

## 4.8 Conclusion

The major methodological concern of the study can be summarised as producing a framework capable of capturing the unique context of Libya's business environment, while also identifying the attitudes and perceptions of Libyan corporate governance stakeholders to the LCGC thus:

The ontological approach of the study was a mixed-methods one, employing different perspectives to understand the research object, leading to more 'holistic' picture and understanding, and helping to create a closer 'truth, while at the same time allowing the respondents to the study to express opinions and ideas freely and openly.

The research functions under a pragmatic paradigm, which leads to the selection of a sample including those Libyans best placed to voice ideas and opinions on corporate governance; academics, experts, and the managers and directors of companies listed on the LSM. This sample provides a wide range of competencies and expertise on the subject under investigation – and in some part can be considered as 'stakeholders'.

The nature of the field-work and the time-consuming approaches to data collection and analysis dictated a relatively small sample; however, this was consistent with the depth of corporate governance practice's penetration into Libyan business life. Statistical techniques were employed to make comparisons between the opinions of different groups of respondents.

The methodological approaches adopted by the study have determined the structure of the remainder of the study. In seeking to meet the objectives of the study through the three research stages described in section 4.5, the research adopts a mixed-methods approach as illustrated in table 4.2. Accordingly, the next three chapters (five, six and seven) report and analyse the findings of each of the three stages of the data collection process, which in combination meet the study's aim and represent its contribution.

# Chapter Five

# Analyses and Results of Semi-Structured Interviews (A) With Eight Libyan Listed Companies

## 5.1 Introduction

The first stage of this study is to collect the primary data from semi-structured interviews. This method seeks to explore the nature and extent of current corporate governance practices within the eight listed Libyan companies following the introduction of the LCGC. It also attempts to identify the current obstacles facing the application of the LCGC. As a consequence, this chapter is divided into three sections. The first section provides the general information about the interviewees; the second focuses mainly on current corporate governance practices within these listed companies; and the third deals with the current obstacles facing the application of the LCGC.

## 5.2 General Information about the Interviewees

The semi-structured interviews (A) were conducted during September 2009 with seven members of the boards of directors and a general manager. Each interview included 25 questions and took, on average, one hour (see Appendix A). Table 5.1 provides some information concerning the interviewees.

Table 5.1 shows the respondents' place of work, position, education and level of experience. Generally, they are from different companies and occupy different positions, these being: member of board of directors in Wahda Bank, Chairman of the board of directors in Gamhuria Bank, General Manager in Alsari Bank, member of the board of directors in Sahara Bank, member of board of directors in Bank of Commerce and Development, member of the board and manager of Benghazi branch in Libyan Insurance Co, member of the board of directors in Al-Sahara Insurance Co and member of the board of directors and general manager in United Insurance Co.

Regarding respondents' qualification, four of them hold masters degrees, two possess a PhD, while the remaining two hold bachelor degrees. Furthermore, three qualified in the United States, three others qualified in Libya, while the remaining two qualified in the UK and France. With regard to work experience, three have experience of more than 20 years

three others have experience of more than 25 years; while the two remaining have more than 30 years of experience.

| Table (5.1) General Information about the Interviewees | | | | | |
|---|---|---|---|---|---|
| **NO.** | **Interviewee Name** | **Position** | **Qualification Level** | **Qualification Place** | **Years of experience** |
| 1 | (AB1) | Member of board of directors | Master in Accounting | Libya | More than 20 years |
| 2 | (AB2) | Chairman of the board of directors | PhD in Banking | UK | More than 25 years |
| 3 | (AB3) | General Manager | Master in Banking & Finance | France | More than 20 years |
| 4 | (AB5) | Member of board of directors | PhD in finance | USA | More than 25 years |
| 5 | (AB4) | Member of board of directors | Bachelor in Accounting | Libya | More than 25 years |
| 6 | (AI2) | Member of board and manager of Benghazi branch | Bachelor in Finance and Insurance | USA | More than 30 years, since 1973 |
| 7 | (AI3) | Member of board of directors | Master in Banking & Finance | Libya | More than 20 years |
| 8 | (AI1) | Member of board of directors & General manager | Master in International law and Financial Institutions | USA | More than 30 years |

### 5.3 Current Corporate Governance Practices

The second part of the interview contained respondents' information about current corporate governance practices of Libyan listed companies. According to some academic studies (Fawzy, 2003; Nganga, Jain et al., 2003; Solomon, Lin et al., 2003; Saidi, 2004; Arce & Robles, 2005; Chong & López-de-Silanes, 2007; Okike, 2007; Black, Carvalho et al., 2008; Gupta, 2008; McGee, 2008; Wanyama, Burton et al., 2009; Wong, 2009) corporate governance mechanisms include ownership structure, shareholder rights, board of director's structure and responsibilities, conflict of interest, discourse and transparency and board committees. At the international level, the World Bank–IMF (2001; 2003; 2004) and the

OECD (1999, 2004) principles have introduced the same corporate governance mechanisms. Moreover, these mechanisms are covered by corporate governance codes in various countries all over the world, such as in the UK (The Combined Codes, 2006), in Egypt (The Egyptian Code, 2005) and in Libya (LCGC, 2007). Therefore, the interviewees were asked about the application of corporate governance mechanisms.

### 5.3.1 Ownership Structure

Table 5.2 shows the two types of ownership structure in listed Libyan companies. Under the concentrated ownership fall three other categories, which are government, institutional and foreign shareholders. On the other hand, distributed ownership is composed of individual and small private companies.

**Table (5.2) Ownership Structure**

| Company Name | Concentrated Ownership 5% or more | | | Distributed ownership less than 5% |
|---|---|---|---|---|
| | Government (%) | institutional shareholders (%) | Foreign shareholders (%) | Individual & small private companies (%) |
| Wahda Bank | 54.1% | ___ | 19% | 26.9% |
| Gamhuria Bank | 89% | ___ | ___ | 11% |
| Alsari Bank | ___ | 8% | ___ | 92% |
| Sahara Bank | 5% | 5% | 19% | 71% |
| Bank of Commerce & Development | ___ | 15% | ___ | 85% |
| Libyan Insurance Co | 45% | 17% | ___ | 38% |
| Al-Sahara Insurance Co | 46% | 10% | ___ | 44% |
| United Insurance Co | ___ | 31% | ___ | 69% |

Source Libyan Stock Market (2009)

The table also shows the different companies involved in the research with their ownership structure in percentages.

Wahda is 54.1% in government ownership, 19% foreign shareholders and 26.9% individual and small private companies. In Sahara Bank is, 4% is government ownership, 5% institutional shareholders, 19% foreign shareholders and 72% individual and small private companies. Gamhuria Bank is 89% government ownership and 11% individual and small private companies. For some banks, government ownership represents the majority of shareholders.

This is in line with Berglof and Claessens (2004), Omrana et al.,(2008) and Wei and Geng (2008), whose study found that government ownership represented the majority of shareholders in China. Consequently, they exercised a strong control in corporate governance and impaired the rights of other minority shareholders in the arrangement of corporate governance. Furthermore, Wei and Geng (2008) conducted a study on listed companies in China, and concluded that the government, as the majority shareholder exercised a strong control in corporate governance and, consequently, impaired the rights of other minority shareholders in the arrangement of corporate governance.

Alsari Bank is 8% institutional shareholders and 92% individual and small private companies. Bank of Commerce & Development is 15% institutional shareholders and 85% individual and small private companies. Libyan Insurance Co is 45% government ownership, 17% institutional shareholders and 38% individual and small private companies. Al-Sahara Insurance Co is 46% government institutions, 10% institutional shareholders and 44% individual and small private companies. United Insurance Co is 31% institutional shareholders and 69% individual and small private companies.

These results are also in line with findings and recommendations made by Hartzell and Starks (2002), Chung et al., (2002) and Baek et al., (2004), who stated that an institutional shareholder may take the role of monitoring all the actions and decisions taken by the firm's top management.

### 5.3.2 Rights of Shareholders

The studies of the IMF (2001; 2003; 2004) in many countries around the world suggested that the corporate governance framework should protect the rights of shareholders to secure methods of ownership registration, to convey or transfer shares, to obtain relevant information on the company on a timely and regular basis, to participate and vote in the AGM, to elect members of the board and to share in the profits of the company.

Furthermore, the OECD (1999, 2004) established the same basic rights of shareholders, which included voting rights, rights to obtain relevant and timely information, rights to share in the profits and rights of attendance and participation at the AGM . Therefore, participants were asked to give their opinion on how effective their company had been applying the LCGC regarding the rights of shareholders:

#### 5.3.2.1 Voting Rights

**1. Voting by Mail or the Internet**

Nam and Nam (2004) state that "use of the internet and other information technologies can be helpful for the timely and cost-effective dissemination of information and can also facilitate action by shareholders".

According to the interview data, all eight companies do not use voting by mail or the internet and they emphasised that personal attendance is necessary for voting at the AGM, which means that technology cannot be used. Furthermore, some participants attributed the lack of the use of technology to the existence of some difficulties, both cultural and educational, in Libya in particular and in most Third World countries in general.

As the chairman of Gamhuria Bank stated:

> *"Personal attendance at the AGM is required as no other means of voting are allowed. Furthermore, according to my personal opinion, even if the company allowed their shareholders to use the internet in voting, as you know, there are some cultural and educational difficulties that will face most of the shareholders in using such a technique, at least at the present time in Libya" (BB2).*

Additionally, a board member of Al-Sahara Insurance Co argued that

> *"Personal attendance at the AGM is obligatory. As for the internet, it is too difficult to use for such purposes for the time being, not only in Libya but, in my view, most developing countries face problems in using this technique" (AI3).*

These results are in line with findings reported by Leal and Carvalhal-da-Silva (2005). They conducted a study of corporate governance practice in Brazil. Their study revealed that more than 90% of the companies did not facilitate voting by mail or the internet.

**2. Proxy and Cumulative Voting**

The majority of companies (six out of eight) used proxy voting and the other two companies did not use it at all. Of these two companies, Central Bank of Libya had only recently placed a small portion of its shares on the stock market, while the other company had only held one AGM. However, all the interviewees were in support of proxy voting. They argued that it is acceptable for a shareholder to delegate another shareholder to attend the AGM and vote for him in his absence.

The OECD (2004) has stated that there is still a need to increase further worldwide consideration of proxy voting, notwithstanding the timely receipt of relevant resources prior to shareholders' general meetings. In addition, this result is also supported by the findings of Nam and Nam (2004), whose study investigated corporate governance practices in four Asian countries (Indonesia, Korea, Malaysia and Thailand) and found that all use proxy voting, although in Indonesia, shareholders seem less able to use this right compared with the other countries. Some statements from the interviewees may illustrate these points:

> *"Proxy voting is a lawful right as the shareholder is allowed to authorise another shareholder to attend the AGM as long as this authorisation is legal and within the time and place of session, but cumulative voting is not followed"(HI3).*

> *"A shareholder has the right to delegate another shareholder to attend the AGM, but he has the legal right to represent only one. However, there may be some transgressions. Cumulative voting is not followed" (CB3).*

> *"Proxy voting is used and a shareholder may authorise another shareholder to represent him or her in the AGM as long as that is done legally within the time and place of the AGM, but cumulative voting is not followed "(AB1).*

The policy of cumulative voting is not used by any company, in spite of its importance in protecting the rights of minority shareholders by allowing them to work as a group to elect a candidate of their choice to represent them and safeguard their rights as a member of the board of directors (McGee, 2008). Additionally, the LCGC recognised the importance of this policy and noted that "The Company may use the policy of cumulative voting to elect members of the board of directors at the AGM" (LCGC, 2007).

#### 5.3.2.2 Obtaining Relevant and timely Information and the Right to Share Profits

The interviewees argued that all shareholders (both majority and minority) have full right to obtain both financial and non-financial information regarding the company's operations through financial and non-financial reports two weeks before the AGM, except the majority shareholders who can access the information on request. However, shareholders do not have the right to know about the internal operations of companies and all other confidential details. For instance, they cannot go through the company's books of account.

Some companies do not present their reports on time as a board member in the Bank of Commerce and Development mentioned:

> *"Of course, all shareholders have a legal right to obtain information on time – through budget and other statements – according to what the bank management discloses in order to keep them informed of relevant data two weeks before the general assembly is held. However, they do not have the right to know any information related to the work and/or confidential to the bank. Generally speaking, shareholders and investors have the right to acquire financial and non-financial information, but as for timeliness, the statements that contain such information are practically delayed" (AB4).*

In addition, a board member in Sahara Bank stated:

> *"As for major shareholders, they get the information on request automatically, as they own the bulk of shares, while the only channel for the minority is the financial statements disclosed by the stock exchange, newspapers, or the bank branches. All documentary papers are collected prior to the general assembly in order to ensure that all the participants are informed" (AB5.)*

This matches the views of Milan (2007), who argues that shareholders should be fully informed of all the procedures and other details governing shareholders meetings, so that they are prepared and can send their queries both before and during the meeting.

In terms of sharing profits, six out of eight interviewees had the same idea. They agreed that their companies have no clear dividend policy with regard to the distribution of dividends. They claimed that the dividend policy is set by the board of directors and

approved, adjusted or rejected by the general assembly. A board member in the Libyan of Insurance Co pointed out:

> *"As a matter of fact, there is no clear policy in this regard, but the board of directors makes proposal of profits distribution and that doesn't mean it is entitled to deciding such policy as the assembly may reject it. In fact, the board suggested a policy in the last meeting and the assembly adjusted it" (AI2).*

However, the other two interviewees argued that they have a clear dividend policy. The dividend is a fixed percentage of the total profit. In support of this, a board member in Sahara Bank said:

> *"Here, there is a clear dividend policy. Over the last two years, the bank paid 15% of the profit. This policy lies within the function of the board of directors before being submitted to the general meeting". (AB5).*

This point has relevance to the IMF (2004) statement that shareholders have the right to attend and vote at the annual general meeting, the right to vote on the appointment and removal of directors and auditors, and the right to receive dividend payment. They also have the right to declare dividends and to decide on the amount to be declared as dividend falls within the powers of the board.

#### 5.3.2.3 Rights of Shareholders to Attend and Participate at the AGM

All the companies tend to apply the rules of Libyan commercial law of rights regarding shareholders at the AGM. The announcement of the meeting should be made at least eleven days before the AGM and it should also be advertised in local newspapers. All the companies state that they are keen to choose carefully the dates and places of a meeting in order to achieve maximum attendance of shareholders. Also, all the other information included in the AGM agenda are disclosed ahead of time to enable the shareholders to get hold of this before the meeting. Some quotations from interviewees may illustrate these points:

> *"The bank ensures all the rights related to the AGM. It announces the meeting in local newspapers as well as on the bank website; sends personal notes to shareholders two weeks before the meeting; and chooses an appropriate time and location to encourage the concerned parties to attend the meeting. It also*

*provides the shareholders with leaflets, which includes relevant information beyond all other information, agenda and financial statements released. Attendants are only allowed to discuss what is reported in the agenda." (EB5).*

*"The AGM is announced 11 days prior to its meeting in two local papers according to the commercial law. When the meeting is held, a person would be legally appointed to verify that the meeting procedures were performed according to the law. For instance, this assigned person would make sure that the company has made an announcement in local papers and that the quorum is completed along with other legal requirements. Virtually all companies seek to gather as many participants as possible at the meeting, which should be held at the right time and place. For data and information, all participants, both majority and minority, are indeed supplied with this information. They also have the right to discuss and present their opinions as long as that comes within the agenda" (CB3).*

This opinion is in line with recommendation made by the IMF ( 2004) and it supports the findings of McGee (2008), who examined corporate governance practices in eight Asian countries (India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Thailand and Vietnam) and found that all of them are keen to ensure good application of shareholders' rights of attendance and participation at the AGM. His findings showed that India was the best country for applying this right, while Vietnam was the least efficient.

These results were also in line with the findings provided by the UAB (2007); they conducted a survey study on banking sectors in six Arab countries: Yemen, Qatar, Oman, the UAE, Jordan and Egypt. One of their findings showed that shareholders in all surveyed countries, except Yemen and Qatar, enjoyed considerable rights in terms of access to secure methods of ownership registration (95%), the ability to transfer shares (94%), to obtain relevant information on a timely basis (91%), to participate and vote in general shareholders' meetings (96%), the sole authority to elect/dismiss board members (92%) and to profit share (95%).

### 5.3.3 Board of Directors

The board of directors is a central mechanism among the other corporate governance

composition should include a minimum of three independent directors capable of influencing decisions.

Concerning the separation of board responsibilities, all eight companies have different people in the two positions of Chairman and CEO. In the five banking companies, they apply the LBL (1/ 2005), which heavily emphasises that the CEO and the chairman must be different people. In the three insurance companies, they also have different people in the two positions of the Chairman and the CEO, despite the fact that it is not required by the law. The opinions of interviewees may illustrate these points:

> *"The number of board of directors is seven including the chairman and his deputy and all members have good qualifications and experience. Regarding the proportion of non-executive directors, there are four non-executive directors on the board of our company and there are different persons in both positions of CEO and Chairman" (HI3)*

> *"The board size consists of seven members which includes the chairman, and all the board members are non-executive as they are outsiders and do not enjoy any function within the executive management. Also, according to the new banking law, the positions of chairman and the executive manager on the board of directors in a bank must be separated" (CB3)*

> *"There are seven highly qualified members, including the chairman, on the board of directors and only two of them are Libyan. The executive management and the board of directors' membership are totally separated. Also, it is illegal to have the same person as CEO and chairman. Personally, I believe that this is an important step taken by the central bank through the new law" (AB1).*

These results support the findings of Black et al. (2008), which found that most Brazilian companies (62 out of 88 companies) have different persons as CEO and Chairman. These results are also in line with common corporate governance recommendations (Cadbury, 1992; OECD, 2004; The Combined Codes, 2006), which state that the CEO and Chairman positions should be split to prevent the CEO from having too much power over the company. However, these results go against the findings of Abd-Rahman (2008), who found 67.9% of the 30 most active Egyptian listed companies as having no separation between the two functions of Chairman/CEO.

#### 5.3.3.2 Board Tasks and Responsibilities

The participants were asked to give their opinion on the extent to which the boards of their companies carried out the following tasks and responsibilities referred to in the LCGC (2007): setting the company's objective and strategy; issuing rules stipulating the role and responsibilities of the board; setting their own corporate governance rules; writing policies clarifying the relationship with stakeholders; evaluating top management performance; and reviewing the company's internal policies.

1. **Setting the Company's Objectives and Strategy**

According to the interview data, the majority of companies (seven out of eight) reported that their boards of directors play an important role in setting the company's objectives and strategies. A board member in Wahda Bank expressed opinion on this subject in the following terms:

> *"Among the main tasks of the board is setting up plans, strategies and general objectives. In fact, the board has played a significant role in setting out a package of financial and non-financial, short and long-term, goals and strategies" (AB1).*

In addition, the chairman of Gamhuria Bank stated:

> *"The board of directors plays an important role in setting the overall objectives and strategies of the bank as well as the way of accomplishing these goals, especially after the merger of this bank with Al-Oma' bank. This required a reconsideration of these objectives and strategies in order that they were in line with the new operation after the merging process and the movement towards privatization through a flotation of the bank shares in the market and its listing as a stock company" (AB2).*

This supports the findings and recommendations made by the Cadbury Report (1992); OECD (2004); Solomon et al. (2003); Gupta, (2008) and Mallin, (2007), who stated that the board responsibilities are to determine the direction of the company through elaborating its aims, plans, policies and strategies for future success.

However, a board member in the Bank of Commerce and Development claimed that the board did not play an important role in setting the company's objectives and strategies. This role was mainly played by the CEO due to his knowledge of all technical and

professional aspects, while the boards' role was limited to accepting or modifying these objectives and strategies. He put forward the following statement:

> *"According to the law, the board must set the strategy and objectives but in practice it is the general director who sets all plans, objectives and strategies and tries to persuade the board of that. From my experience, I realised that all the tasks that should be undertaken by the board are performed by the general manager due to his knowledge of the technical and professional aspects, while the board meets occasionally only to discuss or confirm what the executive management has proposed. But the tasks and functions reported in this guideline are also included in the foundation system or in commercial and banking law. In the Libyan environment, the board of directors' role is not in fact a position which enables it to carry out such tasks" (AB4).*

These findings do not differ from those of Petra (2005), who identified two major characteristics that help the board fulfil its responsibilities: having a vigorous and diligent board of directors. They should be in a position to understand their responsibilities, so that they may be able to evaluate and approve the corporation's long-term strategies. They should also have a clear understanding of the position of the firm in the industry and oversee management.

**2. Written Rules Stipulating the Role and Responsibilities of the Board**

According to the interview data, the general rules stipulating the role and responsibilities of the board in the banking sector are defined by the LBL (1/ 2005). However, some participants from the banking sector emphasised the need for their own written rules which were heavily required by a foreign partner. Some statements from interviewees may illustrate these points:

> *"There are rules stated in banking law, which clarify the role of the board of directors and set out the tasks and responsibilities entrusted to them. But there are no bank-specific rules due to the importance of this sector in the State's economic process. However, there are clear, rigorous regulations denoting the functions and responsibilities of board of directors in banking law" (AB3).*

> *"There is no effective guideline yet, but the board is now working on preparing a document which specifies its functions, though it is quite aware of them. As you know, foreign partners need to know the tasks and responsibilities. In this context, the bank has benefited from this partner" (AB1).*

Concerning the other three insurance companies, all have their own written rules stipulating the role and responsibilities of the board, which are defined in their institutional contracts. One interviewee stated:

> *"As I have already mentioned, all functions, responsibilities and delegated authorities are specifically documented in the company basic system" (HI3).*

**3. Setting the Corporate Governance Rules of a Company**

All companies do not have their own corporate governance rules despite the LCGC call that these should be formulated by the board of directors of the listed companies. However, the five banking companies are following corporate governance rules that were published by the CBL, though in the others three insurance companies, there are no such rules. All participants tend to give the same reasons for not having their own corporate governance rules, that this business concept is new in Libya. This point was discussed by some interviewees in the following terms:

> *"There is no bank-specific governance code. Instead, the central bank has issued a leaflet on governance and the board of directors knows of it. I am confident that the bank will make its own guideline, but this will take some time. The good news is that the members of the board are greatly concerned with this matter because of their experience" (AB5).*

> *"There are no such rules for the time being. In fact, there are several overlapping reasons for the lack of governance rules, some of which are at the company level and others at a national level. There is a lack of understanding of newly developed concepts such as governance due to its novelty" (AI2).*

It should be noted that all respondents emphasized the need for corporate governance rules due to their importance in preventing corruption in their companies. As one of the interviewees said:

> *"The concept of governance is still new in the Libyan business environment and the transformation to privatisation, but with time, I am sure that interest in this topic will increase in Libya in particular because it has suffered a lot from financial corruption during public ownership. Yet, under the private sector culture, it is in need, more than ever, of such systems in order to keep organisations running and to maximize owners' wealth" (AI1).*

It is relevant to consider at this point the findings and recommendations made by Dahawy, (2008); Wong, (2009); Wanyama et al., (2009): Duca et al., (2007); and McGee (2008), who

examined corporate governance practices in eight selected Asian countries and found that the application of corporate governance principles was weak, which means they all have work to do to meet the guidelines.

**4. Written Policies Clarifying the Relationship with Stakeholders**

With regard to whether written policies are set clarifying the relationship with stakeholders, the interview data shows that all eight companies do not have such policies. However, some participants said that their companies were functioning according to Libyan laws (for example, labour, commercial and banking laws), which ensured the right of all stakeholders. The reason behind the lack of such written policies was that the Libyan business environment had recently moved toward privatisation. Some quotations from interviewees illustrate these points:

> *"The bank works according to a set of laws in order to specify and guarantee some stakeholders' rights. The orientation toward the private sector has just begun. Therefore, a lot of concepts ought to be clarified to maintain these rights" (AB3).*

> *"There are no policies that specify such relations with stakeholders, but the board of directors is quite aware that stakeholders are the core of a bank's direct or indirect concern. Therefore, it performs a set of everyday jobs that sustains their rights and interests "(AB5).*

> *"As I mentioned, there is no specific code for corporate governance or for the stakeholders, but members of the board group all have relevant regulations" (AB2).*

A board member in Libyan of Insurance claimed that there are specific policies clarifying the relationship between the company and the stakeholders:

> *"As I said earlier, the nature of our activity as an insurance company makes a set of rules that guarantee the rights of all concerned parties necessary. Our activity is based on contracts which determine all the rights and obligations of all parties" (AI2.).*

These findings are similar to the recommendations made by the OECD (2004), that the rights of stakeholders should be protected by law. This is in line with Letza et al. (2004), who examined the accountability of stakeholders. They stated that since the local population is likely to be affected in certain aspects by a company's activities, it should extend its accountability to social obligations. In addition, Collier (2008) pointed out that stakeholders

have significant influence in an organisation and, for this reason, they need recognition from the company management. Solomon ( 2007) argued that the company has some duties to discharge to other stakeholders as they are also affected by the company operations in one way or another.

Furthermore, a survey study on the banking sector in six Arab countries conducted by the UAB (2007) showed that the existing regulations and laws of all those surveyed provided priority protection for the rights of stakeholders – banks customers (82%), employees (79%) and creditors (79%). This was followed by protection of the environment (70%) and suppliers (70%). Stakeholders who enjoyed the least level of protection included the communities (58%) and competitors (57%). This result was also in line with the findings provided by Gupta (2008), who found that the regulatory framework of corporate governance in the Indian banking sector was sufficient in protecting the interest of all stakeholders.

**5. Evaluating Top Management Performance**

The majority of the respondents recognised the fact that top management performance was evaluated in different ways. A board member of Wahda bank puts it in the following terms.

> *"The board of directors effectively appraises the executive management using multiple financial and non-financial indicators as well as profit-related indicators. For instance, the bank replaced the executive manager with a Jordanian when the foreign partner was introduced. But as a result of the board evaluation that revealed certain errors, this executive was discharged from his duties and a Libyan executive was assigned as the foreign partner was quite satisfied with Libyan competence. This example explains the role that the board had taken in evaluating the performance". (AB1).*

> Additionally, a board member in the Bank of Commerce and Development explains that *"our company uses a reporting system. Financial and managerial reports as well as general manager and internal auditor reports are submitted both monthly and quarterly to the board which evaluates the performance" (AB4).*

Likewise, respondents noted that performance appraisal was carried out monthly, quarterly and even annually. A board member in Libyan Insurance Company said the following:

> *"We have monthly statistics that reflect how the activities are managed each month. Then this data is grouped into a three-month period and then presented*

*to the board of directors in the form of statements. Through these quarterly reports from all branches, the board may evaluate the executive management performance. Additionally, there are other managerial reports on employment, training and the like, which the board can also appraise in order to determine the managerial and financial performance of executive management" (AI2).*

This result is similar to that provided by Black et al. (2008). They highlighted the important role played by the board members in Brazilian companies in evaluating top management performance. Their investigation revealed that most surveyed companies had replaced the CEO and other officers because of their poor performance. In addition, the results also support the findings of Al-Ajlan,(2005), who examined the roles and responsibilities of the board of directors in Saudi banks. He demonstrated that there was a mix of views among the participants in relation to whether boards of directors in Saudi banks were actually monitoring and controlling the performance of top managements.

**6. Reviewing the Company's Internal Policies**

The interview data shows that the participants clearly recognised that in their companies there existed the practice of reviewing both financial and non-financial policies. Furthermore, some participants mentioned that reviewing the internal policies was the main responsibilities of the board. A board member in the Bank of Commerce and Development clarified this fact:

*"The board responsibility includes reviewing the bank's internal policies. For example, in 2008, it reviewed the old policies and replaced them with new policies that incorporate the latest developments". (AB4)*

Additionally, a board member in Wahda Bank explains that:

*"The board reviews both financial and non-financial policies. Again, the bank has benefited from the foreign partner 'Alarabi Bank' which is staffed by Jordanians. This partner has in many ways contributed in altering several policies as a result of including Jordanian members on the board. There is now a number of committees that work on drawing up these policies professionally for the approval of the board" (AB1).*

It was also the case that some companies used experts to carry out this exercise. This was confirmed by a board member in Sahara Bank:

*"The bank frequently reviews the internal policies with the assistance of experts, if necessary. For example, it has changed local training policies to foreign training policies in order to promote personnel efficiency in all banking areas that utilise developed electronic systems". (AB5)*

It was also evident that some companies reviewed their internal policies in the light of economic conditions. According to a board member and general manager in United Insurance Co:

*"It reviews internal policies now and again based on the executive management reports and the economic conditions and other factors that require revisions". (AI1).*

**7. Internal Control System**

All the respondents revealed that they have an effective internal control system. As a board member in Wahda Bank argued:

*"I think the internal control system is rather good because our country somewhat differs from other countries in terms of the problems that face financial institutes, which have provided a kind of protection. But this alone is not enough; the system must be developed not in our bank but in the inter banking sector" (AB1).*

However, when asked to evaluate how effective they were, some respondents explained that there are some control bodies inside and outside the companies that ensure the effectiveness of such a system. For example, companies are working under the supervision of internal control and internal auditing departments, as well as a 'compliance unit', which follow the regulations issued by the central bank and report back to it. Some statements from interviewees illustrate these points:

*"Yes, I believe it does, as the bank works under three control systems. First, an internal control department which undertakes control operation and evaluates the internal control system. Secondly, there is a department which inspects and follows up the work of the internal control department and which reports directly to the executive management. Finally, there is a so-called compliance unit which follows up the regulations issued by the central bank and reports to it. However, the internal control system isn't perfect". (AB4).*

*"I believe that our control system is effective and well established in spite of the criticism of some internal and external auditors. The bank is submitted to inspection bodies like members' control committees elected by the general assembly. It is also supervised by the Libyan Central Bank, not to mention*

*popular control and follow up body which has the right to oversee any organisation as long as 25% of it is publicly owned. There are also the internal control and reviewing committees of the board. So, it's clear that the bank is subject to several bodies which to my knowledge do not exist in UK." (AB5).*

*"The nature of company work requires the existence of such a system, and it has to be effective. The firm also has an auditing department subordinate to the general manager, as well as internal audit divisions in all the company's branches that directly report to the main audit department in terms of technical operations, but which are managerially run by directors of the branches. Thus, no work could be done without going through the internal audit. For this reason, I think that the company's internal control mechanism works very well compared to other financial or non-financial companies" (AB12).*

Nevertheless, as regards the effectiveness of the internal control system, two participants were hesitant to judge it as excellent due to the fact that the code was still very new in the country. A board member in Al-Sahara insurance Co puts it as follows.

*"The internal control system is rather good, but I can't consider it excellent unless the work guidelines for each job are completed". (Ai3).*

Additionally, a general manager in Sari Bank says:

*"In fact, no bank operating currently in Libya can judge whether its internal control system is effective because it is still developing. The internal control in our bank is still weak presumably due to the lack of competent bodies that fully understand the importance of such a system in order to evaluate it". (AB3).*

These results support the findings provided by Samaha (2010), who claimed that the practices and advantages of a corporate governance system may not have been fully realised in the Egyptian market because the concept is a relatively new for companies.

### 5.3.4 Internal Auditing

Interviewees' respondents were asked whether their company has an internal auditing department and whether their internal auditors were independent and full-time employees. All the respondents agreed that it was beneficial having independent internal auditors, who were highly educated in both accounting and audit. Three out of eight of the respondents argued that the department has complete independence and the internal auditors report directly to the board and audit committee. A board member in Bank of Commerce and Development said:

*"The internal auditing department is exclusively directed by a person who works under direct supervision of the board of directors in order to enjoy total independence. One of the main duties of this department is ensuring the validity of financial and accounting systems as well as soundness of data and measures followed by the executive management". (AB4)* In addition, he stated, *"the chief of the audit department is directly subordinate to the board of directors as there is no audit committee for the time being" (AB4).*

A board member in Sahara Bank explained:

*"This department works directly under the board supervision and has a range of duties concerning financial and managerial supervision. Furthermore, the internal auditor is independently supervised by the CEO and the audit committee also reports monthly to the board." (AB5).*

However, the five remaining respondents said their companies have no audit committee and that the internal auditor is supervised by the CEO and the board. They also pointed out the main tasks of this department are: careful examination and auditing of daily financial operations of the company, ensuring the validity and soundness of financial and accounting systems, and evaluation of internal control. A general manager in Sari Bank stated:

*"This department is working directly under the supervision of the CEO and undertakes some of the most successful tasks within the company. It is conducted by highly qualified internal auditors". (AB3).* A board member and general manager in United Insurance Co remarked: *"As I said, he works under the supervision of CEO as there is no auditing committee". (AI1).*

This finding is in line with a revised definition of internal auditing, which was approved by the Institute of Internal Auditors (IIA). Internal auditing was defined as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes" (The IIA,1999).

### 5.3.5 Conflict of Interest and Board of Directors

In essence, the conflict of interest between shareholders and managers is known as the agency problem, and it always takes place during the decision-making process, if the managers ignore the main role of the organisation (Mallin, 2007).

Moreover, the majority of respondents (seven out of eight) stated clearly that their companies have no clearly written regulations for the directors and staff regarding conflict of interest.

Both the company directors and staff are guided by some rules, which are extracted from labour and commercial laws and other guidelines, as well as comparable regulations regarding what should be done by the employees. However, some respondents claimed that the lack of such written regulations was because the concept of governance is relatively new and the private sector only recently emerged in Libya. As a board member in Libyan of Insurance Co said:

> *"As we all know, the concept of governance is modern and the private sector is new, therefore, it is still early for such regulations. Nevertheless, we work according to rules which stem from labour and commercial laws" (AI2).*

In addition, a board member and general manager in United Insurance Co stated:

> *"I'm afraid not, as governance is a new concept for Libyans in the private sector. There are, however, comparable regulations on what should and shouldn't be done by the employees" (AI1).*

Conversely, a board member in Wahda Bank stated clearly that they have written regulations for the directors and staff regarding conflict of interest. He said that they have rules they follow which are secured by law:

> *"As I said before, there is an effective control system in the bank as well as self-development that go beyond local standards. Indeed, there are rules secured by law that we referred to when considering board responsibilities, although there are by-laws that regulate such relations and specify every authority within the bank and the relations with external parties. Because of our new structure, there is no conflict among most of the stakeholders unlike international banks and companies". (AB5).*

The majority of respondents (seven out of eight) also argued that their company had no written professional code of conduct which directors and staff employees could follow. This may be due to the fact that corporate governance is an emerging field in Libya and that many companies are not aware of its advantages. In support of this, the general manager of Sari Bank remarked:

*"... due to inadequate experience with the private sector, these issues are still somehow not of concern". (AB3).*

This accords with the findings of Dahawy (2008), who found that corporate governance in Egypt was poor due to the lack of knowledge about the needs and benefits of this system. These results also confirm the findings of Duca, Gherghina et al. (2007), who noted that 34.7% Romanian companies did not have a written code of ethics formally establishing the rights and responsibilities of board members and management.

### 5.3.6 Board Committees

#### 5.3.6.1 Audit Committees

Respondents were asked whether their companies had an audit committee. In this regard, three out of eight respondents confirmed that they did, and that this consisted of three of the board members and an accounting expert as chief reporting to the directors. Two of the respondents pointed out its functions as, among others: following the internal control system, internal auditing work and following up external auditor work. One respondent mentioned that they have a guide, which stipulates function, responsibility, the number of meetings and other activities. As the chairman in Bank said:

*"Of course, we have an audit committee and it consists of three of the board members and has an accounting expert as chief. There is also a guide that shows its function, responsibility and number of meetings... of this committee" (AB2).*

Additionally, a board member in Sahara Bank pointed out:

*"The bank audit committee consists of three members of the board of directors including me as I am an accounting expert. The other two are French members. This committee reports to board of directors unlike the control committee that reports to the general assembly. Among its functions, it follows the internal control system, internal auditing work, and it follows up external auditor work. It is not, however, performing all its functions because it is newly formed". (AB5).*

However, five of the eight remaining respondents said that their company did not have an audit committee. They explained that this may be due to the fact that corporate governance is just emerging in Libya and that many companies are not aware of its advantages. Some even did not know anything about it. As a board member in the Bank of Commerce and Development explained:

*"As a matter of fact, there was such a committee once and I was one of its members as an external accounting expert, but due to lack of understanding of the nature of this committee by external auditor, some issues rose between the committee and the external auditor resulted in suspension of the committee's activity by the central bank". (AB4).*

The board member and general manager in United Insurance Co stated that:

*"Because governance system is entirely new, however, I strongly recommend the establishment of such committee". (AI1). There is only audit department. .... I think the importance of governance system and audit committee isn't quite comprehended yet. (AB12).*

This echoes the findings of Abd-Rahman (2008); Dahawy (2008); (Gupta 2008), and Black et al. (2008), who found that 73% of Brazilian companies did not have audit committees. In addition, this was confirmed by the findings provided by Solomon, Lin et al.(2003), who also noted that few Taiwanese companies had established remuneration and audit committees.

#### 5.3.6.2 Nomination Committee

Seven out of eight respondents stated that their company did not have a nomination committee. In some, however, the duties which should be undertaken by the nomination committee became the responsibility of the general assembly. As one of the interviewees said:

*"There is no nomination nor remuneration committee acts in any specified capacity, but the general assembly carries out those functions". (AB4).*

In addition, other respondents cited the board of directors as responsible for all the duties of the nomination committee, such as nominating managers for all administrative positions and it is the same board which is responsible for determining their remunerations as well as updating them about the good code of corporate governance to follow. In addition, another interviewee argued:

*"The board of directors is responsible for nominating people for all managerial positions as well as determining their remunerations. As far as I know, there is no committee for the tasks enlisted in the guideline, that is recommendation for the general assembly to nominate members for the board of directors, verification of the members' independence, identification of strong and weak aspects of the board of directors, suggestion of remedies, and other stipulated functions. There is a single case in which someone would be nominated to the*

*board – the resignation of another member. Acceptance of a new member lies within the responsibility of the general assembly". (AB5).*

On the other hand, only one respondent accepted that their company has a nomination committee. He argued that their nomination committee was the board of directors, which was responsible for nominating managers in all the different positions. It appeared as if this respondent did not understand the difference between the nomination committee and the board of directors. The researcher should reiterate that all respondents denied having a nomination committee and asserted that all duties were performed by the board and the general assembly.

This differs from the recommendations of many codes in both developed and developing countries (Cadbury 1992; OECD 2004; The Combined Codes 2006). In addition, this result was in line with findings provided by Solomon, Lin et al.(2003). They found that few Taiwanese companies had established remuneration and audit committees. Furthermore, the results support the findings of Abd-Rahman (2008), who provided empirical evidence from Egyptian studies of corporate governance and found that the board of half of the surveyed Egyptian companies did not have remuneration committees.

#### 5.3.6.3 Control Committee

Respondents were further asked whether their companies had a control committee. All agreed that they did recognise it as playing an important role in corporate governance. They explained that the committee was composed of three members with two substitutes who were elected by the general assembly and subordinate to it – the latter is a requirement of Libyan Commercial Law. Among the main responsibilities of this committee is to ensure the board of directors and the managers work in the interest of the shareholders. Therefore, this committee directly reports to the general assembly.

Some respondents listed some of its responsibilities as monitoring the activities of the board – by attending all its meetings – and the executive management – by following its tasks through the internal auditor's reports. Other respondents pointed out that the duties of this committee have been identified in Libyan commercial law and stated in governance guidelines issued by the financial market. This was confirmed by a board member of Sahara Bank:

*"There is a control committee, which functions in accordance with Libyan commercial law. It consists of three official members and two substitutes chosen from shareholders. The commercial law has identified its duties as stated in governance guidelines issued by the financial market. This committee differs from the audit committee as the latter is the board overseer, while the former is the shareholders overseer within the bank. It directly reports to the general assembly, attends all the meetings and provides copies of these meetings and all the decisions made by the board". (AB5).*

In addition, a board member and general manager in United Insurance Co stated:

*"It is composed of three original members and two substitutes elected by the general assembly and subordinate to it. It follows up the company operations by attending the board meetings and carries out other duties and reports directly to the general assembly". (AB11).*

These findings confirm the important role played by the control committee – within the context of agency theory and corporate governance – as its members will improve corporate accountability to shareholders.

**5.3.8 An Investor Relation Unit**

Four out of eight respondents agreed that their company had an investor relation unit, which they believed was important in order to overcome the problems that shareholders and investors encounter. It provided shareholders with relevant financial and non-financial information, as well as working as a coordinator between the market and the company. Evidence of this is given by the general manager of the Alsari Bank mentioned:

*"They are providing shareholders with some financial and non-financial information and other relevant statistics; dealing with stock exchange as bank-to-market and bank-to-shareholder linking channel". (AB3)*

However, four other respondents clearly stated that their company had no investor relation unit, as explained by a member of the board of directors of Sahara Bank:

*"There is no unit by this name, but the accounting division undertakes all work that such a unit might be responsible for like handing out dividend, responding to any inquiries and other services. There is also someone in charge of communicating with the financial market and to provide it and its investors with the required information. The bank has undergone a restructure covers all departments available in any advanced bank as preparation for the transfer of its management to the French bank" (AB5).*

Milan (2007) argued that in accordance with the tradition of transparency and fairness, a company has the duty to promote actively relations with shareholders, institutional and private investors and financial analysts as well as all other stakeholders.

### 5.3.7 Disclosure and Transparency

In this section, respondents were asked to express their opinions on how effectively their company applied the disclosure and transparency requirements of the LCGC as regards ownership structure, the annual report of the board, details of board committee, company social policies, related party transactions, corporate group structure, quarterly financial statements and the external auditor's report and fees. All respondents recognised disclosure and transparency as also important for the survival of any business. According to Healy and Palepu (2001), corporate disclosure is crucial for the smooth functioning of an effective and efficient capital market. Where markets operate freely, full disclosure will be of great help to users by allowing them to make informed decisions and also by enhancing the preconditions of open competitive market.

The majority of respondents (seven out of eight), furthermore, accepted that their companies disclosed their ownership structure, and two of them argued that it was disclosed through the financial market. On the other hand, five of them also agreed but did not explain how this was done. One board member of Sahara Bank remarked:

> *"Ownership structure and all bank-related information are disclosed. This structure, however, consists of a very small portion of the private sector, while the major share is owned by a socio-economic development fund, which virtually controls the bank, and 19% is owned by the French bank (BNP Paribas Group)" (AB5).*

However, one respondent reported that his company did not disclose ownership structure. He argued that only financial statements were presented infrequently. This was supported by a board member in Wahda Bank, who said that:

> *"Generally speaking, the disclosure of all banks does not go beyond the income and financial position sheets. I would hardly call this disclosure. Additionally, there is even deficiency in preparing those sheets. Last year's financial statements are yet to be provided. As for transparency, it is almost completely missing. Thus, there is no disclosure other than to official supervisory bodies" (AB1)*

With regard to the annual report of the board, the majority of respondents (seven out of eight) also accepted that their companies disclosed this with financial statements and auditing reports in order to allow every authorised user access to them. A board member of United Insurance Co stated:

> *"It is disclosed with financial statements and auditing report" (AB11).*

In addition, a board member of Wahda Bank said:

> *"It is disclosed, but what matters is the content of this report. As I said before, it might include only two sheets and an external auditor's report". (AB1)*

On the other hand, one respondent argued that his company did not disclose an annual report of the board. He argued that only financial statements were disclosed and as a board member of Al-Sahara insurance Co pointed out:

> *"Only the financial statements are disclosed, but the board annual report has never been released. We supply the market just with income and balance sheets" (AI2).*

In reference to the details of the board committee, only one respondent answered positively to this question. His company is the only one which discloses all the details of the board committee. A board member and general manager in United Insurance Co said:

> *"There are many details disclosed, such as board members' names and other related information, qualification, experience and so on. But there is no committee stemmed out of this board" (AI1).*

On the other hand, the other four respondents argued that their companies disclosed only the committee members' names. This may still be due to the fact that corporate governance is still new in Libya and that many companies do not yet have sufficient knowledge of the benefits of disclosure and transparency. A board member of the Bank of Commerce and Development stated:

> *"Only the members' names are disclosed by the control committee due to the absence of nomination and remuneration committees" (AB4).*

However, the other respondents stated clearly that their company did not have a board committee. Therefore, they had no comment regarding this question.

The majority of respondents (seven out of eight) stated clearly that their company did not have a social policy. This shows that Libyan companies are still weak in this aspect of

corporate social responsibility. This may be due possibly to the weakness of the accounting profession in Libya, resulting from the absence of international accounting and auditing standards. This is suggested by a member of the board of directors in Wahda bank, who said:

> *"Actually, the social aspect of Libyan institutions is omitted in general. If there were social activities, the public wouldn't know about them" (AB1).*

Nevertheless, one respondent claimed that his company did have social policies and disclosed this information when required. He said that:

> *"Every year, 1% of the total profit is retained for different social activities, so there are social policies guiding the different social activities performed by the company. This is indicated by a board member in Al-Sahara Insurance Co., who pointed out that "there is social fund with 1% of profits. The company undertakes some social activities for its personnel, which is of benefit to society as a whole. However, what is disclosed about this aspect is inadequate in all organisations in Libya" (AB12).*

In addition, the majority of respondents (seven out of eight) stated clearly that their company did not have related party transactions. This result is further confirmation of the weakness of accounting disclosure and transparency in Libya. As a board member in Wahda Bank claimed:

> *"There are no such transactions, and even if there were, they cannot be verified due to the lack of full disclosure and transparency" (AB1).*

However, only one respondent agreed that his company makes related party transactions and that they are disclosed. One board member of Sahara Bank states:

> *"All transactions made by the bank are disclosed, but as I mentioned earlier, the ownership structure of the bank belongs to a socio-economic development fund and the French partner. Therefore, there is no place for such transactions as the fund runs these investments for citizens, i.e. it has no interest in any transactions carried out by the bank" (AB5).*

With regard to the disclosure of corporate group structure, the majority (seven out of eight) also stated that this did not exist in their company. As a board member and general manager in United Insurance Co. remarked;

> *"There are no groups to be disclosed, but some investments in other firms" (AI 3.)*

On the other hand, one respondent agreed that his company has corporate group structure, but that it did not disclose much information about them. A board member of the Bank of Commerce and Development states clearly:

> *"There are two totally owned subsidiaries, one operates in construction and the other is still under establishment, but in fact there is no total disclosure about this type of firm" (AB4).*

As regards the disclosure of quarterly financial statements, all respondents declared production and disclosure of quarterly financial statements in their companies. The majority of respondents (six out of eight) explain that those statements are prepared and released to the stock market according to the market requirements, and are accessed by other stakeholders even though a few companies have technological problems currently using, for example, the internet. The two remaining respondents stated clearly that their companies disclose quarterly financial statements to the market as well as other users, especially shareholders. This is confirmed by a board member in Al-Sahara Insurance Co., who said:

> *" Generally speaking, I believe that the company practices a great deal of disclosure and transparency and I'm quite satisfied with the level of this disclosure as the executive manager is eager to render the most accurate, transparent information to both major and minor shareholders with no discrimination" (AI3).*

In addition, the chairman of Gamhuria bank claimed:

> *"They are disclosed through the management market, but it is not yet possible to publish this information on the internet because this technology has just been introduced, and staff in charge of this information received insufficient training to utilise such technology, so obtaining this information is not easy. Nevertheless, shareholders and stakeholders are entitled to be informed through the bank's management" (AB2).*

With regard to whether the external auditor's report and fees are disclosed, all respondents agreed that that information is made available when annual reports are released. They argue that even companies disclose their external auditor's report and fees, even though disclosure to the public in general is still weak and needs some sensitization, education and effort. This concurs with a worldwide investigation by Bushman et al. (2004) on corporate transparency, where 45 countries were sampled. They concluded that corporate transparency was mandatory in the legislative mechanism of these countries.

This means that reports concerning investors, such as credit and risk reports, must be disclosed because they help investors make their investment decisions. This is explained by a board member of the Bank of Commerce and Development, who said:

> *"Yes, they are disclosed, in fact I have several bodies entitled to receive copies. I don't see any difficulty in getting such a report by any interested party. As to transparency, in the Third World, in general, including Libya, I think it's still an incomplete subject as in many respects it hasn't reached a satisfactory level. This deficiency is attributable to the fear of monitors and tax authorities or competitors that call for certain acts of transparency. In other instances, some information is omitted as "protection" of reputation. Therefore, the Libyan economy needs disclosure and transparency more than ever" (AB4).*

According to Akhtaruddin (2005) and Cheung and Jiang et al. (2010), there are two categories of information, namely voluntary and mandatory. Mandatory disclosure encompasses all information which must be disclosed in accordance with the rules of regulatory bodies, such as the Companies Act, stock exchange regulations and accounting standard boards. In relation to this, one general manager in Alsari Bank pointed out:

> *"This information is included in the board's report so it is disclosed when this report is released. Disclosure to the public, however, is so feeble, but there are about forty disclosure forms which should be submitted monthly to the central bank and some must be filled in every ten days. As for information on the Web and other networks, there is virtually no disclosure. Thus, in terms of transparency from any bank, only income and budget sheets are disclosed. As far as I am concerned, there are other reports, such as credit and risk reports, which must be disclosed as they are indicators that concern the investor and enable him to make the right decisions. Anyway, what is taking place now; I personally can't call it disclosure" (AB3).*

These results, in general, were in line with findings and recommendations made by Nam and Nam (2004); Gupta (2008); Dahawy (2008); and Black et al. (2008). They conducted a survey study on the corporate governance practices of Brazilian private listed companies. Their results showed that financial disclosure was poor due to the absence of applying international accounting and auditing standards. However, the findings of a survey conducted on the Arab banking sectors by the UAB (2007), found that the majority of surveyed Arab banks enjoyed a high level of disclosure of material information and financial transparency in line with international standards.

## 5.4 Obstacles Affecting Corporate Governance Practices

In this part, respondents were asked to provide opinions regarding the main obstacles which affect the application of the LCGC in their companies, in particular, and in Libyan businesses, in general. In response to this, different obstacles were presented by all respondents, which included: weakness of the organisation management; weakness of the legal environment; influence and interference of the government; weakness of the accounting and audit professions because of non-adoption of international standards; current ownership structure of certain firms; absence of training programs for members of board of directors about the governance system; inadequacy of investors' awareness of the investment concept; the financial cost of implementing the governance system; limited numbers of listed companies in the local market; absence of bodies monitoring governance practice; and insufficient international pressure for applying governance in Libya.

In terms of the first obstacle, all respondents asserted that the weakness of the organisation management was one of the obstacles affecting the application of the LCGC in their company. They put forward the possible causes of that weakness to be lack of awareness and education about corporate governance, poor management (which is still working within the public sector), absence of training, education and a good incentive system, as well as managers' negligence. These general views are supported by a board member in Libyan of Insurance Co, who said:

> *"The management of most sectors has almost collapsed and our management is no exception though it is a little better off in spite of the rules. Most current management leadership suffers from a lack of knowledge about its industry or because of less qualified staff" (AI 2).*

In addition, a board member in Bank of Commerce and Development stated:

> *"Weakness of the organisation management and especially the executive one is a major hindrance in understanding and implementing this system as one way or the other it reduces the pace of getting used to such a system". (AB4).*

Furthermore, a board member in Wahda Bank argued that:

> *"Management in Libya is generally poor. Its inferior quality is presumably the result of a lack of morale and real incentives that encourage those in charge to be creative" (AB1).*

This response supports findings and recommendations made by Mallin (2007) and Solomon (2007), who argues that it is very important for shareholders to choose for themselves a board of directors, composed of qualified people concerned to make decisions that will benefit the company as a whole and increase shareholder value.

The second obstacle relates to the weakness of the legal environment. They argue that one problem is the deficiency in legal enforcement as well as continuing use of outdated laws which were never amended. Even in the case of those which were changed, the main problem lies in their implementation as the authorities who can enforce them have almost collapsed. All this can affect corporate governance as it first has to be accepted and supported by the government. As a board member in Wahda Bank argued:

> *"There are many outdated laws we still work with which date from the previous socialist system. They are no longer suitable and require amendment according to recent developments" (AB1).*

This goes in line with findings provided by Fawzy (2003). She highlighted that the Egyptian legal framework is among the most important fields which still require additional efforts to raise the efficiency of applying corporate governance in Egypt. Wong (2009) also conducted investigation on the various corporate governance reforms in the Philippines after the adoption of the 2002 code of corporate governance, and noted that there was lacking laws promoting corporate governance in the country. Furthermore, the findings and recommendations made by Arce and Robles (2005) suggest that Costa Rican companies must implement a set of additional measures to compensate for the weakness of the legal framework.

On the other hand, other respondents do not consider this to be an obstacle in Libya as there are some rules and regulations which are lacking in other developing countries. They attributed this to other problems, such as shortage of technology, transparency and human resource at all levels. Moreover, they emphasise that there are sufficient laws in Libya, but the real issue lies in their implementation. In support of this view, a board member in Al-Sahara insurance Co. argued:

> *"I'd rather say weakness of implementing the laws. Yes, I totally agree with you about this aspect as the laws must be respected and enforced no matter who is the violator (AI3).*

In addition to this, the general manager in Alsari bank stated:

*"..., I don't consider the Libyan legal environment to be a real obstacle as there are sound rules that many other countries don't have... Generally speaking, the real issue lies in implementation and compliance with such rules" (AB3).*

This result supports the recommendations made by Chong and López-de-Silanes (2007), who conducted a cross-country study on the level of firm corporate governance practices in six Latin American countries. Their findings indicated that the Latin American countries under analysis suffered from a generally lower level of legal protection and weak capital markets due to poor enforcement of their laws. In addition, the findings of Okike (2007) revealed that despite the government efforts to initiate an effective system of corporate governance by changing company legislation and establishing a code of corporate governance for all Nigerian listed companies, the effectiveness of this system was still in doubt due to the weakness of law enforcement.

When respondents were asked to point out different obstacles affecting corporate governance practices, the influence and interference of the government was mentioned. They argued that this is, to some extent, an obstacle that hinders corporate activity as the state is still interfering in some companies that have not yet transferred to the private sector. They continued to argue that even in those companies which were already privatised, interference of the government is an obstacle to corporate activity, which resulted in misunderstanding of such a system. The government still partly owns shares in these companies and treated them as public companies. In support of this, a board member in Sahara Bank said:

*"The state still exerts a great deal of control over many banks in spite of their privatisation, which negatively affects their operations" (AB5).* In addition, *"The interventions of official bodies and the central bank, I've just mentioned, are the main obstacles that should be addressed for immediate remedy" (AB1).*

In addition, respondents have put forward the weakness of accounting and audit professions as other obstacles to corporate governance in Libyan companies. However, they argued that the blame is not the accounting and auditing professions, but the problem arises from Libyan laws (tax and commercial laws) that hinder the application of international standards. Thus, accounting and auditing functions, which are performed by professional bodies, lack support from the government itself. A board member in Sahara Bank said:

*"They are indeed not strong enough as the private sector has emerged only a decade ago. Previously, accounting and auditing functions were performed by*

*monitoring bodies according to specific economic regulations imposed. Thus, those professions did not develop to practice international standards" (AB5).*

In addition, the general manager in Alsari Bank explained:

*"Non-adoption of accounting and audit standards in Libya is a real hindrance to the development of accounting and audit professions. However, I think that the current culture is confining this development rather that the absence of such standards. If we survey all individual economic activities, we would not find any constituents of accounting and audit professions. These activities have no books or registers, if accounting were practiced in the first place" (AB3).*

The current ownership structure of certain firms in Libya was mentioned by all respondents, who stated that this was dominated by government and public institutions and thus constituted an obstacle to corporate governance. They argued that the current ownership structure of certain firms is a hindrance in one way or another as many investors were institutions and not individuals. In addition, they stated that many companies were controlled by the government. Indeed, the influence of certain bodies over some companies, besides the government, has caused problems for individuals and private investments. This was noted by the general manager in Alsari bank, who stated:

*"Current ownership structure is facing a critical situation. Given that there are two types of ownership, state influence, one way or the other, is a major hindrance to establishing an efficient management of loyalty without bringing competent people. On the other hand, in the second type of ownership, which prevails in local banks, the major owners influence the bank to act in their interest and thus neglecting the public interest" (AB3).*

In addition, a board member in Wahda Bank said:

*"I have already discussed this issue of the dominance of certain bodies over companies causing individual disability of investment due to the surrounding economic conditions" (AB1).*

They argue that it is one of the main obstacles of corporate governance as a large number of board members and managers do not understand the system. They believe that in Libya the issue of training is almost neglected, especially at top management levels. Until these people become better informed about the internal and external training benefits, their companies will continue to lag behind in this respect. In this regard, there is a great need for incorporating corporate governance sessions in their training programs. Both the capital

market and the Libyan government should help each other to overcome these obstacles. This was stressed by a general manager in Alsari Bank, who said:

> *"Unfortunately, to date members of board of directors receive no training of any kind. We are desperate for courses and seminars to make the new system followed in Libya (open economy culture) familiar and to try to reduce the gap between us and the advanced countries" (AB3).*

> In addition, the board member in Sahara Bank further stated: *"I have personally attended several courses presented by the financial market, but unfortunately none of them was about the corporate governance system" (AB5).*

This supports the findings and recommendations made by the UAB (2007), which emphasised the need to design and implement special training programs on corporate governance and internal control practices for employees in the Arab banking sector. This result is also similar to the findings of Duca et al. (2007), who found that despite the institutional efforts, inside the business environment and even among Romanian listed companies on the capital market, there is still no real concern for corporate governance issues. Furthermore, Dahawy (2008) recommended that the need to increase the focus on training and education of all stakeholders in order to improve the application of corporate governance in Egypt.

Another obstacle suggested by all respondents to the development of corporate governance in Libya was inadequacy of investors' awareness of the investment concept. As this would help them otherwise to follow the progress of their investments, investors in Libya lack sufficient knowledge and experience for scrutinising what is happening in the company. Investor pressure could also quicken the establishment of corporate governance. The respondents believed that investors' influence may increase the implementation of corporate governance in Libya. A board member in the Bank of Commerce and Development stated:

> *"The financial market is still fresh, therefore, many people almost know nothing about investment. As you know, the investors in developed countries make huge investment mistakes, so imagine what it is like with Libyan investors who have no experience of such things"(AB4).*

In addition, the board member in Wahda Bank said:

> *"This is a real issue facing everyone in the Libyan economy as they still have a public sector mentality and do not comprehend the concept of the private sector yet" (AB1).*

This result confirms the findings of Duca et al. (2007), who found that in the emerging economies, similar to Romania, the issues of corporate governance were not so important to the fund suppliers, whether the bank, the investment fund, or individual investors, and that is why companies did not feel rewarded in any way for making efforts to improve their corporate governance practices.

Furthermore, all respondents cited the limited number of listed companies in the local market as one of the major obstacles in the expansion of corporate governance in Libyan corporations. They argued that the number of listed companies in Libya was small, therefore, it did not allow for implementation and expansion of the market systems as compared to other developing countries. They believe that this is a major problem as many firms are unable to join the stock market and to be listed on the Libyan stock exchange, which may even have an effect on their future governance practices. In support of this, the general manager in Alsari bank argued:

> *"For a company to be listed in the market, it must meet certain terms which people in charge of these companies are unaware. Unless these conditions are fulfilled and the awareness of the investment is spread, this obstacle will remain problematic. (AB3)*

In addition, a board member and general manager in the United Insurance Co. stated:

> *"This is also a major obstacle as all target companies still face managerial and financial problems, so this complication will remain unless those organisations are restructured" (AI2).*

All respondents pointed out that the absence of a body monitoring governance practice in Libya was among the major obstacles in Libya. They argue that the high degree of government ownership in the country may have hindered the emergence of governance practice monitoring bodies. A board member in Bank of Commerce and Development said:

> *"I think this is one of the major obstacles; there should be an independent body working on applying this system and surmounting the difficulties that hinder this application" (AB4).*

In addition, the general manager in Alsari Bank argued:

> *"I believe this is an obstacle for the time being. The market is still small, but in future, as it becomes more developed with more listed companies, the absence of such a body will be a real obstacle" (AB3).*

This result supports the findings of Saidi (2004), who investigated the OECD principles of corporate governance in Lebanon. One of the main recommendations was that there is a need for an independent body to monitor the implementation of corporate governance in the country.

The other obstacle to the application of corporate governance mentioned by some respondents was the financial cost of implementation. This is because the system requires the establishment of many board committees and other departments, such as internal auditing, as well as needs some financial experts from outside the companies. However, the other respondents argued that it is a costly system, but that its benefits still outweighed the costs of implementation. This again relates to a lack of awareness of both company management and the government. The chairman of Gamhuria Bank stated that:

> *"Despite the cost, such a good system of control fulfils transparency, which is more valuable" (AB2).*

In addition, a board member and general manager in United Insurance Co. remarked:

> *"There will be some cost, but this will be negligible compared to expected benefits" (AI1).*

The board member in Wahda Bank said:

> *"There will be a cost, but it won't be considerable enough to be called an obstacle. And great efforts must be exerted" (AB1).*

This result was in line with the findings of Business Roundtable (2006). The survey revealed the high costs of applying the Sarbanes-Oxley in the USA. Further still, this result also confirmed the findings of Duca et al. (2007), which showed that most Romanian companies consider the adoption of a corporate governance system as complicated because it meant change in the company memorandum of association and huge legal and financial-accounting consultancy expenses. Finally, the majority of respondents believed that insufficient international pressure on applying corporate governance was among the obstacles. They argued that it is due to the isolation of Libya from the rest of the world, meaning that institutions which can exert such pressure have no impact in the country. In addition, they noted that corporate governance was not in need in Libya, which led to management ignorance in most organisations. A board member in Libyan Insurance Company remarked:

*"Libya was isolated from the rest of the world for quite some time and this led to its absence from so many international fields, which in turn made it miss the opportunity of utilising other international organisations' experience.... "(AI2).*

In addition, the board of directors in Wahda bank said:

*"It is not a matter of insufficient international pressure. There was no need for these systems, which led to ignorance of this organisation experience in this domain" (AB1).*

## 5.6 Conclusion

The principal conclusions that can be drawn from analysis of the semi-structured interviews are:

With regard to ownership structure, the results indicated that there were two types of this in listed Libyan companies: concentrated and distributed. Under concentrated ownership there are three sub-categories, which are governmental, institutional and foreign shareholders. Four companies have high-degrees of government ownership: Wahda Bank (54.1%), Gamhuria Bank (89%), Libyan Insurance Co (45%) and Al-Sahara Insurance Co. (45%). Two companies have foreign shareholders: Wahda Bank (19%) and Sahara Bank (19%). However, the majority of these companies have institutional shareholders except for Wahda Bank and Gamhuria Bank. In terms of distributed ownership, in which individuals or small private companies own less than 5% of shares, all companies have varying ratios of these kinds of shareholders.

The results also indicated that respondents knew of the benefits of voting by mail or the internet, but it was discovered that this was not widely used by companies in Libya. They emphasised that personal attendance was necessary at general meetings. Respondents further mentioned that their companies allowed their shareholders to use the method of proxy voting. However, cumulative voting was not permitted in spite of this safeguarding the rights of minority shareholders by allowing them to work as a group to elect a candidate of their choice, who, as a member of the board of directors, would represent them. Shareholders of all the companies obtained relevant and timely information regarding financial and non-financial matters. They also had the right to share profits as well as to attend and participate at the AGM.

With regard to board structure, the results indicated that the majority of companies have the same size – seven members including the chairman. All the participants agreed that all the board members should be highly qualified and have the right mix of experience, skills, and backgrounds. Additionally, the five banking companies have a majority of non-executive directors on their boards, whereas the three insurance companies have a ratio 4:7, 4:8 and 4:9 non-executive directors to executive directors on their boards. The results also showed that all companies have different people in the two positions of the Chairman and the CEO. As regards the tasks and responsibilities assigned to the board of directors, the results indicated that the majority of companies reported that their board played an important role in setting objectives and strategy. Furthermore, the general written rules stipulating the role and responsibilities of the board in the banking sector are defined by the LBL (1/ 2005). However, some participants from this sector stressed the need for their own written rules, which were an inflexible requirement of their foreign partner.

However, the results revealed that all the companies do not have their own corporate governance rules and written policies clarifying the relationship with stakeholders, despite the LCCG call for this to be produced by the board of directors. The reason may be because the concept of corporate governance is new in Libya. In terms of top management performance evaluation, the results demonstrated that this is done by board of directors, which effectively appraises the executive management using multiple financial and non-financial indicators as well as profit-related indicators. The results indicated that most companies have a good internal control system and there are bodies inside and outside that ensure the effectiveness of such a system.

The respondents agreed that it was important to have independent internal auditors, who were highly educated in both accounting and auditing. However, with regard to the conflict of interest with the board of directors, the results indicated that the majority of respondents stated clearly that their companies have no clear written regulations for the directors and staff regarding this issue. In addition, the results also revealed that the disclosure and transparency of all companies was poor. Moreover, some companies have no audit and nominating committees and their duties are performed by the board and the CEOs. However, all companies have control committees because it is required by Libyan law.

Finally, a number of obstacles affecting corporate governance were suggested by the respondents. These were:

- weakness of the organisation management,
- weakness of the legal environment,
- influence and interference of the government,
- weakness of accounting and audit professions because of non-adoption of the international standards,
- the current ownership structure of certain firms,
- absence of training programs for members of board of directors about the governance system,
- inadequacy of investors' awareness of the investment concept,
- the financial cost of implementing the governance system,
- the limited number of listed companies in the local market,
- absence of a body to monitor governance practice, and
- insufficient international pressure on applying a governance system in Libya.

Overall, the impression gained from the responses to this phase of the field study was that while substantial progress had been made in those companies attempting to implement the LCGC, it was not reasonable to expect complete compliance in companies, and within a corporate culture, where the right of stakeholders and the responsibilities of directors were new concepts and no history of effective corporate governance existed. In order to provide a more complete picture of Libyan attempts to introduce a corporate governance code, the next chapter presents an analysis of the results derived from the questionnaire survey, which was designed to collect the general perceptions of the staff of Libyan listed companies, and of experts in the field of corporate governance, on the LCGC.

The findings with regard to this stage of the data collection process provided valuable insight into obstacles facing the implementation of the LCGC, and were used to form some of the questions in stage two of the field work, the results of which are presented in the next chapter.

# Chapter Six
# Analyses and Results of Questionnaires Survey

## 6.1 Introduction

The questionnaire survey was the method adopted in the second stage of this study to collect the primary data. This method seeks to survey the respondents' perceptions regarding the introduction of the LCGC, and it also attempts to identify the current obstacles facing its application. The questionnaire survey was distributed among two groups; the first consisted of the staff of companies listed on the LSM (senior managers and employees in the financial function), hereafter referred to as 'the staff', and the second consisted of Libyan financial experts (external auditors and academics).

The questionnaire contained three sections (see Appendix B and C): the first section covered background information about the respondents; the second section asked the respondents to express the extent of their agreement with shareholders rights, board structure and responsibilities, internal auditing, disclosure and transparency, conflicts of interest, and board committees as set out by the LCGC; and the third section asked the respondents to express the extent of their agreement with the nature of the obstacles affecting corporate governance practice.

## 6.2 Staff Background Information

Table 6.1 presents staff background information. The respondents have been classified by job position, length of experience (years), qualification level, fields of study and place of qualification.

Table 6.1 (Panel A) shows the distribution of the respondents by job position. The majority (55%) of the respondents work in accountancy, followed by people working in the finance department of the companies (17%). Board members of the different corporations investigated represented 13% of respondents. On the other hand, financial managers and internal auditors were the minority of the respondents. Internal auditors consisted of 7%, while financial managers represented 8%.

As indicated in Panel B, an analysis of the respondents of the staff by length of experience revealed that the majority, 40%, had more than 15 years of experience, 21% between 5 and 9 years, 21% between 1 and 4 years and, lastly, 3% with less than 1 year. This

is an indication that listed Libyan companies have relatively experienced staff; those with a working experience of 5 years and above represent76 % of the total respondents.

| Table 6.1 Staff Background Information | | |
|---|---|---|
| **Description** | **Frequency** | **Percentage** |
| **Panel A: Job position** | | |
| Member of Board | 13 | 13.0 |
| Financial Manager | 8 | 8.0 |
| Internal Auditors | 7 | 7.0 |
| Accountant | 55 | 55.0 |
| Others | 17 | 17.0 |
| **Total** | **100** | **100.0** |
| **Panel B: length of experience** | | |
| Less than 1 year | 3 | 3.0 |
| 1-4 years | 21 | 21.0 |
| 5-9 years | 21 | 21.0 |
| 10-15 years | 15 | 15.0 |
| More than 15 years | 40 | 40.0 |
| **Total** | **100** | **100.0** |
| **Panel C: Qualification level** | | |
| Pre-Degree Diploma | 11 | 11.0 |
| Bachelor Degree | 66 | 66.0 |
| Master's Degree | 17 | 17.0 |
| Others | 6 | 6.0 |
| **Total** | **100** | **100.0** |
| **Panel D: Principal area of study** | | |
| Accounting | 55 | 55.0 |
| Bus. Admin | 18 | 18.0 |
| Economics | 9 | 9.0 |
| Finance | 2 | 2.0 |
| **Total** | **100** | **100.0** |
| **Panel E: Place of Qualification** | | |
| Libya | 91 | 91.0 |
| Other Arab Country | 3 | 3.0 |
| USA | 3 | 3.0 |
| UK | 1 | 1.0 |
| Others | 2 | 2.0 |
| **Total** | **100** | **100.0** |

As shown in Panel C, in terms of qualification level, 66% of the staff respondents have a Bachelor Degree, 17% are Master's Degree holders, 11% are pre-degree diploma holders and 6% are qualified in other fields. This implies that Libyan companies employ qualified personnel with Bachelor and Master's Degree holders representing 83%.

As indicated in Panel D, in terms of fields of study, 55% of the staff respondents are qualified in the field of accountancy, 18% have studied business administration and 16% are qualified in other areas – economics (9%) and finance (2%). As shown in Panel E, the analysis of respondents of the staff according to place of qualification, shows that 91% are graduates from Libya, 3% graduated from other Arabic countries, 3% graduated from the USA, 1% graduated from the UK, while 2% of the total respondents graduated from other countries.

### 6.3 Libyan Financial Experts Background Information

Table 6.2 presents the background information of the Libyan financial experts respondents (external auditors and academics) classified by length of experience (years), qualification level, fields of study and place of qualification.

Table 6.2 (Panel A) shows the distribution of the respondents by their length of experience. The findings revealed that 32.4% were in the range of 5 and 9 years of experience, 22.2% with a working experience between 1 and 4 years, 21% 15 years of working experience, 18% with working experience between 10 and 15 years and, finally, 8% respondents had less than 1 year of experience. As shown in Panel B, in terms of qualification level, 50.9% of respondents held a Master's Degree, 24.1% a Bachelor's Degree, 22.2% a PhD and 2.8% held other post graduate studies. This implies that Libyan experts were more qualified compared to the staff, with 97.2% qualified above the Bachelor's Degree level.

Panel C shows the analysis of respondents of Libyan experts according to their fields of study. A majority of the respondents, 57.4%, qualified in accountancy, 19.4% studied business administration, 12% qualified in economics and, finally, 11.1% qualified in finance. Panel D, additionally, reveals data on place of qualification: 70.4% of respondents are graduates from Libya, 14.8% graduated from other Arab countries, 8.3% graduated from the UK and 7% graduated from the USA.

| Table 6.2 Background Information of Libyan Financial Experts | | |
|---|---|---|
| **Description** | **Frequency** | **Percentage** |
| **Panel A:length of experience** | | |
| Less than 1 year | 8 | 7.4 |
| 1-4 years | 24 | 22.2 |
| 5-9 years | 35 | 32.4 |
| 10-15 years | 18 | 16.7 |
| More than 15 years | 23 | 21.3 |
| **Total** | **108** | **100.0** |
| **Panel B:Qualification level** | | |
| Bachelor Degree | 26 | 24.1 |
| Master's Degree | 55 | 50.9 |
| PhD | 24 | 22.2 |
| Other | 3 | 2.8 |
| **Total** | **108** | **100.0** |
| **Panel C:Principal area of study** | | |
| Accounting | 62 | 57.4 |
| Bus. Admin | 21 | 19.4 |
| Economics | 13 | 12.0 |
| Finance | 12 | 11.1 |
| **Total** | **108** | **100.0** |
| **Panel D: Place of Qualification** | | |
| Libya | 76 | 70.4 |
| Other Arab Country | 16 | 14.8 |
| USA | 7 | 6.5 |
| UK | 9 | 8.3 |
| **Total** | **108** | **100.0** |

## 6.4 General Perceptions of the Libyan Corporate Governance Code (LCGC)

The second section of the questionnaire focused on respondents' general perceptions of the LCGC. This section comprised of ten questions related to LCGC, analysing the views of both the staff and Libyan experts. The analysis of the responses to these questions is presented in the sections below.

### 6.4.1 Rights of Shareholders

Under this question, respondents were asked to provide their views on the rights of shareholders as set out in the LCGC on a five-point scale ranging from 1=Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree.

#### 6.4.1.1 General Perceptions on the Voting Rights

This section summarises the findings on the general perception of the voting rights of shareholders. Four statements were considered, as displayed in Table 6.3. Both the mean, median, standard deviation and the ranks of the staff and Libyan experts were analysed and compared. The Mann-Whitney test (U test) and probability values were determined to predict the significance at the 5% level of the general perception on the voting rights under the LCGC.

With regard to the statement whether companies should allow voting by mail, the mean was 3.04, the median 3.00, the standard deviation 1.370 for the staff, while the Libyan experts' scores had a mean of 3.31, a median of 4.00 and a standard deviation of 1.228. This implies that both groups agreed that companies should vote by mail as their mean scores fell above 3. On the other hand, it should be noted that in consideration of the median, the Libyan experts agreed, while the staff did not agree with the statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts seems to be more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding this statement were ranked number 3 and 2 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.168, which is not significant at $\alpha=0.05$. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups, although the computed mean and median results show differences.

In order to determine the respondent's attitude regarding the statement whether companies should allow voting through the internet, the mean was 3.59, the median 4.00 and the standard deviation 1.303 for the staff, while the Libyan experts scores had a mean of 3.65, a median of 4.00 and a standard deviation of 1.105. This implies that both groups agreed with this statement as their mean and median scores fell below 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts seems to be more reliable than the opinion of the staff. Based on the mean, the findings of both groups regarding this statement were ranked 1.

Using the Mann-Whitney test, the two sided p-value is equal to 0.848, which is not significant at $\alpha=0.05$.

**Table 6.3 General Perceptions on The Voting Right under the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| 1 | The company should allow voting by mail. | 3.04 | 3.00 | 1.370 | 3 | 3.31 | 4.00 | 1.228 | 2 | 4823.00 | 0.168 |
| 2 | The company should allow voting through the internet. | 3.59 | 4.00 | 1.303 | 1 | 3.65 | 4.00 | 1.105 | 1 | 5321.00 | 0.848 |
| 3 | The company should allow proxy voting. | 3.05 | 3.00 | 1.218 | 2 | 2.93 | 3.00 | 1.358 | 4 | 5131.00 | 0.525 |
| 4 | The company should allow cumulative voting. | 2.90 | 3.00 | 1.210 | 4 | 3.07 | 3.00 | 1.190 | 3 | 4953.00 | 0.285 |

**Note: Significant level at 5% using the Mann-Whitney test.**
**This responses were reported on a 5-point scale ranging from (1=Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)**

Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Concerning the statement whether companies should allow proxy voting, the mean was 3.05, the median 3.00 and the standard deviation 1.218 for the staff, while the Libyan experts' scores had a mean of 2.93, a median of 3.00 and a standard deviation of 1.358. This implies that the staff agreed, while the Libyan experts did not agree with the statement as their mean scores fell below 4 and 3 respectively. At the same time, it should be noted that in consideration of the median, both the groups did not agree with the statement. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding this statement were ranked number 2 and 4 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.525, which is not significant at $\alpha=0.05$. Hence, it can be concluded that there is no real difference of opinion with this statement for both groups.

As regards the statement whether companies should allow cumulative voting, the mean was 2.90, the median 3.00 and the standard deviation 1.210 for the staff, while the Libyan experts' scores had a mean of 3.07, a median of 3.00 and a standard deviation of 1.190. This implies that the staffs were undecided and Libyan experts agreed that companies should allow cumulative voting as their mean scores fell below 3 and 4 respectively. In consideration of the median, both groups did not agree with the statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding this statement were ranked number 4 and 3 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.285, which is not significant at $\alpha=0.05$. Hence, it can be concluded that there is no real difference of opinion with this statement for both groups.

### 6.4.1.2 General Perceptions on the Other Rights of Shareholders

This section summarises the general perception on the other rights of shareholders under the LCGC. Five statements were considered as displayed in Table 6.4 below.

With regard to the statement whether shareholders should obtain relevant information about the company on a timely and regular basis, the mean was 4.33, the median 5.00 and the

standard deviation 0.933 for the staff, while the Libyan experts scores had a mean of 4.31, a median of 5.00 and a standard deviation of 0.954. This indicates that both groups strongly agreed with the statement as their mean and median scores fell above 4. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding this statement were ranked number 2 and 1 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.902, which is not significant at $\alpha$=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Considering the statement whether shareholders should have the right to prosecute the board of directors, the mean was 4.14, the median 4.00 and the standard deviation 1.137 for the staff, while the Libyan experts scores had a mean of 4.18, a median of 4.00 and a standard deviation of 1.092. This shows that both groups strongly agreed with the statement as their mean scores fell above 4. In addition, it should be noted that while considering the median, both groups agreed with this statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding this statement were ranked number 4. Using the Mann-Whitney test, the two sided p-value is equal to 0.908, which is not significant at $\alpha$=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

With regard to the statement whether shareholders should have the right to register and transfer the ownership of shares, the mean was 4.19, the median 4.00 and the standard deviation 1.002 for the staff, while the Libyan experts' scores had a mean of 4.19, a median of 4.00 and a standard deviation of 0.997. This implies that both groups strongly agreed with the statement as their mean scores fall above 4. On the other hand, it should be noted that while considering the median, both groups agreed with this statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding this statement were ranked number 3.

**Table 6.4 General Perceptions on the Other Shareholder Rights under LCGC.**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| 1 | Shareholders should obtain relevant information about the company on a timely and regular basis. | 4.33 | 5.00 | .933 | 2 | 4.31 | 5.00 | .954 | 1 | 5352.00 | 0.902 |
| 2 | Shareholders should have the right to prosecute the board of directors. | 4.14 | 4.00 | 1.137 | 4 | 4.18 | 4.00 | 1.092 | 4 | 5354.00 | 0.908 |
| 3 | Shareholders should have the right to register and transfer ownership of shares | 4.19 | 4.00 | 1.002 | 3 | 4.19 | 4.00 | .997 | 3 | 5355.50 | 0.911 |
| 4 | Shareholders should have an equal right to share in the profits. | 3.64 | 4.00 | 1.382 | 5 | 3.74 | 4.00 | 1.179 | 5 | 5366.50 | 0.936 |
| 5 | The company should disclose a dividend policy. | 4.34 | 5.00 | .987 | 1 | 4.31 | 5.00 | .973 | 2 | 5228.50 | 0.658 |

**Note: Significant level at 5% using the Mann-Whitney test**
**This responses were reported on a 5-point scale ranging from (1=Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)**

Using the Mann-Whitney test, the two sided p-value is equal to 0.911, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

As regards the statement whether shareholders should have an equal right to share in the profits, the mean was 3.64, the median 4.00 and the standard deviation 1.382 for the staff, while the Libyan experts' scores had a mean of 3.74, a median of 4.00 and a standard deviation of 1.179. This implies that both groups agreed with the statement as their mean and median scores fell below 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 5. Using the Mann-Whitney test, the two sided p-value is equal to 0.936, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Concerning whether the company should disclose a dividend policy, the mean was 4.34, the median 5.00 and the standard deviation 0.987 for the staff, while the Libyan experts' scores had a mean of 4.31, a median of 5.00 and a standard deviation of 0.973. This implies that both groups strongly agreed with the statement as their mean median scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding this statement were ranked number 1 and 2 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.958, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

#### 6.4.1.3 General Perceptions on the Rights of Shareholders at the AGM

This section summarises the general perception on the rights of shareholders at the Annual General Meeting (AGM) under the LCGC. Nine statements were considered as displayed in Table 6.5 below.

With regard to the statement whether the processes and procedures for the AGM should allow for equitable treatment of all shareholders, the mean was 4.33, the median 5.00 and the standard deviation 0.922 for the staff, while the Libyan experts' scores had a mean of 4.29, a median of 4.00 and a standard deviation of 0.907. This implies that both groups

strongly agreed with the statement as their mean scores fell above 4. On the other hand, it should be noted that while considering the median, the staff strongly agreed and the Libyan experts agreed with this statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts, although both deviations fall below 1 which is good. Based on the mean, the findings of the staff regarding the statement were ranked number 4, while those of the Libyan experts were ranked number 2. Using the Mann-Whitney test, the two sided p-value is equal to 0.579, which is not significant at $\alpha=0.05$. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

As regards the statement whether adequate time should be given to shareholders for asking questions and raising issues at the AGM, the mean was 4.36, the median 5.00 and the standard deviation 0.871 for the staff, while the Libyan experts scores' had a mean of 4.17, a median of 4.00 and a standard deviation of 0.826. This implies that both groups strongly agreed with the statement as their mean scores fell above 4. On the other hand, it should be noted that while considering the median, the staff strongly agreed and the Libyan experts agreed with the statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts, although both deviations fall below 1 which is good. Based on the mean, the findings of the company staff regarding the statement were ranked number 3, while those of the Libyan experts were ranked number 6. Using the Mann-Whitney test, the two sided p-value is equal to 0.021, which is the highly significant difference at $\alpha=0.05$.

Hence, it can be concluded that the opinion of the staff differed significantly from those of the Libyan experts regarding the above statement. A possible explanation for this difference may be that the Libyan experts had more experience and knew that in practice it would be difficult to give shareholders this right because the AGM has a specific duration and agenda. So they were less keen to express a stronger level of support.

With regard to the statement whether the dates and locations of the AGM should be carefully chosen in order to maximise attendance of shareholders, the mean was 4.38, the median 5.00 and the standard deviation 0.838 for the staff, while the Libyan experts' scores had a mean of 4.22, a median of 4.00 and a standard deviation of 0.857. This shows that both groups strongly agreed with the statement as their mean scores fell above 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff

seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of the staff regarding the statement were ranked number 2, while those of the Libyan experts were ranked number 5. Using the Mann-Whitney test, the two sided p-value is equal to 0.071, which is not significant at $\alpha$=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Regarding the statement whether the information on each board member candidate and his/her curriculum vitae should be disclosed before the AGM, the mean was 4.33, the median 5.00 and the standard deviation 0.943 for the staff, while the Libyan experts' scores had a mean of 4.24, a median of 4.00 and a standard deviation of 1.040. This implies that both groups strongly agreed with this statement as their mean scores fell above 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of the staff regarding the statement were ranked number 5, while those of the Libyan experts were ranked number 4. Using the Mann-Whitney test, the two sided p-value is equal to 0.988, which is not significant at $\alpha$=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Concerning the statement whether information on each nomination and audit committee member candidate and his/her curriculum vitae should be disclosed before the AGM, the mean was 4.22, the median 4.00 and the standard deviation 0.991 for the staff, while the Libyan experts' scores had a mean of 4.27, a median of 4.00 and a standard deviation of 1.001. This implies that both groups strongly agreed with this statement as their mean scores fell above 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of the staff regarding the statement were ranked number 6, while those of the Libyan experts were ranked number 3. Using the Mann-Whitney test, the two sided p-value is equal to 0.639, which is not significant at $\alpha$=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

With regard to the statement whether information qualifications and expected fees of an external auditor should be disclosed before the AGM, the mean was 4.17, the median 4.00 and, the standard deviation 0.900 for the staff, while the Libyan experts' scores had a mean of 4.14, a median of 4.00 and a standard deviation of 0.981. This implies that groups strongly

agreed with this statement as their mean scores fell above 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the groups regarding the statement were ranked number 7. Using the Mann-Whitney test, the two sided p-value is equal to 0.988, which is not significant at $\alpha=0.05$. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

With regard to the statement whether related party transactions should be fully discussed before the AGM, the mean was 3.86, the median 4.00 and the standard deviation 1.101 for the staff, while the Libyan experts' scores had a mean of 3.74, a median of 4.00 and a standard deviation of 0.961. This implies that both groups agreed with this statement as their mean and median scores fell below 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 9 and 8 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.238, which is not significant at $\alpha=0.05$. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Concerning the statement whether the board should submit an annual report to shareholders, the mean was 4.43, the median 5.00 and the standard deviation 0.782 for the staff, while the Libyan experts' scores had a mean of 4.30, a median of 5.00, and a standard deviation of 0.969. This implies that both groups strongly agreed with this statement as their mean and median scores fell above 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 1. Using the Mann-Whitney test, the two sided p-value is equal to 0.456, which is not significant at $\alpha=0.05$. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Regarding the statement whether the minutes of the AGM should be disclosed through its publication in newspapers and through the stock exchange, the mean was 4.10, the median 4.00 and the standard deviation 1.020 for the staff, while the Libyan experts' scores had a mean of 3.67, a median of 4.00 and a standard deviation of 1.275.

**Table 6.5 General Perceptions on Rights of Shareholders at the AGM under the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| 1 | The processes and procedures for the AGM should allow for equitable treatment of all shareholders. | 4.33 | 5.00 | .922 | 4 | 4.29 | 4.00 | .907 | 2 | 5184.00 | 0.579 |
| 2 | Adequate time should be given to shareholders for asking questions and raising issues at the AGM. | 4.36 | 5.00 | .871 | 3 | 4.17 | 4.00 | .826 | 6 | 4489.50 | 0.021 |
| 3 | The dates and locations of AGM should be carefully chosen in order to maximise attendance of shareholders. | 4.38 | 5.00 | .838 | 2 | 4.22 | 4.00 | .857 | 5 | 4696.00 | 0.071 |
| 4 | Information on each board member candidate and his/her curriculum vitae should be disclosed before the AGM. | 4.33 | 5.00 | .943 | 5 | 4.24 | 4.00 | 1.040 | 4 | 5149.00 | 0.522 |
| 5 | Information on each nomination and audit committee member candidate should be disclosed before the AGM. | 4.22 | 4.00 | .991 | 6 | 4.27 | 4.00 | 1.001 | 3 | 5215.00 | 0.639 |
| 6 | Information, qualifications and expected fees of an external auditor should be disclosed before the AGM. | 4.17 | 4.00 | .900 | 7 | 4.14 | 4.00 | .981 | 7 | 5394.00 | 0.988 |
| 7 | Related-party transactions should be fully discussed at the AGM. | 3.86 | 4.00 | 1.101 | 9 | 3.74 | 4.00 | .961 | 8 | 4916.50 | 0.238 |
| 8 | The board should submit an annual report to shareholders | 4.43 | 5.00 | .782 | 1 | 4.30 | 5.00 | .969 | 1 | 5111.00 | 0.456 |
| 9 | The minutes of the AGM should be disclosed through its publication in newspapers and through the Stock Exchange | 4.10 | 4.00 | 1.020 | 8 | 3.67 | 4.00 | 1.275 | 9 | 4407.50 | 0.016 |

**Note: Significant level at 5% using the Mann-Whitney test**
**This responses were reported on a 5-point scale ranging from (1=Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)**

This shows that the staff strongly agreed, while the Libyan experts agreed with the statement as their mean scores fell above and below 4 respectively. Additionally, it should be noted that while considering the median, both groups agreed with the statement. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 8 and 9 respectively.

Using the Mann-Whitney test, the two sided p-value is equal to 0.016, which is the highly significant difference at $\alpha=0.05$. These results, however, did not represent significant division between the two groups in terms of agreement-disagreement, but represented a variance in the agreement level as one group of respondents agreed more strongly with the statement than the other. Hence, it can be concluded that the staff expressed a stronger level of support than the Libyan experts regarding the statement above. This may be due to staff's awareness of the importance of disclosure, whereas, in fact, most Libyan companies do not meet their obligation to disclose information.

These results support the findings and recommendations made by the IMF (2001; International Monetary Fund (IMF) 2003; International Monetary Fund (IMF) 2004), which suggested that the corporate governance framework should protect the rights of shareholders. These are: securing methods of ownership registration; conveying or transferring shares; obtaining relevant information on the company on a timely and regular basis; participating and voting in the AGM; electing members of the board; and sharing in the profits of the company. Furthermore, the OECD (1999, 2004) established the same basic rights of shareholders, which included rights to vote, to obtain relevant and timely information, to share in the profits and to attend and participate at the AGM

### 6.4.2 General Perceptions on Board Structure

This section summarises the general perceptions on the board structure under the LCGC. Six statements were considered as displayed in Table 6.6 below. The mean, median, standard deviation and the ranks of both groups were analysed and compared. The Mann-Whitney test (U test) and probability values were determined to predict the significance at the 5% level of the general perception on the board structure under the LCGC.

With regard to the statement whether the size of the board of directors should not be less than three members and not more than eleven, the mean was 3.84, the median 4.00 and the standard deviation 0.838 for the staff, while the Libyan experts' scores had a mean of 3.81, a median of 4.00 and a standard deviation of 1.000. This shows that both groups agreed as their mean and median scores fell below 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 5. Using the Mann-Whitney test, the two sided p-value is equal to 0.901, which is not significant at $\alpha$=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

With regard to the statement whether the majority of the board should be non-executive directors, the mean was 3.70, the median 4.00 and the standard deviation 1.049 for the staff, while the Libyan experts' scores had a mean of 3.69, a median of 4.00 and a standard deviation of 1.139. This indicates that both groups agreed with this statement as their mean and median scores fell below 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 6. Using the Mann-Whitney test, the two sided p-value is equal to 0.964, which is not significant at $\alpha$=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

With regard to the statement whether there should be separation between the position of the chairman and the CEO, the mean was 3.97, the median 4.00 and the standard deviation 1.039 for the staff, while the Libyan experts' scores had a mean of 4.27, a median of 4.00 and a standard deviation of 0.913. This implies that the staff agreed, while the Libyan experts strongly agreed with the statement as their mean scores fell below 4 and above 4 respectively. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 3. Using the Mann-Whitney test, the two sided p-value is equal to 0.019, which is the highly significant difference at $\alpha$=0.05. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding the above statement.

With regard to the statement whether each member of the board may not sit on more than three additional boards at the same time, the mean was 3.94, the median 4.00 and the standard deviation 0.973 for the staff, while the Libyan experts' scores had a mean of 4.26, a median of 4.50 and a standard deviation of 0.961. This implies that the staff agreed with the statement, while the Libyan experts strongly agreed with the statement as their mean median scores fell below and above 4 respectively. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 4. Using the Mann-Whitney test, the two sided p-value is equal to 0.004, which is the highly significant difference at $\alpha=0.05$. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding the above statement.

With regard to the statement whether most board members should have financial and technical skills, the mean was 4.34, the median 4.00 and the standard deviation 0.831 for the staff, while the Libyan experts' scores had a mean of 4.52, a median of 5 and a standard deviation of 0.826. This implies that both groups strongly agreed with this statement as their mean scores fell above 4. On the other hand, it should be noted that while considering the median, the staff agreed with the statement, whereas Libyan experts strongly agreed with the statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 1. Using the Mann-Whitney test, the two sided p-value is equal to 0.019, which is the highly significant difference at $\alpha=0.05$. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding the statement above.

As regards the statement whether newly assigned members of the board should receive financial and non-financial information about the company, the mean was 4.29, the median 4.00 and the standard deviation 0.844 for the staff, while the Libyan experts scores' had a mean of 4.27, a median of 5.00 and a standard deviation of 0.870. This indicates that both groups strongly agreed with the above statement as their mean scores fall above 4. On the other hand, it should be noted that while considering the median, the staff agreed with the statement, whereas Libyan experts strongly agreed with the statement.

**Table 6.6 General Perceptions on the Board Structure under the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| 1 | The size of the board of directors should not be less than three members and not more than eleven. | 3.84 | 4.00 | 0.838 | 5 | 3.81 | 4.00 | 1.000 | 5 | 5350.00 | 0.901 |
| 2 | The majority of the board should be non-executive directors. | 3.70 | 4.00 | 1.049 | 6 | 3.69 | 4.00 | 1.139 | 6 | 5381.500 | 0.964 |
| 3 | There should be separation between the position of chairman and CEO. | 3.97 | 4.00 | 1.039 | 3 | 4.27 | 4.00 | 0.913 | 3 | 4457.00 | 0.019 |
| 4 | Each member of the board may not sit on more than three additional boards at the same time. | 3.94 | 4.00 | 0.973 | 4 | 4.26 | 4.50 | 0.961 | 4 | 4226.00 | 0.004 |
| 5 | Most board members should have financial and technical skills to understand company's work and its financial reports. | 4.34 | 4.00 | 0.831 | 1 | 4.52 | 5.00 | 0.826 | 1 | 4508.00 | 0.019 |
| 6 | Newly-assigned members of the board should receive financial and non-financial information about the company. | 4.29 | 4.00 | 0.844 | 2 | 4.27 | 5.00 | 0.870 | 2 | 4492.00 | 0.019 |

**Note: Significant level at 5% using the Mann-Whitney test**
**This responses were reported on a 5-point scale ranging from (1=Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)**

Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 2. Using the Mann-Whitney test, the two sided p-value is equal to 0.019, which is the highest significant difference at $\alpha=0.05$. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding the above statement.

These results, however, did not represent significant division between the two groups in terms of agreement-disagreement, but represented a variance in the agreement level as one group of respondents agreed more strongly with the statement than the other. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding most statements of board structure. A possible explanation for this difference may be the fact that the Libyan experts had more experience and were more qualified than the other group. Therefore, respondents with lower educational levels may not have understood as well the importance of board structure.

These results support the findings of Hussain and Mallin (2003); Abor and Adjasi (2007); McCabe and Nowak (2008); Abd-Rahman,(2008); and Nam and Nam (2004), who stated that the size of the board should be large enough to ensure expertise flows from the many members. According to Solomon (2007), a good board composition should include a minimum of three independent directors capable of influencing decisions. In addition, the OECD (2004) recommended that the CEO and chairman positions should be separated for an effective monitoring system, since the CEO is mainly responsible for corporate management, whereas the chairman is the head of the board of directors which monitors management.

### 6.4.3 General Perceptions on Board Responsibility

This section is a summary of the general perceptions on board responsibility under the LCGC. Eleven statements were considered as displayed in Table 6.5 below.

With regard to the statement whether the company should have written rules on the role and responsibility of the board, the mean was 4.24, the median 4.00 and the standard deviation 0.866 for the staff, while the Libyan experts' scores had a mean of 4.38, a median of 5.00 and a standard deviation of 0.904. This implies that both groups strongly agreed with the statement as their mean scores fell above 4. In terms of the median, the staff agreed, while the Libyan experts strongly agreed with the statement. Furthermore, the higher standard

deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 2. Using the Mann-Whitney test, the two sided p-value is equal to 0.059, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Concerning the statement whether the board should shape and review the operational and financial plans and objectives of the company annually, the mean was 4.19, the median 4.00 and the standard deviation 0.929 for the staff, while the Libyan experts' scores had a mean of 4.44, a median of 5.00 and a standard deviation of 0.752. This implies that both groups strongly agreed with the statement as their mean scores fell above 4. In terms of the median, the staff agreed, while Libyan experts strongly agreed with the statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 3 and 1 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.035, which is the highly significant difference at α=0.05. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding the above statement. This may be due to the fact that Libyan law obligates the boards to shape and review the objectives of their companies annually, which is clearly observed by the Libyan experts.

Regarding the statement whether the board should review the company's internal policies periodically, the mean was 4.17, the median 4.00 and the standard deviation 0.965 for the staff, while the Libyan experts' scores had a mean of 4.33, a median of 5.00 and a standard deviation of 0.823. This indicates that both groups strongly agreed with the statement as their mean scores fell above 4. When the median is considered, the staff agreed, while Libyan experts strongly agreed with the statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 6 and 4 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.216, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Concerning the statement whether the board should shape and review the company's risk management policies, the mean was 4.35, the median 4.00 and the standard deviation 0.801 for listed company staff, while the Libyan experts' scores had a mean of 4.35, a median of 5.00 and a standard deviation of 0.801. This indicates that both groups strongly agreed with the statement as their mean scores fell above 4. When the median is considered, the staff agreed while Libyan experts strongly agreed with the statement. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 1 and 3 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.112, which is not significant at $\alpha=0.05$. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Regarding the statement whether the board should play an important role in selecting, monitoring and replacing the CEO, the mean was 4.10, the median 4.00 and the standard deviation 1.078 for the staff, while the Libyan experts' scores had a mean of 4.21, a median of 4.00 and a standard deviation of 0.843. This implies that both groups strongly agreed with the statement as their mean scores fell above 4. Additionally, it should be noted that when considering the median, the groups agreed with the statement, both scoring 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 9 and 6 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.287, which is not significant at $\alpha=0.05$. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

With regard to the statement whether the board of directors should attend corporate governance director training programmes, the mean was 4.18, the median 4.00 and the standard deviation 0.947 for the staff, while the Libyan experts' scores had a mean of 4.08, a median of 4.00 and a standard deviation of 0.939. This implies that both groups strongly agreed with the statement as their mean scores fell above 4. In addition, it should be noted that while considering the median, the two groups agreed with the statement as both scored 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 4 and 9 respectively. Using the Mann-Whitney test, the two sided p-value is

equal to 0.365, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Concerning the statement whether the board and top management should meet at least quarterly to discuss the company's future strategy, the mean was 4.05, the median 4.00 and the standard deviation 0.914 for the staff, while the Libyan experts' scores had a mean of 4.23, a median of 4.00 and a standard deviation of 0.849. This indicates that both groups strongly agreed with the statement as their mean scores fell above 4. When considering the median, the two groups agreed with the statement as both scored 4. On the other hand, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 8 and 5 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.107, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

With regard to the statement whether the board should formally evaluate performance of top management, the mean was 4.12, the median 4.00 and the standard deviation 0.913 for the staff, while the Libyan experts' scores had a mean of 4.20, a median of 4.00 and a standard deviation of 0.955. This shows that both groups strongly agreed with the statement as their mean scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 7. Using the Mann-Whitney test, the two sided p-value is equal to 0.305, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

With regard to the statement whether the board should set corporate governance rules for the company, the mean was 3.63, the median 4.00 and the standard deviation 0.971 for the staff, while the Libyan experts' scores had a mean of 3.74, a median of 4.00 and a standard deviation of 1.045. This shows that both groups agreed with the statement as their mean scores were between 3 and 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 11.

Using the Mann-Whitney test, the two sided p-value is equal to 0.351, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Concerning the statement whether the board should set written policies clarifying the relationship with stakeholders, the mean was 3.82, the median 4.00 and the standard deviation 0.971 for the staff, while the Libyan experts' scores had a mean of 3.92, a median of 4.00 and a standard deviation of 0.877. This indicates that when considering the mean and the median, both groups agreed with the statement.

In addition, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 10. Using the Mann-Whitney test, the two sided p-value is equal to 0.545, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Regarding the statement whether the board should set and monitor the system of internal control, the mean was 4.17, the median 4.00 and the standard deviation 0.877 for the staff, while the Libyan experts' scores had a mean of 4.11, a median of 4.00 and a standard deviation of 0.921. This indicates that groups strongly agreed with the statement as their mean scores fell above 4. On the other hand, while considering the median, both groups agreed with the statement as the score was 4.

Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and Libyan experts regarding the statement were ranked number 5 and 8 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.735, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

These results are in line with the findings and recommendations made by Dahya et al. (2002); Monks and Minow (2008); and Mallin (2007), that the board is responsible for determining the direction of the company through elaborating its aims, plans, policies and the strategies fit for success.

**Table 6.7 General Perceptions on Board Responsibility under the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| **1** | The company should have written rules of the role and responsibility of the board. | 4.24 | 4.00 | .866 | 2 | 4.38 | 5.00 | .904 | 2 | 4663.00 | 0.059 |
| **2** | The board should shape and review the operational and financial plans and objectives of the company annually. | 4.19 | 4.00 | .929 | 3 | 4.44 | 5.00 | .752 | 1 | 4576.00 | 0.035 |
| **3** | The board should review the company's internal policies periodically. | 4.17 | 4.00 | .965 | 6 | 4.33 | 5.00 | .832 | 4 | 4909.00 | 0.216 |
| **4** | The board should shape and review the company's risk management policies. | 4.35 | 4.00 | .801 | 1 | 4.35 | 5.00 | .801 | 3 | 4770.00 | 0.112 |
| **5** | The board should play an important role in selecting, monitoring, and replacing the CEO. | 4.01 | 4.00 | 1.078 | 9 | 4.21 | 4.00 | .843 | 6 | 4972.00 | 0.287 |
| **6** | The board of directors should attend director training programmes about corporate governance. | 4.18 | 4.00 | .947 | 4 | 4.08 | 4.00 | .939 | 9 | 5035.00 | 0.365 |
| **7** | The board and top management should meet at least quarterly to discuss the company's future strategy. | 4.05 | 4.00 | .914 | 8 | 4.23 | 4.00 | .849 | 5 | 4763.00 | 0.107 |
| **8** | The board should formally evaluate performance of top management. | 4.12 | 4.00 | .913 | 7 | 4.20 | 4.00 | .955 | 7 | 4991.00 | 0.305 |
| **9** | The board should set corporate governance rules for the company. | 3.63 | 4.00 | .971 | 11 | 3.74 | 4.00 | 1.045 | 11 | 5025.50 | 0.351 |
| **10** | The board should set written policies clarifying the relationship with stakeholders. | 3.82 | 4.00 | .936 | 10 | 3.92 | 4.00 | .877 | 10 | 5160.50 | 0.545 |
| **11** | The board should set and monitor the system of internal control. | 4.17 | 4.00 | .877 | 5 | 4.11 | 4.00 | .921 | 8 | 5266.50 | 0.735 |

**Note: Significant level at 5% using the Mann-Whitney test**
**This responses were reported on a 5-point scale ranging from (1=Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)**

Furthermore, the OECD principles (2004) stated that a corporate governance framework should ensure that the strategic guidance of the company provides a great deal of detail about the functions of the board in protecting both its external and internal stakeholders. The UK Combined Code (2006) also outlines some of the duties for the board of directors (see subsection 3.5.3.1 in chapter 3).

### 6.4.4 General Perceptions on Internal Auditing under the LCGC

This section is a summary of the general perceptions on internal auditing under the Libyan LCGC. According to Daykin (2006), the internal audit is considered a key element of an effective corporate governance structure. Five statements were considered as displayed in Table 6.6 below.

With regard to the statement whether the company should have an internal audit department, the mean was 4.31, the median 4.50 and the standard deviation 0.929 for the staff, while the Libyan experts' scores had a mean of 4.53, a median of 5.00 and a standard deviation of 0.755. This implies that when considering both the mean and median, both groups strongly agreed with the statement as their mean and medians fall above 4. In addition, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement above were ranked number 2. Using the Mann-Whitney test, the two sided p-value is equal to 0.047, which is significant difference at $\alpha=0.05$. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding the above statement.

With regard to the statement whether the internal auditor should be independent, the mean was 4.20, the median 4.00 and the standard deviation 1.054 for the staff, while the Libyan experts' scores had a mean of 4.37, a median of 5.00 and a standard deviation of 0.892. This shows that both groups agreed with this statement as their mean scores fell above 4. On the other hand, when considering the median, the staff agreed with the statement while the Libyan experts strongly agreed. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 3. Using the Mann-Whitney test, the two sided p-value is equal to 0.228,

which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Regarding the statement whether the internal auditor should be supervised by the CEO and audit committee, the mean was 3.86, the median 4.00 and the standard deviation 1.172 for the staff, while the Libyan experts' scores had a mean of 3.95, a median of 4.00 and a standard deviation of 1.278. This indicates that both groups agreed with the statement as their mean scores fell below 4. Additionally, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 5. Using the Mann-Whitney test, the two sided p-value is equal to 0.234, which is not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the statement between the groups.

Concerning the statement whether the internal auditor should be a full time employee, the mean was 3.97, the median 4.00 and the standard deviation 1.068 for the staff, while the Libyan experts' scores had a mean of 4.36, a median of 5.00 and a standard deviation of 0.859. This shows that the staff agreed with the statement whereas Libyan experts strongly agreed as their mean scores are falling below and above 4 respectively. Additionally, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the groups regarding the statement were ranked number 4. Using the Mann-Whitney test, the two sided p-value is equal to 0.002, which is the highly significant difference at α=0.05. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding the above statement.

Regarding the statement whether the internal auditor should submit a quarterly report to the board and control committee, the mean was 4.20, the median 4.00 and the standard deviation 1.910 for the staff, while the Libyan experts' scores had a mean of 4.47, a median of 5.00 and a standard deviation of 0.755. This indicates that both groups strongly agreed with the statement as their mean scores fell above 4. In addition, when considering the median, the staff agreed while the Libyan experts strongly agreed with the statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 2

**Table 6.8 General Perceptions on the Internal Auditing under the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| 1 | The company should have an internal audit department. | 4.31 | 4,50 | .929 | 1 | 4.53 | 5.00 | .755 | 1 | 4643.50 | 0.047 |
| 2 | The internal auditor should be independent. | 4.20 | 4.00 | 1.054 | 3 | 4.37 | 5.00 | .892 | 3 | 4928.50 | 0.228 |
| 3 | The internal auditor should be supervised by the CEO and audit committee. | 3.86 | 4.00 | 1.172 | 5 | 3.95 | 4.00 | 1.278 | 5 | 4912.50 | 0.234 |
| 4 | The internal auditor should be a full-time employee. | 3.97 | 4.00 | 1.068 | 4 | 4.36 | 5.00 | .859 | 4 | 4181.50 | 0.002 |
| 5 | The internal auditor should submit a quarterly report to the board and control committee. | 4.20 | 4.00 | .910 | 2 | 4.47 | 5.00 | .755 | 2 | 4366.50 | 0.008 |

**Note: Significant level at 5% using the Mann-Whitney test**
**This responses were reported on a 5-point scale ranging from (1=Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)**

Using the Mann-Whitney test, the two sided p-value is equal to 0.008, which is the highly significant difference at α=0.05.

Concerning the statement whether the internal auditor should be a full time employee, the mean was 3.97, the median 4.00 and the standard deviation 1.068 for the staff, while the Libyan experts' scores had a mean of 4.36, a median of 5.00 and a standard deviation of 0.859. This shows that the staff agreed with the statement whereas Libyan experts strongly agreed as their mean scores are falling below and above 4 respectively. Additionally, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the groups regarding the statement were ranked number 4. Using the Mann-Whitney test, the two sided p-value is equal to 0.002, which is the highly significant difference at α=0.05. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding the above statement.

Regarding the statement whether the internal auditor should submit a quarterly report to the board and control committee, the mean was 4.20, the median 4.00 and the standard deviation 1.910 for the staff, while the Libyan experts' scores had a mean of 4.47, a median of 5.00 and a standard deviation of 0.755. This indicates that both groups strongly agreed with the statement as their mean scores fell above 4. In addition, when considering the median, the staff agreed while the Libyan experts strongly agreed with the statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 2. Using the Mann-Whitney test, the two sided p-value is equal to 0.008, which is the highly significant difference at α=0.05.

These results, in general, support the findings and recommendations made by the Cadbury Report (1992); the Turnbull Report (1999); Rolandas and Romas (2005); and Applegate (2003), which indicated that internal auditors offered a unique and independent point of view on the quality of financial disclosures that differed from corporate accountants or external auditors. Furthermore, these results support the recommendation of the IIA (2009). It is mandatory that internal auditors contribute to the corporate governance processes, assisting the board of directors and management and helping them in such activities which will improve their relationship with corporate management and external

auditors. They should also serve the purpose of an educational recourse regarding trends in the business and the legal environment.

These results, however, did not represent significant division between the two groups in terms of agreement-disagreement, but represented a variance in the agreement level as one group of respondents agreed more strongly with the statement than the other. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding most statements of board structure. These finding can be explained by the fact that the academics and external auditors had more experience about internal auditing. Moreover, differences between groups may be due to the higher educational level and qualifications of Libyan experts. Therefore, they are aware of and strongly agreed with the importance of this subject.

### 6.4.5 General Perceptions on Disclosure and Transparency

This section summarises the general perceptions on disclosure and transparency under the LCGC. The Basel Committee guidance on bank transparency (2006) acknowledged that transparency is very crucial for efficiency and effective corporate governance; "it is difficult for shareholders, other stakeholders and market participants to effectively monitor and properly hold accountable the board of directors and senior management when there is a lack of transparency" (Basel Committee, 2006). Twenty statements were considered as displayed in Table 6.7 (A and B) below.

Concerning the statement whether disclosure should include information concerning significant changes in ownership, the mean was 4.19 and the standard deviation 0.950 for the staff, while the Libyan experts' scores had a mean of 4.20 and a standard deviation of 0.862. This implies that both groups strongly agreed with the statement as their mean scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the company staff seems to be less reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding this statement were ranked number 6 and 2 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.760, which is not significant at $\alpha=0.05$.

With regard to the statement whether disclosure should include information on financial and operating results, the mean was 4.28 and the standard deviation 0.817 for the staff, while the Libyan experts' scores had a mean of 4.18 and a standard deviation of 0.874.

This implies that both groups agreed with the statement as their mean fell above 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seem to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and those of the Libyan experts regarding this statement were ranked number 3 and 4 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.366, which is not significant at $\alpha$=0.05.

Regarding the statement whether disclosure should include name, background information and the remuneration of board members, the mean was 4.24 and the standard deviation 0.878 for the staff, while the Libyan experts' scores had a mean of 4.17 and a standard deviation of 1.055. This implies that both groups strongly agreed with the statement as their mean scores fall above 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and Libyan experts regarding the statement were ranked number 4 and 5 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.966, which is not significant at $\alpha$=0.05.

With regard to the statement whether disclosure should include name, background information and the remuneration of board committee, the mean was 4.16 and the standard deviation 0.940 for the staff, while the Libyan experts' scores had a mean of 4.15 and a standard deviation of 0.994. This shows that both groups strongly agreed with the statement as their mean scores fell above 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 7. Using the Mann-Whitney test, the two sided p-value is equal to 0.915, which is not significant at $\alpha$=0.05.

In relation to the statement whether disclosure should include functions and tasks of board committees, the mean was 4.29 and the standard deviation 0.856 for the staff, while the Libyan experts' scores had a mean of 4.25 and a standard deviation of 0.929. This indicated that both groups strongly agreed with the statement as their mean scores fell above 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 1. Using the

Mann-Whitney test, the two sided p-value is equal to 0.869, which is not significant at α=0.05.

With regard to the statement whether disclosure should include shares of the members of the board, the mean was 4.05 and the standard deviation 0.968 for the staff, while the Libyan experts' scores had a mean of 4.07 and a standard deviation of 1.030. This implies that both groups strongly agreed with the statement as their mean scores fall above 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both staff and those of experts regarding the above statement were ranked number 8 and 12 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.650, which is not significant at α=0.05.

With regard to the statement whether disclosure should include majority shareholders of the company, the mean was 3.95 and the standard deviation 0.903 for the staff, while the Libyan experts' scores had a mean of 3.94 and a standard deviation of 1.070. This indicated that both groups agreed with the statement as their mean scores fall below 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts Based on the mean, the findings of both the staff and Libyan experts regarding the statement were ranked number 15 and 16 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.619, which is not significant at α=0.05.

With regard to the statement whether disclosure should include information on the rights of stakeholders, the mean was 4.00, the median 4.00 and the standard deviation 0.899 for the staff, while the Libyan experts' scores had a mean of 3.95, a median of 4.00 and a standard deviation of 1.027. This implies that both groups agreed with the statement, as their mean scores were 4 and close to 4 respectively. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 13 and 15 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.935, which is not significant at α=0.05.

**Table (6.9, a) General Perceptions on Disclosure and Transparency under the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| **1** | Disclosure should include information concerning significant changes in ownership. | 4.19 | | .950 | 6 | 4.20 | | .862 | 2 | 5279.50 | 0.760 |
| **2** | Disclosure should include information on financial and operating results. | 4.28 | | .817 | 3 | 4.18 | | .874 | 4 | 5058.00 | 0.366 |
| **3** | Disclosure should include names, background and their remunerations of board members. | 4.24 | | .878 | 4 | 4.17 | | 1.055 | 5 | 5383.00 | 0.966 |
| **4** | Disclosure should include names, background and their remunerations of board committees. | 4.16 | | .940 | 7 | 4.15 | | .994 | 7 | 5357.00 | 0.915 |
| **5** | Disclosure should include functions and tasks of board committees. | 4.29 | | .856 | 1 | 4.25 | | 929 | 1 | 5335.00 | 0.869 |
| **6** | Disclosure should include shares of the members of the board. | 4.05 | | .968 | 8 | 4.07 | | 1.030 | 12 | 5215.50 | 0.650 |
| **7** | Disclosure should include majority shareholders of the company. | 3.95 | | .903 | 15 | 3.94 | | 1.070 | 16 | 5197.00 | 0.619 |
| **8** | Disclosure should include information on the rights of stakeholders. | 4.00 | 4.00 | .899 | 13 | 3.95 | 4.00 | 1.027 | 15 | 5366.50 | 0.935 |
| **9** | Disclosure should include forecasts of the company's operations for the coming year. | 3.89 | 4.00 | 2.11 | 17 | 14.01 | 4.00 | .881 | 13 | 4693.00 | 0.204 |
| **10** | Disclosure should include related party transactions in detail. | 3.72 | 4.00 | .911 | 19 | 3.75 | 4.00 | 1.086 | 20 | 5007.50 | 0.338 |

**Note: Significant level at 5% using the Mann-Whitney test**
**This responses were reported on a 5-point scale ranging from (1=Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)**

**Table (6.9, b) General Perceptions on Disclosure and Transparency under the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| **11** | Disclosure should include corporate group structure. | 4.20 | 4.00 | .841 | 5 | 4.16 | 4.00 | .919 | 6 | 5347.50 | 0.894 |
| **12** | Disclosure should include company environmental reports. | 4.03 | 4.00 | .881 | 10 | 3.91 | 4.00 | .933 | 17 | 5052.00 | 0.385 |
| **13** | Disclosure should include company social policies and programmes. | 4.00 | 4.00 | .932 | 14 | 4.00 | 4.00 | .947 | 14 | 5370.00 | 0.941 |
| **14** | Disclosure should include quarterly financial reports. | 4.02 | 4.00 | .974 | 12 | 4.10 | 4.00 | .927 | 9 | 5154.500 | 0.538 |
| **15** | Disclosure should include the board's annual report. | 4.29 | 4.50 | .902 | 2 | 4.19 | 4.00 | .919 | 3 | 5996.500 | 0.538 |
| **16** | Disclosure should include external auditor's report. | 3.93 | 4.00 | 1.075 | 16 | 4.12 | 4.00 | 1.091 | 8 | 4706.500 | 0.088 |
| **17** | Disclosure should include fees paid to external auditors. | 3.81 | 4.00 | 1.012 | 18 | 3.83 | 4.00 | 1.148 | 18 | 5148.00 | 0.542 |
| **18** | The company should use its website to disclose all information. | 3.66 | 4.00 | 1.183 | 20 | 3.76 | 4.00 | 1.199 | 19 | 5089.00 | 0.454 |
| **19** | The company should not leak any information before publication. | 4.03 | 4.00 | 1.105 | 11 | 4.09 | 4.00 | .933 | 10 | 5339.50 | 0.880 |
| **20** | Disclosure should include information about the company's application of the LCGC. | 4.03 | 4.00 | .870 | 9 | 4.08 | 4.00 | .898 | 11 | 5133.00 | 0.504 |

**Note: Significant level at 5% using the Mann-Whitney test**
**This responses were reported on a 5-point scale ranging from (1=Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)**

With regard to the statement whether disclosure should include forecasts of company's operations for the coming year, the mean was 3.89, the median 4.00 and the standard deviation 2.11 for the staff, while the Libyan experts' scores had a mean of 4.01, a median of 4.00 and a standard deviation of 0.881. This implies that the staff agreed while the Libyan experts strongly agreed as their mean scores fell closer and above 4 respectively. Additionally, it should be noted that in considering the median, both groups agreed with the statement. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding the above statement were ranked number 17 and 13 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.204, which is not significant at $\alpha$=0.05.

Concerning the statement whether disclosure should include related party transactions in detail, the mean was 3.79, the median 4.00 and the standard deviation 0.911 for the staff, while the Libyan experts' scores had a mean of 3.75, a median of 4.00 and a standard deviation of 1.086. This implies that both groups agreed with the statement as their mean scores fell below 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and Libyan experts regarding the statement were ranked number 19 and 20 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.338, which is not significant at $\alpha$=0.05.

These results support the findings and recommendations made by the Cadbury Report (1992); Nam and Nam (2004); the OECD(2004); and Healy and Palepu (2001), who stated that corporate disclosure is crucial for the smooth functioning of an effective and efficient capital market. Where markets operate freely, full disclosure will be of great help to users, allowing them to make informed decisions and enhancing the preconditions of an open competitive market. Patel and Dallas (2002) emphasised that a measure of corporate governance transparency, provided by the Transparency and Disclosure of Standard & Poor (S&P) in 2001 and 2002, is based on the amount of corporate governance-related disclosures. Three types of disclosures are suggested: (1) ownership structure and investor rights, (2) financial transparency and information disclosure and (3) board and management structure and mechanisms (Patel and Dallas 2002).

Furthermore, Solomon (2007, p. 143) stated that "transparency is an essential element of a well-functioning system of corporate governance... corporate disclosure to stakeholders is the principal means by which companies can become transparent".

### 6.4.6 General perceptions on conflict of interests

This section summarises the general perceptions on conflict of interest under the LCGC. Six statements were considered as displayed in Table 6.8 below.

With regard to the statement whether the company should have clear written regulations for directors and staff on conflict of interests, the mean was 4.08, the median 4.00 and the standard deviation 0.971 for the staff, while the Libyan experts' scores had a mean of 4.01, a median of 4.00 and a standard deviation of 0.891. This implies that groups strongly agreed with the statement as their mean scores fell above 4. Furthermore, the higher standard deviation of the Libyan experts is indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 1. Using the Mann-Whitney test, the two sided p-value is equal to 0.320, which is not significant at $\alpha=0.05$.

Concerning the statement whether board members, directors and staff may not trade company stocks for a specified period before the disclosure of company financial statements, the mean was 3.85, the median 4.00 and the standard deviation of 1.019 for the staff, while the Libyan experts' scores had a mean of 3.93, a median of 4.00 and a standard deviation of 0.974. This indicates that both groups agreed with the statement as their mean scores fell above 3. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 2 and 3 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.510, which is not significant at $\alpha=0.05$.

Regarding the statement whether board members, directors and staff may not trade company stocks after sudden financial events until such information is disclosed to the public, the mean was 3.85, the median 4.00 and the standard deviation 1.104 for the staff, while the Libyan experts' scores had a mean of 3.98, a median of 4.00 and a standard deviation of 0.995. This implies that both groups agreed with the statement as their mean scores fell above 3. Furthermore, the higher standard deviation of the staff is an indication

that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 3 and 2 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.995, which is not significant at $\alpha$=0.05.

With regard to the statement whether board members and directors may not obtain any loan from the company, the mean was 3.14, the median 3.00 and the standard deviation 1.198 for the staff, while the Libyan experts' scores had a mean of 3.47, the median was 4.00 and a standard deviation of 1.148. This shows that both groups agreed with the statement as their mean scores fell above 3. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both groups regarding the statement were ranked number 6. Using the Mann-Whitney test, the two sided p-value is equal to 0.995, which is not significant at $\alpha$=0.05.

Concerning the statement whether board members and directors may not have direct or indirect interest in company activities, the mean was 3.82, the median 4.00 and the standard deviation 2.17 for the staff, while the Libyan experts' scores had a mean of 3.82 median of 4.00 and a standard deviation of 1.133. This implies that both groups agreed with the statement as their mean scores fall above 3. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both groups regarding the statement were ranked number 5. Using the Mann-Whitney test, the two sided p-value is equal to 0.035, which is a significant difference at $\alpha$=0.05. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding the above statement. A possible explanation for this difference may be that Libyan companies are less keen to apply corporate governance than the other group

Regarding the statement whether the company should set a professional code of conduct, the mean was 3.83, the median 4.00 and the standard deviation 1.111 for the staff, while the Libyan experts' scores had a mean of 3.83, a median of 4.00 and a standard deviation of 0.978. This implies that both groups agreed with the statement as their mean scores fell above 3.

**Table 6.10 General Perceptions on Conflict of Interests under the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| **1** | The company should have clear written regulations for the directors and staff regarding conflict of interests. | 4.08 | 4.00 | .971 | 1 | 4.01 | 4.00 | .891 | 1 | 5003.00 | 0.320 |
| **2** | Board members, directors and staff may not trade company stocks for a specified period before the disclosure of company financial statements. | 3.85 | 4.00 | 1.019 | 2 | 3.93 | 4.00 | .974 | 3 | 5130.50 | 0.510 |
| **3** | Board members, directors and staff may not trade company stocks after sudden financial events until such information is disclosed to the public. | 3.85 | 4.00 | 1.104 | 3 | 3.98 | 4.00 | .995 | 2 | 5073.00 | 0.423 |
| **4** | Board members and directors may not obtain any loan from the company. | 3.14 | 3.00 | 1.198 | 6 | 3.47 | 4.00 | 1.148 | 6 | 4516.50 | 0.035 |
| **5** | Board members and directors may not have direct or indirect interests in activities in which the company is involved. | 3.82 | 4.00 | 2.17 | 5 | 3.82 | 4.00 | 1.133 | 5 | 5366.00 | 0.935 |
| **6** | The company should set up professional code of conduct. | 3.83 | 4.00 | 1.111 | 4 | 3.83 | 4.00 | .978 | 4 | 5262.50 | 0.738 |

**Note: Significant level at 5% using the Mann-Whitney test**
**This responses were reported on a 5-point scale ranging from (1=Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree)**

Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff Based on the mean, the findings of both groups regarding the statement were ranked number 4. Using the Mann-Whitney test, the two sided p-value is equal to 0.738, which is not significant at $\alpha$=0.05. These results were in line with the findings of Hart (1995), who argues that corporate governance must be enforced in an organisation in order to eliminate conflict of interest between company management and shareholders.

### 6.4.7 General Perceptions on Board Committees

This section of the questionnaire focused on respondents' general perceptions on the board committees (audit, remuneration and control committees). Respondents were asked to indicate their views on the importance of having and operating these committees as set out in the LCGC. The five-point scale ranges from 1=Not important at all; 2= Not very important; 3=; Do not know; 4= Important; 5= Very important.

#### 6.4.7.1 General Perceptions on Audit Committee

This sub-section summarises the general perceptions on the audit committee under the LCGC. Thirteen statements were considered as displayed in Table 6.9 below.

With regard to the statement whether the company should have an audit committee, the mean was 4.43, the median 5.00 and the standard deviation 0.82 for the staff, while the Libyan experts' scores had a mean of 4.23, a median of 4.00 and a standard deviation of 0.913. This implies that the two groups viewed the establishment of an audit committee as very important; both their mean scores fell above 4. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 2 and 8 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.071, which is not significant at $\alpha$=0.05.

In considering the statement whether the audit committee should consist of three non-executive directors elected by the board, the mean was 3.83, the median 4.00 and the standard deviation 2.17 for the staff, while the Libyan experts' scores had a mean of 3.85, a median of 4.00 and a standard deviation of 0.863. This shows that the two groups regarded the statement

as important; both their mean scores fell above 3. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both groups regarding the statement were ranked number 13. Using the Mann-Whitney test, the two sided p-value is equal to 0.701, which is not significant at $\alpha=0.05$.

With regard to the statement whether the audit committee should include a member with finance and accounting expertise, the mean was 4.48, the median 5.00 and the standard deviation 0.835 for the staff, while the Libyan experts' scores had a mean of 4.44, a median of 4.00 and a standard deviation of 0.824. This shows that the two groups regarded the statement as important; their mean scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both groups regarding the statement above were ranked number 1. Using the Mann-Whitney test, the two sided p-value is equal to 0.672, which is not significant at $\alpha=0.05$.

Regarding the statement whether the audit committee should at least meet once every 3 months, the mean was 4.14, the median 4.00 and the standard deviation 0.888 for the staff, while the Libyan experts' scores had a mean of 4.28, a median of 4.00 and a standard deviation of 0.783. This shows that the two groups regarded the statement as very important; both their mean scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 8 and 7 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.290, which is not significant at $\alpha=0.05$.

Concerning the statement that the audit committee should recommend the appointment and removal of the external auditor and identify fees, the mean was 3.89, the median 4.00 and the standard deviation 1.034 for the staff, while the Libyan experts' scores had a mean of 3.98, a median of 4.00 and a standard deviation of 1.032. This shows that the two groups regarded the statement as important; both scores fell above 3. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both groups regarding the statement were ranked number 12. Using the Mann-Whitney test, the two sided p-value is equal to 0.433, which is not significant at $\alpha=0.05$.

With regard to the statement that the audit committee should review the external auditor's comments on the financial statements, the mean was 4.05, the median 4.00 and the standard deviation 0.936 for the staff, while the Libyan experts scores had a mean of 4.21, a median of 4.00 and a standard deviation of 0.786. This shows that the two groups regarded the statement as very important; both their mean scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and those of the Libyan experts regarding the statement were ranked number 10 and 9 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.199, which is not significant at $\alpha=0.05$.

Regarding the statement that the audit committee should review the independence of the external auditor, the mean was 4.34, the median 4.00 and the standard deviation 0.879 for the staff, while the Libyan experts' scores had a mean of 4.32, a median of 4.00 and a standard deviation of 0.783. This shows that the two groups regarded the statement as very important; both their mean scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and those of the Libyan experts regarding the above statement were ranked number 3 and 4 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.566, which is not significant at $\alpha=0.05$.

When considering the statement that the audit committee should review the external auditor's plan and make suggestions, the mean was 3.99, the median 4.00 and the standard deviation 0.990 for the staff, while the Libyan experts' scores had a mean of 4.21, a median of 4.00 and a standard deviation of 0.887. This implies that the staff regarded the statement as important, while Libyan experts regarded it as very important; their mean scores fell below 4 and above 4 respectively. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and those of the Libyan experts regarding the statement were ranked number 11 and 10 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.080, which is not significant at $\alpha=0.05$.

Regarding the statement that the audit committee should review the company's accounting policies and present opinions and recommendations, the mean was 4.12, the

median 4.00 and the standard deviation 0.879 for the staff, while the Libyan experts' scores had a mean of 4.31, a median of 4.00 and a standard deviation of 0.719. This shows that the two groups regarded the statement as very important; both their mean scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and those of the Libyan experts regarding the statement were ranked number 9 and 5 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.116, which is not significant at $\alpha=0.05$.

With regard to the statement that the audit committee should review and discuss the internal audit department plan and its efficiency, the mean was 4.21, the median 4.00 and the standard deviation 0.913 for the staff, while the Libyan experts' scores had a mean of 4.42, a median of 4.00 and a standard deviation of 0.657. This shows that the two groups regarded the statement as very important; both their mean scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and those of the Libyan experts regarding the statement were ranked number 7 and 2 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.302, which is not significant at $\alpha=0.05$.

With regard to the statement that the audit committee should review the independence of the internal auditor, the mean was 4.31, the median 4.00 and the standard deviation 0.907 for the staff, while the Libyan experts scores had a mean of 4.18, a median of 4.00 and a standard deviation of 0.984. This shows that the two groups regarded the statement as very important; both their mean scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 4 and 11 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.128, which is not significant at $\alpha=0.05$.

Regarding the statement that the audit committee should review the internal auditor's reports and any corrective measures taken, the mean was 4.29, the median 4.00 and the standard deviation 0.844 for the staff, while the Libyan experts' scores had a mean of 4.37, a median of 4.00 and a standard deviation of 0.718.

**Table 6.11 General Perceptions on Audit Committee under the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| **1** | Company should have an audit committee (AC). | 4.43 | 5.00 | .820 | 2 | 4.23 | 4.00 | .913 | 8 | 4696.00 | 0.071 |
| **2** | The AC should consist of three non-executive directors elected by the board. | 3.83 | 4.00 | 2.17 | 13 | 3.85 | 4.00 | .863 | 13 | 5242.50 | 0.701 |
| **3** | The AC should include a member with accounting and finance expertise. | 4.48 | 5.00 | .835 | 1 | 4.44 | 4.00 | .824 | 1 | 5240.50 | 0.672 |
| **4** | The AC should meet at least once every 3 months. | 4.14 | 4.00 | .888 | 8 | 4.28 | 4.00 | .783 | 7 | 4980.00 | 0.290 |
| **5** | Recommending the appointment and removal of the external auditor and the identification of fees. | 3.89 | 4.00 | 1.034 | 12 | 3.98 | 4.00 | 1.032 | 12 | 5079.50 | 0.433 |
| **6** | Reviewing the external auditor's comments on financial statement. | 4.05 | 4.00 | .936 | 10 | 4.21 | 4.00 | .786 | 9 | 4905.00 | 0.199 |
| **7** | Reviewing the independence of the external auditor. | 4.34 | 4.00 | .879 | 3 | 4.32 | 4.00 | .783 | 4 | 5175.50 | 0.566 |
| **8** | Reviewing the external auditor's plan and making suggestions. | 3.99 | 4.00 | .990 | 11 | 4.21 | 4.00 | .887 | 10 | 4693.00 | 0.080 |
| **9** | Reviewing the company's accounting policies and giving opinions and recommendations. | 4.12 | 4.00 | .879 | 9 | 4.31 | 4.00 | .719 | 5 | 4777.00 | 0.116 |
| **10** | Reviewing and discussing the internal audit department plan and its efficiency. | 4.21 | 4.00 | .913 | 7 | 4.42 | 4.00 | .657 | 2 | 4876.50 | 0.182 |
| **11** | Reviewing the independence of the internal auditor. | 4.31 | 4.00 | .907 | 4 | 4.18 | 4.00 | .984 | 11 | 4990.00 | 0.302 |
| **12** | Reviewing the internal auditor's reports and any corrective measures taken. | 4.29 | 4.00 | .844 | 5 | 4.37 | 4.00 | .718 | 3 | 5232.00 | 0.665 |
| **13** | Reviewing the financial statements before presenting them to the board and giving opinions and recommendations. | 4.25 | 4.00 | .857 | 6 | 4.31 | 4.00 | .837 | 6 | 5193.50 | 0.600 |

**Note: Significant level at 5% using the Mann-Whitney test**
**This responses were reported on a 5-point scale ranging from (1=Not important at all; 2= Not very important ; 3= Don't know; 4= Important; 5= Very important)**

This shows that the two groups regarded the statement as very important; both their mean scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 5 and 3 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.665, which is not significant at $\alpha$=0.05.

Concerning the statement that the audit committee should review the financial statements before presenting them to the board and provide recommendations, the mean was 4.25, the median 4.00 and the standard deviation 0.857 for the staff, while the Libyan experts' scores had a mean of 4.31, a median of 4.00 and a standard deviation of 0.837. This shows that the two groups regarded the statement as very important; both their mean scores fell above 4. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both groups regarding the statement were ranked number 6. Using the Mann-Whitney test, the two sided p-value is equal to 0.600, which is not significant at $\alpha$=0.05.

These results support the findings of Abbott et al. (2003); Carcello and Neal (2003); Pickett (2005); the Cadbury Report (1992); and the Smith Report, which was issued in 2003 and recommended that companies should produce reports annually stipulating the role and responsibilities of audit committees. It further suggested that the audit committees should publish an annual report, which describes the duties that were performed by each of the committee members in the course of the fiscal year. Furthermore, Sarbanes-Oxley Act in 2002 determined the method of audit committee formulation and its duties. It suggested that corporations, which have securities circulating in the stock exchange market, should be obliged to have an audit committee because of its importance with regard to corporate governance

**6.4.7.2 General Perceptions on the Nomination Committee**

This section summarises the general perceptions on nomination committees under the LCGC. Seven statements were considered as displayed in Table 6.10 below.

With regard to the statement whether the board should have a nomination committee, the mean was 3.69, the median 4.00 and the standard deviation 1.125 for the staff, while the

Libyan experts' scores had a mean of 3.81, a median of 4.00 and a standard deviation of 0.968. This shows that both groups regarded the statement as important, as their mean scores fell above 3. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both groups regarding the statement were ranked number 6. Using the Mann-Whitney test, the two sided p-value is equal to 0.537, which is not significant at $\alpha=0.05$.

In considering the statement whether the nomination committee members should be elected by the board, the mean was 3.11, the median 3.00 and the standard deviation 1.163 for the staff, while the Libyan experts' scores had a mean of 3.47, a median of 4.00 and a standard deviation of 1.143. This shows that both groups regarded the statement as important, as their mean scores fell above 3. Furthermore, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the groups regarding the statement were ranked number 7. Using the Mann-Whitney test, the two sided p-value is equal to 0.024, which is a significant difference at $\alpha=0.05$. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding the statement above.

Concerning the statement that the nomination committee should recommend candidates for membership of the board to the annual general meeting, the mean was 3.78, the median 4.00 and the standard deviation 0.883 for the staff, while the Libyan experts' scores had a mean of 3.87, a median of 4.00 and a standard deviation of 1.148. This shows that both groups regarded the statement as important, as their mean scores fell above 3. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the statement were ranked number 5. Using the Mann-Whitney test, the two sided p-value is equal to 0.316, which is not significant at $\alpha=0.05$.

With regard to the statement that the nomination committee should review skills and qualifications required for the board membership, the mean was 4.05, the median 4.00 and the standard deviation 0.821 for the staff, while the Libyan experts' scores had a mean of 4.02, a median of 4.00 and a standard deviation of 0.896. This shows that both groups regarded the statement as very important, as their mean scores fell above 4. Furthermore, the

higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 1 and 3 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.999, which is not significant at $\alpha$=0.05.

Regarding the statement that the nomination committee should review the board structure and make recommendations of possible changes, the mean was 3.86, the median 4.00 and the standard deviation 0.975 for the staff, while the Libyan experts' scores had a mean of 3.96, a median of 4.00 and a standard deviation of 0.906. This shows that both groups regarded the statement as important, as their mean scores fell above 3. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 3 and 4 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.461, which is not significant at $\alpha$=0.05.

With regard to the statement that the nomination committee should define the board's weakness and strengths and propose remedies in accordance with company interests, the mean was 4.04, the median 4.00 and the standard deviation 1.004 for the staff, while the Libyan experts scores had a mean of 4.04, a median of 4.00 and a standard deviation of 0.985.This shows that both groups regarded the statement important, as their mean scores fell above 3. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and Libyan experts regarding the statement were ranked number 2 and 1 respectively.Using the Mann-Whitney test, the two sided p-value is equal to 0.947, which is not significant at $\alpha$=0.05.

Concerning the statement that the nomination committee should set clear policies of compensation and remuneration for board members and senior executives, the mean was 3.82, the median 4.00 and the standard deviation 1.038 for listed company staff, while the Libyan experts' scores had a mean of 4.03, a median of 4.00 and a standard deviation of 0.990.

**Table 6.12 General Perceptions on Nomination Committee under the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| 1 | The board should have a nomination committee. | 3.69 | 4.00 | 1.125 | 6 | 3.81 | 4.00 | .968 | 6 | 5147.50 | 0.537 |
| 2 | The nomination committee members should be elected by the board. | 3.11 | 3.00 | 1.163 | 7 | 3.47 | 4.00 | 1.148 | 7 | 4452.50 | 0.024 |
| 3 | Recommending candidates for membership of the board to the AGM. | 3.78 | 4.00 | .883 | 5 | 3.87 | 4.00 | .886 | 5 | 5003.00 | 0.316 |
| 4 | Reviewing skills and qualifications required for the board membership. | 4.05 | 4.00 | .821 | 1 | 4.02 | 4.00 | .896 | 3 | 5399.50 | 0.999 |
| 5 | Reviewing the board structure and making recommendations of possible changes. | 3.86 | 4.00 | .975 | 3 | 3.96 | 4.00 | .906 | 4 | 5100.50 | 0.461 |
| 6 | Defining the board's weaknesses and strengths and proposing remedies in accordance with company interests. | 4.04 | 4.00 | 1.004 | 2 | 4.04 | 4.00 | .985 | 1 | 5373.00 | 0.947 |
| 7 | Setting clear policies of compensation and remuneration for board members and senior executives. | 3.82 | 4.00 | 1.038 | 4 | 4.03 | 4.00 | .990 | 2 | 4765.00 | 0.124 |

**Note: Significant level at 5% using the Mann-Whitney test**
**This responses were reported on a 5-point scale ranging from (1=Not important at all; 2= Not very important ; 3= Don't know; 4= Important; 5= Very important)**

This implies that the staff regarded the statement important, while Libyan experts regarded it as very important as their mean scores fell below 4 and above 4 respectively. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 4 and 2 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.124, which is not significant at $\alpha$=0.05.

These results support the findings and recommendations made by Jackson et al. (2003); and the NYSE (2004) Corporate Governance Rules emphasised that all listed companies should have a nominating committee which entirely consists of non-executive directors. The Higgs Report (2003) further built on the Combined Code recommendations, requiring the appointment of a nomination committee with a majority of independent directors. The recommendations suggest that the nominating committee should preferably be lead by a chairperson who is an independent director.

**6.4.7.3 General Perceptions on the Control Committee**

This section summarises the general perceptions on the control committee under the LCGC. Seven statements were considered as displayed in Table 6.11 below.

With regard to the statement whether the company should have a control committee, the mean was 4.25, the median 4.00 and the standard deviation .914 for the staff, while the Libyan experts scores had a mean of 4.32, a median of 5.00 and a standard deviation of 0.994. This shows that both groups regarded the statement as very important; their mean scores fell above 4. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the above statement were ranked number 4 and 3 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.259, which is not significant at $\alpha$=0.05.

Concerning the statement whether the control committee should consist of at least three members appointed by the AGM , the mean was 3.95, the median 4.00 and the standard deviation .1.019 for the staff, while the Libyan experts scores' had a mean of 4.23, a median of 4.00 and a standard deviation of 0.923. This implies that the staff regarded the statement as important, while Libyan experts regarded it as very important; their mean scores fell below 4,

and above 4 respectively. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both groups regarding the statement were ranked number 6. Using the Mann-Whitney test, the two sided p-value is equal to 0.026, which is a significant difference at $\alpha=0.05$. Hence, it can be concluded that the Libyan experts expressed a stronger level of support than the staff regarding the above statement.

With regard to the statement whether the control committee should represent all the shareholders of the company, the mean was 3.88, the median 4.00 and the standard deviation 1.183 for the staff, while the Libyan experts' scores had a mean of 4.04, a median of 4.00, and a standard deviation of 1.215. This implies that the staff regarded the statement as important while Libyan experts regarded it as very important; their mean scores fell below 4 and above 4 respectively. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both groups regarding the above statement were ranked number 7. Using the Mann-Whitney test, the two sided p-value is equal to 0.176, which is not significant at $\alpha=0.05$.

In considering the statement that the control committee should control the company administration and verification of its legal progress, the mean was 4.37, the median 5.00 and the standard deviation 0.928 for the staff, while the Libyan experts' scores had a mean of 4.31, a median of 5.00 and a standard deviation of 0.805. This shows that both groups regarded the statement as very important; their mean scores fell above 4. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and those of the Libyan experts regarding the statement were ranked number 2 and 4 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.230, which is not significant at $\alpha=0.05$

Regarding the statement that the control committee should verify the validity and legitimacy of contracts conducted by the company, the mean was 4.38, the median 5.00 and the standard deviation 0.886 for the staff, while the Libyan experts' scores had a mean of 4.44, a median of 4.00 and a standard deviation of 0.687. This shows that both groups regarded the statement as very important; their mean scores fell above 4.

**Table 6.13 General Perceptions on Control Committee under the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| 1 | The company should have a control committee. | 4.25 | 4.00 | .914 | 4 | 4.32 | 5.00 | .994 | 3 | 4957.00 | 0.259 |
| 2 | The control committee should consist of at least three members appointed by the AGM. | 3.95 | 4.00 | 1.019 | 6 | 4.23 | 4.00 | .923 | 6 | 4496.50 | 0.026 |
| 3 | The control committee should represent all shareholders of the company. | 3.88 | 4.00 | 1.183 | 7 | 4.04 | 4.00 | 1.215 | 7 | 4847.00 | 0.176 |
| 4 | Controlling the company administration and verification of its legal progress. | 4.37 | 5.00 | .928 | 2 | 4.31 | 5.00 | .805 | 4 | 4932.00 | 0.230 |
| 5 | Verification of the validity and legitimacy of contracts conducted by the company. | 4.39 | 5.00 | .886 | 1 | 4.44 | 4.00 | .687 | 1 | 5268.00 | 0.732 |
| 6 | Ensuring that all the accounting procedures are in accordance with legal and regulatory rules. | 4.28 | 5.00 | .975 | 3 | 4.36 | 4.00 | .91 | 2 | 5382.00 | 0.963 |
| 7 | Permitting committee members at any time to inspect the company and its work progress. | 4.16 | 4.00 | 1.080 | 5 | 4.31 | 4.50 | .839 | 5 | 5162.50 | 0.550 |

**Note: Significant level at 5% using the Mann-Whitney test**

**This responses were reported on a 5-point scale ranging from (1=Not important at all; 2= Not very important ; 3= Don't know; 4= Important; 5= Very important)**

Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both groups regarding the statement were ranked number 1. Using the Mann-Whitney test, the two sided p-value is equal to 0.732, which is not significant at $\alpha$=0.05.

Concerning the statement that the control committee should ensure all the accounting procedures are in accordance with legal and regulatory rules, the mean was 4.28, the median 5.00 and the standard deviation 0.975 for the staff, while the Libyan experts' scores had a mean of 4.36, a median of 4.00 and a standard deviation of 0.910 This shows that both groups regarded the statement as very important; their mean scores fell above 4. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and those of the Libyan experts regarding the statement were ranked number 3 and 2 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.963, which is not significant at $\alpha$=0.05.

In analysing the statement that the control committee should permit committee members at any time to inspect the company and the progress of its work, the mean was 4.16, the median 4.00 and the standard deviation 1.080 for the staff, while the Libyan experts' scores had a mean of 4.31, a median of 4.50, and a standard deviation of 0.839. This shows that both groups regarded the statement as very important; their mean scores fell above 4. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both groups regarding the statement were ranked number 5. Using the Mann-Whitney test, the two sided p-value is equal to 0.550, which is not significant at $\alpha$=0.05.

### 6.5 General Perceptions on Obstacles Affecting the Application of the LCGC

This section summarises the general perceptions on obstacles affecting the application of the LCGC. Fifteen statements were considered as displayed in Table 4.15 below. Respondents from two groups (the staff and Libyan experts) involved in this study were asked to give their opinions about the current obstacles affecting corporate governance in Libya on a five-point scale ranging from 1=Strongly Agree; 2= Agree; 3= Neutral; 4= Disagree; 5= Strongly Disagree. The mean, median, standard deviation and the ranks of the

staff and Libyan experts were analysed and compared. The Mann-Whitney test (U test) and probability values were determined to predict the significance at the 5% level of the general perception on obstacles affecting corporate governance practices.

Regarding the statement whether there was poor leadership within Libyan companies, the mean was 2.05, the median 2.00 and the standard deviation .1.218 for the staff, while the Libyan experts' scores had a mean of 1.95, a median of 1.00 and a standard deviation of 1.248. This implies that the staff agreed with the statement, while the Libyan experts' strongly agreed as their mean fell above and below 2 respectively. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 12 and 13 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.405, which is not significant at $\alpha$=0.05.

This result supports findings and recommendations made by Mallin (2007) and Solomon (2007) stressing the importance for shareholders to choose for themselves a board of directors composed of qualified people, who are concerned with making decisions that will benefit the company as a whole and increase shareholder value.

With regard to the statement whether there was a weak legal environment for companies, the mean was 2.25, the median 2.00 and the standard deviation 1.123 for the staff, while the Libyan experts' scores had a mean of 2.31, a median of 2.00 and a standard deviation of 1.195. This implies that both groups agreed with the statement as their mean fell above 2. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and those of the Libyan experts regarding the statement were ranked number 4 and 1 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.838, which is not significant at $\alpha$=0.05.

These results are in line with findings provided by Fawzy (2003). She highlighted that the Egyptian legal framework stills requires efforts to raise the efficiency of applying corporate governance in Egypt. Wong (2009) also conducted investigation on the various corporate governance reforms in Philippines after the adoption of the 2002 code of corporate governance, and documented that there was lacking laws promoting corporate governance in

the Philippines. Furthermore, the findings and recommendations made by Arce and Robles (2005) suggested that Costa Rican companies must implement a set of additional measures to compensate for the weakness of the legal environment.

Concerning the statement whether there was a lack of knowledge about corporate governance among the Libyan companies, the mean was 2.05, the median 2.00 and the standard deviation 1.123 for the staff, while the Libyan experts' scores had a mean of 2.07, a median of 2.00 and a standard deviation of 1.228. This shows that both groups agreed with the statement as their mean falls above 2. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and those of the Libyan experts regarding the statement were ranked number 11 and 9 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.885, which is not significant at $\alpha=0.05$.

With regard to the statement whether there was a current ownership structure of companies, the mean was 2.30, the median 2.00 and the standard deviation 0.990 for the staff, while the Libyan experts' scores had a mean of 2.25, a median of 2.00 and a standard deviationofl.112 This shows that both groups agreed with the statement as their mean falls above 2. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and those of the Libyan experts regarding the statement were ranked number 2 and 3 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.412, which is not significant at $\alpha=0.05$.

With regard to the statement whether there was a lack of training among directors of companies about corporate governance, the mean was 2.09, the median 2.00 and the standard deviation 1.138 for the staff, while the Libyan experts' scores had a mean of 2.09, a median of 2.00 and a standard deviation of 1.172. This shows that both groups agreed with the statement as their mean falls above 2. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 10 and 8 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.993, which is not significant at $\alpha=0.05$.

**Table 6.14 General Perceptions Obstacles Affecting the Application of the LCGC**

| N | Statements | listed company' staff (n=100) | | | | Libyan Experts (n=108) | | | | U Test | P Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Mean | Median | Std. deviation | Rank | Mean | Median | Std. deviation | Rank | | |
| 1 | Poor leadership within Libyan companies. | 2.05 | 2.00 | 1.218 | 12 | 1.95 | 1.00 | 1.248 | 13 | 5062.50 | 0.405 |
| 2 | Weakness of the legal environment for companies. | 2.25 | 2.00 | 1.123 | 4 | 2.31 | 2.00 | 1.195 | 1 | 5314.50 | 0.838 |
| 3 | Lack of knowledge about corporate governance among the Libyan companies | 2.05 | 2.00 | 1.123 | 11 | 2.07 | 2.00 | 1.228 | 9 | 5340.50 | 0.885 |
| 4 | Current ownership structure of companies. | 2.30 | 2.00 | .990 | 2 | 2.25 | 2.00 | 1.112 | 3 | 5059.00 | 0.412 |
| 5 | Lack of training among directors of companies about corporate governance. | 2.09 | 2.00 | 1.138 | 10 | 2.09 | 2.00 | 1.172 | 8 | 5396.50 | 0.993 |
| 6 | Impact of government intervention in companies. | 2.17 | 2.00 | 1.264 | 5 | 2.00 | 2.00 | 1.192 | 11 | 5022.00 | 0.356 |
| 7 | Weakness of the accounting profession in Libya resulting from a lack of adoption of the IAS. | 2.26 | 2.00 | 1.244 | 3 | 2.13 | 2.00 | 1.193 | 6 | 5105.00 | 0.478 |
| 8 | Weakness of the auditing profession in Libya resulting from a lack of adoption of the IAS. | 2.13 | 2.00 | 1.125 | 9 | 2.14 | 2.00 | 1.234 | 5 | 5303.50 | 0.816 |
| 9 | Weak investment awareness among investors. | 2.01 | 2.00 | 1.193 | 13 | 1.89 | 2.00 | 1.062 | 15 | 5219.00 | 0.665 |
| 10 | Absence of a Libyan Capital Market Authority. | 2.15 | 2.00 | 1.132 | 6 | 2.12 | 2.00 | 1.125 | 7 | 5318.00 | 0.844 |
| 11 | Cost of application corporate governance system. | 2.38 | 2.00 | 1.033 | 1 | 2.26 | 2.00 | 1.105 | 2 | 4884.00 | 0.215 |
| 12 | Absence of Institute of Directors. | 1.97 | 2.00 | 1.141 | 15 | 2.09 | 2.00 | 1.092 | 10 | 5050.00 | 0.393 |
| 13 | Limited number of listed companies. | 1.99 | 2.00 | 1.087 | 14 | 1.96 | 2.00 | 1.158 | 14 | 5242.50 | 0.699 |
| 14 | Lack of an independent institution or body to monitor corporate governance practices. | 2.14 | 2.00 | 1.164 | 8 | 1.99 | 2.00 | 1.123 | 12 | 5017.50 | 0.352 |
| 15 | Weak international pressure on Libya for the application of corporate governance. | 2.15 | 2.00 | 1.086 | 7 | 2.20 | 2.00 | 1.134 | 4 | 5314.00 | 0.836 |

**Note: Significant level at 5% using the Mann-Whitney test**
**This responses were reported on a 5-point scale ranging from (1=Strongly Agree; 2= Agree; 3= Neutral; 4= Disagree; 5= Strongly Disagree)**

This result supports findings and recommendations made by the UAB (2007). More emphasis is needed on designing and implementing special corporate governance training programmes and internal control practices for employees in the Arab banking sector. This result is also in line with Duca et al. (2007), who found that despite the institutional efforts, inside the business environment and even among Romanian listed companies on the capital market, there is still no real concern about corporate governance issues. Furthermore, Dahawy (2008) recommended that there is a need to increase the focus on training and education among all stakeholders in order to improve the application of corporate governance in Egypt.

With regard to the statement whether there was notable government intervention in companies, the mean was 2.17, the median 2.00 and the standard deviation 1.264 for the staff, while the Libyan experts' scores had a mean of 2.00, a median of 2.00 and a standard deviation of 1.192. This shows that both groups agreed with the statement as their mean falls above 2. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 5 and 11 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.356, which is not significant at $\alpha=0.05$.

With regard to the statement whether there was a weak accounting profession in Libya resulting from a lack of adoption of international accounting standards, the mean was 2.26, the median 2.00 and the standard deviation 1.244 for the staff, while the Libyan experts' scores had a mean of 2.13, a median of 2.00 and a standard deviation of 1.193. This shows that both groups agreed with the statement as their mean falls above 2. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 3 and 6 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.478, which is not significant at $\alpha=0.05$.

Regarding the statement whether there was a weak auditing profession in Libya resulting from a lack of adoption of international auditing standards, the mean was 2.13, the median 2.00 and the standard deviation 1.125 for the staff, while the Libyan experts' scores had a mean of 2.14, a median of 2.00 and a standard deviation of 1.234. This shows that both

groups agreed with the statement as their mean falls above 2. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the company staff and the Libyan experts regarding the statement were ranked number 9 and 5 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.816, which is not significant at $\alpha$=0.05.

With regard to the statement whether there was weak investment awareness among investors, the mean was 2.01, the median 2.00 and the standard deviation 1.193 for the staff, while the Libyan experts' scores had a mean of 1.89, a median of 2.00 and a standard deviation of 1.062. This implies that the staff agreed with the statement, while the Libyan experts' strongly agree as their mean falls above and below 2 respectively Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the above statement were ranked number 13 and 15 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.665, which is not significant at $\alpha$=0.05. This result confirms the findings of Duca et al. (2007) who found that in the emerging economies, similar to Romania, the issues of corporate governance were not so important to the fund suppliers, whether banks, investment funds or individual investors, and for this reason, companies did not feel rewarded in any way for making efforts to improve their corporate governance practices.

With regard to the statement whether there was absent a Libyan capital market authority, the mean was 2.15, the median 2.00 and the standard deviation 1.132 for the staff, while the Libyan experts' scores had a mean of 2.12, a median of 2.00 and a standard deviation of 1.125. This shows that both groups agreed with the statement as their mean falls above 2. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 6 and 7 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.844, which is not significant at $\alpha$=0.05.

With regard to the statement whether there were high costs of application of corporate governance system, the mean was 2.38, the median 2.00 and the standard deviation 1.033 for the staff, while the Libyan experts' scores had a mean of 2.26, a median of 2.00 and a

standard deviation of 1.105. This shows that both groups agreed with the statement as their mean falls above 2. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 1 and 2 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.393, which is not significant at $\alpha=0.05$. This result was in line with findings of the Business Roundtable (2006) survey, which revealed that there were high costs of applying the Sarbanes-Oxley in the USA. Furthermore, this result also confirmed the findings of Duca et al. (2007), which showed that most of Romanian companies consider the adoption of a corporate governance system as complicated because it involved changing the company memorandum of association. Legal and financial-accounting consultancy was also hugely expensive.

With regard to the statement whether there was absent an institute of directors, the mean was 1.97, the median 2.00 and the standard deviation 1.141 for listed company staff, while the Libyan experts' scores had a mean of 2.09, a median of 2.00 and a standard deviation of 1.092. This shows that both groups agreed with the statement as their mean falls above 2. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both staff and the Libyan experts regarding this statement about directors were ranked number 15 and 10 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.393, which is not significant at $\alpha=0.05$.

With regard to the statement whether there was a limited number of listed companies, the mean was 1.99, the median 2.00 and the standard deviation 1.087 for the staff, while the Libyan experts' scores had a mean of 1.96, a median of 2.00 and a standard deviation of 1.158. This implies that the staff agreed with the statement, while the Libyan experts strongly agree as their mean falls above and below 2 respectively. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 14. Using the Mann- Whitney test, the two sided p-value is equal to 0.699, which is not significant at $\alpha=0.05$.

With regard to the statement whether there was lacking an independent institution or body to monitor corporate governance practices, the mean was 2.14, the median 2.00 and the standard deviation 1.164 for the staff, while the Libyan experts' scores had a mean of 1.99, a median of 2.00 and a standard deviation of 1.123. This implies that the staff agreed with the statement, while the Libyan experts' strongly agree as their mean falls above and below 2 respectively. Additionally, the higher standard deviation of the staff is an indication that the opinion of the Libyan experts is more reliable than the opinion of the staff. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 8 and 12 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.352, which is not significant at $\alpha=0.05$. This result supports findings and recommendations made by Saidi (2004), who investigated the OECD principles of corporate governance in Lebanon. A main recommendation was that there should be an independent body to monitor the implementation of corporate governance in Lebanon.

With regard to the statement whether international pressure on Libya to apply corporate governance was weak (World Bank), the mean was 2.15, the median 2.00 and the standard deviation 1.086 for listed company staff, while the Libyan experts' scores had a mean of 2.200, a median of 2.00 and a standard deviation of 1.134. This shows that both groups agreed with the statement as their mean falls above 2. Furthermore, the higher standard deviation of the Libyan experts is an indication that the opinion of the staff seems to be more reliable than the opinion of the Libyan experts. Based on the mean, the findings of both the staff and the Libyan experts regarding the statement were ranked number 7 and 4 respectively. Using the Mann-Whitney test, the two sided p-value is equal to 0.836, which is not significant at $\alpha=0.05$.

## 6.6 Conclusion

This chapter has presented analysis of questionnaire survey, and represents the qualitative element of the research's approach. The questionnaire was designed to identify obstacles to the LCGC's successful implementation. The principal findings were:

The majority of respondents had positive perceptions of the corporate governance mechanisms set out in the LCGC. The groups of respondents categorised as experts tended to support the guidelines of the LCGC more strongly than the staff of the listed companies, and also supported movement towards the adoption of international standards of corporate governance.

There was general agreement over the fifteen most serious obstacles to the implementation of the LCGC, which were:

- weakness of organisational management,
- weakness of the legal environment,
- influence and interference of the government,
- weakness of accounting and audit professions because of non-adoption of international standards,
- the current ownership structure of certain firms, absence of governance system training programmes for members of board of directors,
- inadequacy of investors' awareness of the investment concept,
- the financial cost of implementing a governance system, the limited number of listed companies in local markets,
- absence of a body monitoring governance practices and
- insufficient international pressure on Libya to apply a governance system.

Generally, the experts considered these obstacles to be more serious and challenging than did those employed by the listed companies. The findings presented in this chapter, combined with those of chapter five, fulfil the purposes of objectives one, two and three, and form a basis of knowledge about the obstacles facing the LCGC, and the extent of its implementation, which provides a context in which to consider the opinions and perspectives of Libyan regulators and officials with regard to the LCGC. The findings with regard to these opinions and perspectives are presented in the next chapter, and will fulfil the purposes of objective four.

# Chapter Seven

# Analyses and Results of Semi-Structured Interviews (B) with Libyan Officials and Regulators

## 7.1 Introduction

As explained in Chapter One, the study has four objectives divided into three stages. The first three objectives were achieved through the first and second stages of the two preview chapters of this study. The intention is to complete the objectives of this research in this final stage of the study by conducting semi-structured interviews (B) with Libyan officials and regulators in order to collect the primary data. This method seeks to examine the views of the Libyan officials and regulators in relation to identifying and decreasing obstacles, specifically with regard to the introduction of the LCCG. Therefore, this chapter will present the results and highlight the main issues generated from the twelve interviews with four Libyan officials and regulatory bodies; the Ministry of Trade and Economy (MTE), the Libyan Stock Market (LSM), the Insurance Monitoring Body (IMB) and the Central Bank of Libya (CBL).

Indeed, the decision to choose these four groups depended on their relationship with the scope of this study and its objectives as mentioned earlier. Hence, it was decided to interview participants from four groups. First, the MTE was included, since it represents the highest authority and oversees all economic sectors in Libya. Secondly, the LSM is also essential, having issued the LCCG. It is also regarded as the only means of monitoring the application of this code. Thirdly, the IMB and the CBL were included because they supervise the insurance companies and banking sectors.

These interviews were conducted between May and June 2010. Each interview contained fifteen questions distributed among four sections (see Appendix D); the first section covered general information about the interviewees, the second section contained an overview of current corporate governance practices, the third section was about the identified obstacles, and the last sections was about future development

## 7.2 General Information about the Interviewees

The experience, qualifications and organisational positions of interviewees are among the

most important factors that can be relied upon to obtain high quality information. Therefore, high quality or more reliable information is expected. Details about these interviewees are shown in Table 7.1.

**Table 7.1 General Information about the Interviewees**

| N | Interviewee Name | Position | Qualification Level | years of experience |
|---|---|---|---|---|
| 1 | OR1 | Manager of corporate department | PhD in Economics | Over ten years |
| 2 | OR2 | Deputy of corporate department | PhD in Accounting | Ten years |
| 3 | OR3 | Member of corporate department | Bachelor degree in Economics | Over ten years |
| 4 | OR4 | Chairman of the board | Master degree in Accounting | Five years |
| 5 | OR5 | Ex- deputy chairman of the board | PhD in Economics | Over five years |
| 6 | OR6 | Head of Supervision and control department | Bachelor degree in Accounting | Five years |
| 7 | OR7 | Ex-Member of control committee | Master degree in Accounting | Ten years |
| 8 | OR8 | Deputy - manager of bank monitoring board | Bachelor degree in Economics | Over 20 years |
| 9 | OR9 | Head of documentary credit department | Bachelor degree in Economics | Ten years |
| 10 | OR10 | Manager of auditing department | PhD in Accounting | Five years |
| 11 | OR11 | Manager of corporate department | Master degree in finance and insurance | Eight years |
| 12 | OR12 | Member of corporate department | Master degree in Accounting | Ten years |

The first group of interviewees were from the MTE. They were a manager, his deputy and a member of the corporate department. Two of them held a PhD in Economics and Accounting, whereas the other held a Bachelor degree in Accounting. All of them had ten years of experience or more.

The second group of interviewees were from the LSM. They were the chairman, his ex-deputy, the head of supervision and control department and an ex-member of the control committee. Regarding the qualification level, one person held a PhD in Economics and the

other two held a Master's degree in Accounting and one of them held a Bachelor degree in Economics. One had ten years of experience, whereas the other three had five years of experience. The third group of interviewees were from the CBL. They were the deputy manager of the bank monitoring board (20 years of experience), the head of the documentary credit department (ten years of experience) and the manager of the auditing department (five years of experience). Regarding the qualification level, one interviewee held a PhD in Accounting and the other two held a Bachelor degree in Economics. The forth group of interviewees were from IMB. They were a manager of the corporate department (eight years of experience) and a member of the corporate department (ten years of experience). Both held a Master's Degree in Finance and Insurance and Accounting.

### 7.3 Overview of Current Corporate Governance Practices

This part discusses the issues relating to the current practice of corporate governance practices in Libya; general views about the introduction of the LCGC, the benefit of implementing this code, the current state of corporate governance and the role of audit committees within companies. The analysis of participants' responses to these issues is presented and examined in the following subsections.

#### 7.3.1 General View about the LCGC Issued by the LSM

The participants in the interview survey were asked to express their general views about the LCGC that was issued by LSM. They responded entirely positively to the idea of introducing this code. Although it is evident that the results of the interview survey tended to confirm the results obtained from the questionnaire survey, the support for introducing a corporate governance system in Libyan companies was much stronger since all interviewees were in favor of the LCGC. On this specific point, an ex-deputy chairman of LSM stated that:

> *"Corporate governance code is essential for any financial market all over the world. However, the market may be a little too hasty in developing such a code as it has to be concerned with other issues in order to establish itself. Before initiating this code, keep in mind that it may be still too early to put it into practice in this new market" (OR 5).*

Another deputy of the corporate department of the MTE and a head of the documentary credit department of the CBL expressed their views as follow:

*"The code is a positive step toward implementing total quality systems and lifting the corporate performance especially of financial institutions. Applying equality and transparency fundamentals is also a crucial step" (OR 2).*

*"The code is excellent if appropriately applied. I personally support issuing this code especially at this stage because of its multiple advantages" (OR 9).*

In addition, the main reason behind the introduction of the LCGC was mentioned by the chairman of the LSM:

*"When we first established the stock market, we had to clarify some general issues connected with the companies to be listed in this market, and certainly the concept of corporate governance was one of them. This concept was totally unknown to both senior and inferior employees of these companies, so it was important to issue this guide to make them aware of this concept among others" (OR4).*

However, the other three interviewees – a manager of the corporate department of the MTE, a deputy-manager of the bank monitoring board of the CBL and a head of the supervision and control department of the LSM – commented that the code was important. They argued:

*It is good to have such a code in Libya, but unfortunately this code is not in line with Libyan circumstances as most of its principles are imported or just copied from other countries. They weren't developed to fit Libyan state of affairs (OR1).*

*"This code is entirely new in the local environment and a copy of those already enforced in other advanced economies. Nevertheless, issuing such a code, at this stage, is a great initiative, and the firms will soon recognise the advantages of adhering to it" (0R8).*

*"This code is a crucial step, especially now with the emergence of the stock exchange, but it was developed without studying the requirements of the local environment, which need a detailed survey and careful evaluation before applying a code designed to keep pace with the new phase of economic openness being experienced"(OR 6).*

### 7.3.2 The Benefits of Implementing the LCGC

This subsection further considers the views of the respondents as regards the benefits of implementing corporate governance in Libya. All interviewees were asked to give their opinions on the benefits of implementing the LCGC. Although Libya is considered a developing country, this should not prevent it from adopting effective corporate governance

and gaining many benefits from applying the system in its companies. This was demonstrated by the positive reaction of the interviewees to this question. The most common benefits were mentioned by the interviewees, these being the protection of shareholders' rights, appropriate management performance and organising relationships between the board of directors, shareholders and auditing committees as well as investors. As the deputy manager of the bank monitoring board of the CBL stated:

> *There are many benefits of this code, which includes ensuring appropriate management performance, well-defined specialities, protection of shareholders' rights, especially minority, and assertion of sound control over Libyan companies (OR8).*

On the same note, the chairman of LSM and manager of the auditing department of the CBL commented:

> *"There are several tangible benefits of implementing the code – the stock market as a controller of corporate business through organising the relationships between shareholders and board of directors' members, general assembly and the investors"(OR4).*

> *"The main advantages are organising the relationships between the board of directors and shareholders as well as auditing committees. Generally speaking, it has so many benefits for listed and unlisted companies" (OR10).*

These finding are in line with those provided by La Porta et al. (1999). They clarify this issue, arguing that protecting minority shareholders is very important to good corporate governance, stating that "corporate governance is, to a large extent, a set of mechanisms through which outside investors protect themselves against expropriation by insiders" (p. 4). They further suggest that investors are confident and feel encouraged when the company develops effective rules to protect minority shareholders' interests and includes them within the legal and corporate governance framework (La Porta, De-Silanes et al., 1999).

Additionally, other important benefits were mentioned by the interviewees: increasing disclosure and transparency of Libyan companies, protecting companies from crisis, enhancing the confidence in financial market and attracting foreign investors. The manager of the corporate department of the MTE, the head of the supervision and control department of the LSM and the head of the documentary credit department of the CBL expressed their opinions as regards the benefits of implementing the LCGC:

*"In my view, there would be benefits implementing those principles as doing so will lead to market growth as well as transparency. It may even lead to foreign investment" (OR1).*

*"There will be many benefits, such as investor confidence and corporate protection against failure, which benefit the economy as a whole" (OR6).*

*"This code may, among other things, protect companies from crisis, safeguard investors and help them to recognise their rights and responsibilities, and increase confidence in the financial market" (OR9).*

These findings were also in line with those provided by Gregory and Simms (1999); La Porta et al. (1997) and La Porta et al. (1999). They highlighted the importance of corporate governance in emerging markets for attracting more local and international investors. Their results indicated that across countries, corporate governance was an important factor in financial market development and firm value. Furthermore, the OECD report supports this result:

*"Good corporate governance helps to assure that corporations use their capital efficiently. Good corporate governance helps, too, to ensure that corporations take into account the interests of a wide range of constituencies, as well as of the communities within which they operate, and that their boards are accountable to the company and shareholders. This, in turn, helps to assure that corporations operate for the benefit of society as a whole. It helps to maintain the confidence of investors both foreign and domestic and to attract more 'patient', long-term capital"(OEC,. 1999)*

**7.3.3The Current State of Corporate Governance in Libya**

The participants in the interview survey were asked to express their general views about the current state of corporate governance, especially in the Libyan financial sector. The interviewees responded entirely negatively to the idea of the current application of the LCGC by the listed Libyan companies. It is evident that the results of the interview survey tended to confirm the results obtained from the first interviews with the board of directors of Libyan listed companies regarding the application of the LCGC by these companies, which was in the first stage of this study. However, it was clear that all Libyan officials and regulators strongly believed that this code was not practicable, since all interviewees were skeptical as to whether the code was in use in Libyan companies. As the manager of the corporate department of the MTE put it:

*"Frankly, I don't think that the listed companies on the Libyan stock market exercise corporate governance policy due to management unawareness of such regulations. As a matter of fact, management isn't aware of the market concept in the first place and has no desire to change" (OR1).*

Some interviewees believed that the code was impracticable in financial institutions because the CBL had some regulations which were implemented by the managers and conflicted, to some extent, with the LCGC. A deputy of the corporate department of the MTE stated the following:

*"There are some requirements which, in certain respects, may conflict with those of the other committees' tasks, such as an overlap of duties with the control committee. In some banks, the practice of corporate governance is monitored by the central bank. But no requirements of such governance are available for the time being. Those in charge of these banks have no initiative, perform a routine job and make very conservative decisions which contrast with governance requirements" (OR2)*

Yet, some interviewees attributed the non-application of the code to the lack of managerial knowledge of it, the non-preparation of its implementation and the fear that it would limit their rights. The chairman of the LSM explained:

*"Implementing now corporate governance principles is too difficult because Libyan companies aren't prepared yet. When they become ready, they can be obligated to apply these rules. I don't think that the listed firms are practicing these rules" (OR5).*

Additionally, a deputy manager of the bank monitoring board of the CBL made the following comment:

*"I think this code has not implemented completely because most of the companies' board of directors are resisting it as they think it limits their authority. A lack of understanding of its benefits is the main reason for this situation" (OR8).*

Obviously, some Libyan companies are aware of the LCGC in theory, but, in practice, it is non-existent. Some interviewees attributed the poor manner of application of this code to the ignorance of the implementers, while others believed that this was because it was imported. Similarly, some interviewees thought that the Libyan companies feared that this new concept would compromise their rights.

The findings support the recommendations made by the UAB (2007), which emphasised the need for designing and implementing special corporate governance training programmes and internal control practices for employees in the Arab banking sector. This result is also in line with Duca et al. (2007), who found that despite the institutional efforts inside the business sector and even among Romanian listed companies on the capital market, there was still no real interest in corporate governance issues. Moreover, Dahawy (2008) recommended increased focus on training and education among all stakeholders in order to improve the application of corporate governance in Egypt.

### 7.3.4 The Role of the Audit Committee

Besides the findings of both the semi-structured interviews (A) with the board of directors about the application of the LCGC by Libyan listed companies, and the attitude of questionnaire respondents in relation to the role played by the audit committee, the interviewees were asked to give their general views on the role played by the audit committees. Regarding this question, all respondents agreed on the role played by the audit committee and the recognition of its importance in the overall corporate governance. In this regard, the manager of the corporate department of the MTE stated:

> *"I believe that the audit committee is of great importance in corporate governance simply because of its functions. However, the majority of Libyan firms lack qualified individuals of enough experience to be members in this committee" (OR1).*

A similar view is expressed by Pomeranz (1997), who claims that the audit committee is almost being recognised as another board committee, notwithstanding that it has to work in collaboration with the entire board. Moreover, Smith (2003) argues that the benefits of the audit committees as corporate governance mechanisms are not only limited to increasing the level of corporate performance. They also prevent catastrophic failure and gross malpractice, and help to improve the overall standard of corporate governance.

Moreover, all the interviewees specified the role of the audit committee, although the majority of Libyan companies did not recognise the importance attached to it. They mentioned the basic roles the audit committee plays. First, its most important role is that it improves the implementation of corporate governance and protects minority shareholders. Secondly, it ensures the independence of both the external auditors and the

board members. The interviewees collectively agreed about the crucial roles of the audit committees.

> *"In my opinion, the most important point is the independency. In other words, if the audit committee can ensure the freedom of the external auditors and board members, this can provide efficiency in operating assets and can secure the rights of shareholders".*

Steinthórsdóttir (2004) confirms this view, crediting audit committees with representing boards of directors on very important matters related to financial information reporting, auditing and overall mechanism of corporate governance. Shareholders' interests are protected by audit committees as they monitor the entire management system, including both the external auditor and the internal auditor (DeZoort, 1997).

Furthermore, these results are in line with several studies, which have listed the numerous functions and responsibilities that should be performed by an audit committee. These functions have been classified under some broad categories: overseeing of the financial statements, of the external auditor process and of the internal control system (Cadbury, 1992; Piot & Janin, 2005; Zain &Subramaniam, 2007).

Additionally, a member of the corporate department of the MTE explained:

> *"The role of the audit committee is essential, but the Libyan legislators created a control committee that undertakes the same functions, and to my knowledge no other country has such a committee" (OR3).*

These results confirm those obtained from the first interviews with the board of directors about the application of the LCGC by Libyan listed companies – all listed companies had control committees, whereas the majority of these did not have audit committees.

Moreover, some interviewees stressed that the audit committee had no role in the Libyan companies because it was incompetent and ineffective. A Chairman of LSM pointed out the following:

> *"This committee has no role in spite of its requirement by the central bank in commercial banks and insurance companies". (OR4).*

Additionally, a head of the supervision and control department of the LSM commented:

*"In general, the role of the audit committee is incompetent and needs to be improved. This deficiency is attributable to the board of directors' lack of awareness of such roles" (OR6).*

An ex-member of the control committee of the LSM suggested that the audit committee would never perform its role unless the chairman of the board became automatically the chairman of the audit committee. He expressed his views in the following terms:

*"I consider that the audit committee is ineffective. To activate its role, the chairman of the board of directors should also be the chairman of this committee" (OR7).*

This contradicts the claim of DeZoort (1997) that it should not be mandatory for members of the audit committee to be independent of companies' management, but that expertise in financial matters should be more emphasised. Similarly, Klein (2002) argues that if there were possibilities to substitute corporate governance mechanisms, then there would be need for the firm's corporate mechanism to have an active audit committee, which was deemed independent.

Carcello and Neal (2003) state that if audit committee members are independent of corporate management, then they are likely to be more effective in protecting the credibility of the firm's financial reports. Additionally, Abbot et al. (2003) state that since audit committee members are more concerned to maintain their reputation and integrity than non-independent directors, they are more efficient and effective. It is evident that firms with independent audit committees are more likely to select external auditors who are specialists in their company's industry in order to enhance audit quality (Abbott & Parker, 2000).

Chen et al.(2005) sought to examine the relationship between independent audit committees and audit quality in Australian Stock Exchange (ASX) Top 500 companies. The findings of their study indicated that there was a higher percentage of non-executive directors on audit committees. The findings further revealed that these committees were more likely to hire a specialist auditor as opposed to those with high percentages of executive directors on their audit committees.

Another manager of the corporate department of the IMB said:

*"The audit committee has an important role but control committees of Libyan companies are marginal and do not actually practice their role;*

*even their members do not realise their own role. Furthermore, there is no relation between audit committee and external auditor" (OR11).*

Although there is a shortage of financial and operating information to create an accurate picture of company performance, these committees are marginalised and cannot practice their roles fully. As mentioned earlier, some of the committee members are ignorant about their roles. The following view was expressed by one of the managers (the head of the documentary credit department in the Central Bank of Libya):

*"This committee has a vital role, but I am sorry to say those in charge will take some time to understand this" (OR9).*

The vice president of the bank monitoring board of the Central Bank of Libya also stated:

*"This committee certainly has an essential role. I believe that it should be given more responsibility and be completely independent" (OR8).*

This will be possible given the findings of studies conducted to identify the role and importance of the auditing committees in other countries. A survey on members of the audit committee by DeZoort, (1997) found that the respondents entirely agreed that financial and accounting expertise was necessary, and believed that all audit committee members should be familiar with matters of accountancy, let alone law related issues. Results of a survey by Kalbers (1992) on external and internal auditors and their perceptions on audit committee members expertise indicated that both groups had a significantly low level of opinion with regards to their perceptions of audit committee members' expertise.

A survey by Raghunandan et al. (2001) on chief internal auditors indicated that of all audit committee members, at least one member possessed or had familiarity with accounting or finance matters. In a study by DeZoort (1998), a sample of 87 audit committee members were involved in a task to investigate their influence on the quality of their assessment. It was found that audit committees whose members had experience in financial matters made better assessment when compared to their counterparts with less experience.

Another important objective in this section is to find out why most of the listed companies in Libya did not have audit committees. One reason is that the management of these companies had little knowledge about the importance of the audit committees. Six respondents stressed this ignorance. A manager of the corporate department of the MTE stated the following:

*"Well there is absence of an audit committee in most companies, inadequate knowledge of its role and competence and, as mentioned in the previous answer, a lack of qualified individuals of enough experience to be members. These are more than enough reasons" (OR1).*

Additionally, one deputy of the corporate department of the MTE pointed out general ignorance of the audit committees' importance:

*"I think the main reason is the lack of awareness of those in charge of companies about the role of this committee. They think that the functions performed by this committee can be assumed by the observance committee. On the other hand, these companies have no desire for another watch body that may make sole critical decisions such as privileging external audit and the like". (OR2)*

Some interviewees attributed ignorance of the importance of the audit committee to the committee members themselves. One deputy manager of the bank monitoring board of the CBL explained this lack of knowledge among committee members in the following terms:

*"Till now the absence of this committee is the result of ignorance of its importance. The committee members themselves aren't well familiar with its function and the role they should undertake" (OR8).*

Additionally, some interviewees pointed out that the ignorance of the importance of the audit committee is a result of the general assembly. In relation to this, a manager of the corporate department of the IMB asserted:

*"The general assembly simply isn't aware of its importance. The board of directors is not concerned with this committee and the market isn't so keen with the subject" (OR11).*

Another manager of the auditing department from the CBL pointed out:

*"This is mainly due to the board of directors' ignorance of auditing committees' importance" (OR10).*

Similarly, the head of the supervision and control department of the LSM added the following:

*"As I already said, the board of directors is still unaware of the importance of this committee" (OR6).*

Further reasons were mentioned by the interviewees. For instance, the deficiencies of the audit committees were as a result of the absence of law. The chairman of the Libyan stock markets stressed the following:

> *"The absence of this committee is due to a lack of legal compulsion as well as ignorance among investors in the capital market about the importance of these rules" (OR4).*

Similarly, another ex- deputy chairman of LSM pointed out:

> *"I think the absence of this committee is because commercial law includes nothing concerning this committee" (OR5).*

On the other hand, some managers believed that in addition to the absence of a mandatory clause in Libyan law, the lack of competent members made it difficult to recognise the importance of the audit committees. The firms are themselves unaware of the importance of these committees. One ex-member of the control committee of the LSM remarked:

> *"I think the absence of this committee is due to the lack of any mandatory clause in the law. This applies to banks as well because of the lack of awareness of this committee's importance. I think deficiency of competence is a major problem" (OR7).*

Similarly, one head of the documentary credit department of the CBL pointed out:

> *"There is nothing whatsoever obliging firms to have this committee. The firms themselves are unaware of this committee's importance" (OR9).*

Overall, this section has overviewed corporate governance in listed Libyan companies. It discussed issues regarding the benefits and current status of practices, especially in the financial sector, as well as the role of the audit committee in corporate governance. The results of the interview indicate that the introduction of corporate governance was a positive development, but it was seem to be imported. Similarly, ignorance of the code by both managers and audit committee members made it difficult to implement in listed Libyan companies.

### 7.4 The Current Obstacles Affecting the Application of the LCGC

This chapter has also aimed to identify which, among the 15 obstacles noted in the interviews with board members of Libyan listed companies and the participants of the

questionnaire survey most affected the implementation of the corporate governance practices in Libya.

The interviewees were provided with a list of the obstacles facing the implementation of the LCGC that were suggested by both the interviews with board members of Libyan listed companies and the participants of the questionnaire survey in the first and second stages of this study. Among the 15 obstacles identified by the participants, the officials and regulators ranked five of them as being the most important. They are described below in their order of significance.

Of the twelve respondents, nine mentioned poor leadership in Libyan companies as the most significant obstacle, followed by the lack of knowledge about corporate governance among Libyan companies (mentioned by eight interviewees). On the other hand, seven respondents pointed out the weakness of the legal environment for companies in Libya to be among the obstacles facing the implementation of the LCGC. This is similar to findings provided by Fawzy (2003), Arce and Robles (2005), Wong (2009) and Okike (2007), who revealed that despite the government efforts to initiate an effective system of corporate governance by changing company legislation and establishing the code of corporate governance for all Nigerian listed companies, the effectiveness of this system is still in doubt due to the weakness of legal enforcement.

This result is also confirmed by Klapper and Love (2004) who found that corporate governance provisions are more important in countries with weak legal systems since firms have sufficient flexibility to affect corporate governance. Krishnamurti et al. (2003) argued that companies with a high control, situated in countries with weak legal protection for minority shareholders, generally receive lower scores because they do not improve their governance environment. La Porta et al. (1999) have introduced a new approach (the legal approach), which explains the cross-country difference in corporate governance systems by their legal origin rather than by the index scores. They have argued that the existence of laws protecting minority shareholders and their degree of enforcement are key determinants of capital markets, and showed that the tradition of law is very important in the development of financial markets.

Furthermore, some empirical evidence stipulated the importance of law enforcement rather than law books in the development of financial markets. Among these researchers is

Shleifer and Wolfenzon (2002) who strongly argued that the enforcement of law and the structure of society were very important for effectively protecting investors, more so than the law. They suggested that legal rules are just a reflection of a broader societal stance.

Similarly, the impact of government intervention in companies, lack of training among directors about corporate governance and weak investment awareness among investors were the three obstacles noted by six respondents to be the most significant among the 15 identified obstacles.

Another important objective of this section was to find out why interviewees thought these obstacles to be so significant. And what could be done to overcome these obstacles.Therefore, respondents were asked to give their views regarding the notable obstacles hindering corporate governance in Libya and what could be done to overcome them.

With regard to the obstacle of poor leadership within Libyan companies, two respondents mentioned that this was the result of local management isolation from foreign skills, which prohibited the transference of other experience. This finding supports the recommendations made by Mallin, (2007) and Solomon (2007), who argue that it is very important for shareholders to choose for themselves a board of directors composed of qualified people, who are concerned to make decisions that will benefit the company as a whole and increase shareholder value. However, some respondents said that to overcome this obstacle, management should train employees about corporate governance and also hire more qualified and experienced workers. As the chairman of LSM stated:

> *"Poor management is a result of many factors, such as employment of undereducated, inexperienced people, not to mention that top management is floundering and not well organised, which is clearly reflected in the weakness of these companies. In order to tackle this obstacle, the personnel of these companies must be qualified, and setting a work guide helps each to recognise the scope of his authority and accountability" (OR 4).*

Similarly, the head of the documentary credit department of the CBL suggested that corporate governance code should be introduced in the curriculum of institutions of higher learning:

> *"The management is the main target of this code. Therefore, this hindrance could be removed by adding this subject to the university curriculum. Then comes training of current management so to eliminate incompetence" (OR 9).*

Regarding the misunderstanding of corporate governance among Libyan companies, some respondents attributed this to the lack of knowledge about its advantages, and the non-existence of relevant training programmes. At the same time, six respondents suggested several alternatives to overcome this obstacle, including training in various centres and putting in place policies that should help in the implementation of this code. The chairman of the LSM suggested the following:

> *"This could be handled by training and qualification as well as restating those rules in a legal form so to emphasise them to the concerned parties" (OR 4).*

This finding supports the recommendations made by the UAB (2007); more emphasis is needed on designing and implementing special corporate governance training programmes and internal control practices for employees in the Arab banking sector. Furthermore, Dahawy (2008) recommended an increased focus on training and education among all stakeholders to improve the application of corporate governance in Egypt.

Four respondents also pointed out the significant weakness of the legal environment due to Libyan culture and the ownership structure. Similarly, they mentioned the nonexistence of regulations for the stock exchange as corporate governance is a new field, which has been recently introduced in Libya. As the head of the supervision and control department in the LSM said:

> "This is, to a great extent, a consequence of the nonexistence of regulations for the stock exchange as the new law for the financial market is still incomplete, and does not include some sectors. For this, a new commercial law is needed" (OR 6).

However, four respondents suggested that to overcome this obstacle, new laws should be considered by Libyan companies. An ex-member of the control committee in the LSM explained:

> *"This obstacle may be handled through law and by limiting the decisions so to reach a stable legal environment. This can be achieved through defining the rules organising economic activities and following up their implementation and penalising violators" (OR 7).*

Additionally, a manager of the corporate department of the IMB stated:

*"Enacting new legislation in Libya takes a great deal of time and effort. However, the laws to be made must be sound and cover all aspects of this code, and social relations concerning the work should be eliminated" (OR 11).*

The government has power over all companies operating in the country. One member of the corporate department of the MTE said:

*"The state owns a portion of the companies in spite of their privatisation, which creates difficulty in managing them – they already suffer a lot from government interference. To overcome such an obstacle, the government should adopt capitalism and get rid of any ownership no matter how small" (OR3).*

Additionally, the majority of the respondents (11 out of 12) believed that the principal obstacle was poor leadership within Libyan companies and a lack of knowledge and training among directors about management corporate governance.

They were of the opinion that poor leadership may result from many factors such as employment of unqualified and inexperienced personnel. This confirms the results of Core et al. (1999), who examined a wide range of board characteristics and found that companies with weaker governance structures had more agency problems. These, moreover, were worse performers than strongly governed firms. This is so due to the divergence of the relationship between board strength and a number of board characteristics. Some of these characteristics are the proportion of inside directors, board size, grey directors (those directors who are not employees of the firm but receive payment for services other than directorial duties), and the appointment of a CEO who also acted as the board chair.

Furthermore, seven respondents expressed the view that weak investment awareness among investors was one of the biggest obstacles to corporate governance in Libya. As investors commit their funds to companies, they should investigate how their investment is being used and to scrutinise whatever is happening in the corporation. Investors' pressure could also hasten the establishment of corporate governance. The interview respondents believed that increased investors' awareness and pressure may increase the implementation of corporate governance in Libya. The controller of the head of supervision and control department of the LSM remarked:

*"This, in particular, is considered one of the major hindrances that can be easily identified in stock exchange deals – also investor non-attendance at*

*general assembly and restriction of his interest in only the returns regardless of other vital matters in the organisation such as governance (OR6).*

Similarly, the deputy manager of the bank monitoring board of the CBL argued:

> *"The investor in Libya isn't quite aware of what investment really is and the benefits that may be generated from having confidence in these companies and their external auditors. To do away with this apathy, the state should educate investors through media or any other suitable way, and provide them with alternative investments" (OR8).*

This opinion is reflected in the findings of Duca et al. (2007), who argued that despite the institutional efforts, inside the business environment, and even among Romanian listed companies on the capital market, there was still no real concern for corporate governance issues.

The absence of a Libyan Capital Market Authority, finally, was pointed out by five respondents as an obstacle, while others noted that the impact of government intervention was significant due to the ownership structure – the state still owns a majority of companies. This factor is referred to by the manager of the corporate department of the MTE:

> *"As we all now, Libya has recently adopted a capitalistic system – it is still a new concept – but in spite of quasi-complete diversion from socialism, the government still owns a great part of most privatised companies. Therefore, it is no wonder that it interferes in their management. I think that the state should quickly get rid of this ownership and restrict itself to the monitoring role" (OR 1).*

Similarly, a member of the corporate department of the MTE mentioned:

> *"The state still owns a portion of the companies in spite of their privatisation. This makes it difficult to manage these companies that already suffer a lot from government interference. To overcome such an obstacle, the government should adopt capitalism and get rid of any ownership no matter how small" (OR 3).*

A member of the corporate department in the IMB suggested a possible remedy:

> *"The government must cease its interference in companies, especially those that have been privatised" (OR 12).*

In order to explore further these obstacles, the interviewees were asked to give their views on whether there were other obstacles affecting the implementation of corporate governance, either from the list or from their own experience, and to state how they could be overcome.

In response to this, the majority of the interviewees (9 from 12) indicated clearly that apart from the obstacles they highlighted in the preceding questions, there were no other obstacles from the list or from their own experience that were important. However, a few interviewees (three from eleven) agreed that there were other obstacles. The deputy of the corporate department of the MTE presented a list of other obstacles, but did not give any suggestion on how to overcome them. The obstacles are listed below:

1. *"The financial cost of implementing corporate governance*
2. *Weakness of the audit profession due to non-compliance with standards;*
3. *Lack of qualified staff who could apply governance principles;*
4. *Weakness of the accounting profession due to non-implementation of relevant international standards;*
5. *Absence of an institute that could prepare and train managers; and*
6. *Absence of an independent body for monitoring corporate governance practices." (OR2).*

Experienced accountants are needed and, in their opinion, they can overcome these obstacles by employing qualified audit staff to implement and strengthen corporate governance practices. Furthermore, Libyan companies should include in their budgets the costs for training existing staff. In addition, the government, with the help of other bodies such as the capital market, should make it compulsory for all companies listed on LSM to follow the LCGC. Additionally, these bodies may succeed by making the companies responsible for training existing employees and enforcing corporate governance practices.

Furthermore, two respondents acknowledged the lack of knowledge about corporate governance as another obstacle. They believed that this obstacle could be dealt with by organising training and providing continuous programmes, as well as developing education regarding the application of corporate governance. In support of this, a manager of the corporate department of IMB stated:

> *"Most people in the marketplace know almost nothing about this, which, in turn, necessitates developing curricula as well as media programmes. Nevertheless, all these obstacles have an effect" (OR 11).*

The ex deputy chairman of LSM also said:

> *"This should be dealt with by training, media and development of education curricula" (OR 5).*

However, two of the interviewees stated other obstacles to be the investors' inadequate knowledge about corporate governance and the state interference in company affairs.

As regards ways of overcoming these obstacles, in general, interviewees favoured organising workshops and training, as well as developing corporate governance education programmes. In addition to this, companies needed more freedom, power and support from the government in order to publicise and apply corporate governance. One person said:

> *"This impediment can be removed by organising symposia and including media programmes, and because of that the government must offer companies more power".*

This view may be correct because corporate governance is a new field recently introduced in Libya. There is a lack of enough knowledge and information about corporate governance, but such an effective system in Libya will continuously help company managers improve, while, at the same time, make shareholders and stakeholders aware of their rights.

### 7.4 Future Improvement of Corporate Governance in Libya

In this section some issues relating to the future improvement and development of corporate governance in Libya were discussed with the interviewees. This included raising public awareness about the concept of corporate governance and identifying the responsibility for both improving corporate governance practices and monitoring compliance with the LCGC. The interviewees were first asked to express their opinions regarding the different ways to raise public awareness of corporate governance in Libya.

All the interviewees had different views, but they were beneficial. Most (8 from 12) had the same idea regarding how to raise public awareness and argued that it can be done through the cooperation of all government and non-government authorities, working together to educate and spread such awareness among all individuals and companies.

In addition, both educational and professional institutions should work hand in hand with the government to plan conferences and media events, as well as publish booklets and

newsletters on a state, stock market and organisational level, in order to promote the awareness of corporate governance. In support of this, a chairman of the LSM said:

> *"All state authorities' efforts should be coordinated to elevate the level of public awareness of corporate governance by setting up scientific and professional conferences and creating governmental units within all economic activities. The educational aspect should also be considered as it is a main source of such knowledge especially in small economies" (OR 4).*

Some interviewees, nevertheless, suggested that the task of spreading awareness should be given to company managers to organise training for their board and employees regarding the application of corporate governance in Libya, and to set out penalties for breaking any rules of this system. In support of this, the director of the auditing department of the CBL answered:

> *"The management has to train its board of directors and staff and the rules must clearly indicate to governance system. The official institutes should also contribute in public education" (OR10).*

In the view of the remaining two interviewees, the awareness could be increased by involving the Capital Market Authority, as it is an independent authority qualified to introduce the corporate governance system in Libya and to compel all listed companies to apply it. In relation to this, a member of the insurance monitoring body claimed:

> "First, we should focus on education by developing the curriculum, and then we should have specialist institutes and launch training courses for members of the corporate management" (OR12).

In addition, it may also be helpful to give freedom to the private sector to play this role within the context of economic activities. In the meantime, the government should also make it compulsory for all companies listed on the LSM to adopt the corporate governance code and to ensure they are fully applied.

Secondly, the interviewees were asked to give their opinions on who should improve corporate governance practices in Libya and why. Some of the interviewees (4 from 12) indicated clearly that responsibility for this should not be confined to one party. Therefore, it should be shared between several parties. Neither the government, the stock market, the audit committees, nor boards of directors is able to improve it alone. These respondents believe that

for corporate governance to be effective every party should play its role and they should combine their efforts to enforce it.

For instance, the Libyan government – the Ministry of Finance, the Ministry of Commerce – the Capital Market Authority and others can be best for implementing and improving the corporate governance system in Libya. This view was supported by a manager of the corporate department of the MTE who stated:

> *"A task can never be achieved by a single body, but all concerned parties in the country must work together. However, the person that bears most responsibility for the financial market as well as the listed companies is the Economy and Commerce Secretary. So, he should play a large part in activating this system (OR1).*

The head of the supervision and control department of the LSM also argued

> *"I believe that all Libyan authorities are somehow responsible for improving the companies' practice of corporate governance, but I think the central bank and financial market are more responsible than anybody else. This is the case in all other Arab countries" (OR6).*

There were some interviewees who thought that there must be a separate authoritative body working under government supervision, or the capital market, to implement and improve the corporate governance system because, in their opinion, a specialist is more likely to do better than any of these other bodies. In support of this, one person stated:

> *"There must be an authoritative body operating under state supervision, ....because these matters are technical and require specialist staff to ensure sound implementation of corporate governance" (OR2).*

Moreover, a member of the corporate department of the IMB said:

> *"There should be a specialist institution subordinate to the capital market" (OR12).*

Additionally, another interviewee indicated that the most powerful body for improving the corporate governance system is the stock exchange market. He argued:

> *"I think the authority responsible for improving the practice of corporate governance is the stock exchange itself. This could be done by releasing periodic bulletins of which it is the major beneficiary" (OR5).*

This response may be due to the fact that the stock market is the source of finance for all companies. It is most influential and companies are likely to follow its recommendations. However, another interviewee assigned the duty of improving corporate governance to the central bank for banks, and Insurance Monitoring Body for industries.

Finally, the interviewees were asked to express their opinions as regards who should be responsible for monitoring compliance with the LCGC and why. All presented different views. Some of the interviewees (4 from 12) had similar ideas as to who should be responsible. They believed that this was a very hard task for one body to monitor compliance with this code and so suggested collaboration between all bodies (both government and non-government) without leaving out the stock market, which according to them seemed most powerful.

In addition, both educational and professional institutions should work hand in hand with the government, the capital market and other bodies and require all Libyan listed companies to include corporate governance and sustainability reports annually. If possible, they should also impose penalties for noncompliance. This can serve to increase awareness and compliance with the Libyan corporate governance code. One of the respondents, a deputy manager of the bank monitoring board of the CBL puts it in the following terms:

> *"I have already said that each sector is completely responsible for the companies within its domain. This implies that each sector must apply these rules in a proper way and deal strongly with those not implementing them" (OR8).*

Similarly, four interviewees had the same view that the Capital Market Authority should be responsible for monitoring compliance with the LCGC because, they believe, it is more powerful than others and, therefore, more suited for this role. In support of this, a member of the corporate department of the IMB answered:

> *"This should be the responsibility of the Capital Market Authority as it is more powerful than the market. It can assign a division for monitoring the application of these rules" (OR 12).*

The manager of the corporate department of the MTE also argued:

> *"As far as following up compliance with the LCG, the Capital Market Authority plays an important role in overseeing such a system in most countries and must be established right away" (OR1).*

On the other hand, one respondent viewed the General People's Committee of Planning and Finance that oversees corporate governance practices as the body which can best monitor compliance with the LCGC. According to his view, whichever body is assigned the responsibility of monitoring compliance with the LCGC needs to operate independently in order to be effective.

> *"I think, for now, it should be the General People's Committee of planning and finance that oversees corporate governance practices. However, whichever body is assigned this responsibility must be independent" (OR9).*

This result supports the findings and recommendations made by Saidi (2004), who investigated the OECD principles of corporate governance in Lebanon . One of the main recommendations was the need for an independent body to monitor the implementation of corporate governance in the country.

## 7.5 Conclusion

This chapter has presented an analysis of the findings arising from the final phase of the study data collection, which investigated the views of Libyan officials and regulators. While agreeing with respondents in the other two groups about the urgent need for an effective corporate governance code in Libya, this group considered the level of implementation of the LCGC to much lower than that perceived by the other two groups. These respondents regarded the main benefits of corporate governance as being protection of shareholder rights; oversight of management performance; and regulation of the relationship between boards of directors, shareholders and auditing committees.

The respondents agreed with the other groups that the LCGC faced many obstacles to its successful implementation, of which the most important were perceived to be:

- poor leadership within Libyan companies,
- a lack of knowledge about the code among companies,
- the weakness of the legal environment,
- the impact of government intervention,
- the lack of training among directors of companies, and
- weak investment awareness among investors.

Suggested solutions to overcoming these obstacles were: organising workshops and training, as well as developing corporate governance education programmes. In addition, companies were felt to need more freedom, empowerment and support from the government in this context. Overall, education was perceived to be the key to overcoming obstacles to the LCGC and the lack of experience within the country of operating organizations within a free-market system.

Chapter seven completes the presentation and analysis of the findings from the data collection of this study, and in collecting the principal observations of the Libyan regulators and officials fulfils the purposes of objective four. Having analysed the findings of the study, chapter eight will now consider the study's contribution to the literature on corporate governance, the role it can play in the future direction of governance in Libya, and ways in which it can be built on by future researchers.

# Chapter Eight

# Conclusion and Recommendations

## 8.1 Introduction

The main aim of this chapter is to provide an overview of and conclusion to the entire study. In order to achieve this broad aim, the chapter is divided into five sections. The first section provides an overview of the insights and discussions presented in the previous chapters. Section two presents a summary of the main findings of the empirical part of the study. The third section outlines the research recommendations arising out of the literature review and the analysis undertaken following the field study. The contributions of the study to knowledge of corporate governance are illustrated in section four. Finally, the fifth section discusses the limitations of the study and provides suggestions for areas of future research.

## 8.2 An Overview of the Study

As was mentioned in chapter two, although Libya is an oil and gas producing country, it is experiencing economic problems and has, therefore, adopted several policies to overcome these, such as starting a programme of economic reform restructuring that moved from socialist oriented policies towards a free-market economy by adopting a massive privatisation programme. This covered all economic sectors in the country and established the LSM (see, chapter two, section 2.2). As a result, the debate started about the need for good corporate governance in Libya, in order to take advantage of local and foreign investment as a means of enhancing the private sector in the economy.

Accordingly, the main aim of this study was to investigate the current corporate governance practices, perceptions and obstacles within Libya following the introduction of LCGC. To achieve this aim, the study had several broad objectives:

- To explore the nature and extent of current corporate governance practices within eight listed Libyan companies following the introduction of the LCGC.
- To survey the perceptions of listed companies' staff (senior managers and employees in a financial capacity) and Libyan experts (academics and auditors) regarding the introduction of the LCGC.
- To identify the current obstacles to the application of the LCGC.

- To examine the views of the Libyan Regulators in relation to identified obstacles and ways of decreasing them.

The study consisted of eight chapters. Chapter one addressed the research objectives and questions, the rationale and motivation for the study, the chosen research methodology, the scope of the study and the structure of the research. Chapter two presented a framework within which the study would be conducted. This included an overview of several aspects of the Libyan economy, reforms and privatisation programmes of both the financial and non-financial sectors, the establishment of the LSM and foreign direct investment in Libya. The accounting and auditing profession was also considered in this chapter. It was revealed that the country is experiencing major change in its socialist oriented policies toward a free-market economy by adopting a massive privatisation programme covering all economic sectors.

Chapter one also showed that the accounting and auditing profession has been influenced by the UK and the USA. This was due to the impact of these two countries on the profession via oil companies, aid agencies, construction companies and accounting and auditing education systems. In addition, it was found that a number of the accounting and auditing related regulations were issued a long time ago and that there was an urgent need for them to be updated. This chapter further provided an overview of corporate governance in a Libyan context, which included the Libyan legal framework and the OECD principles, the LCCG and the challenges of applying corporate governance in Libya.

Chapter three extensively reviewed the previous theoretical and empirical literature relating to the area of study. In particular, this chapter started with various definitions of corporate governance, the historical development of corporate governance in the UK, the USA and the OECD, and a theoretical framework of agency and stakeholders' theories. Based on this review, it was found that the concept of corporate governance emerged in the early 1980s, following the collapse of large companies in different countries. However, the history of corporate governance as a phenomenon may be dated back to when businesses began to separate management functions from the ownership. Therefore, the main corporate governance problems were based upon the conflicts of interest between various parties; the shareholders and management of the company, on one hand, and the stakeholders, on the other hand.

After a comprehensive review of the previous literature, this chapter also discussed the most significant mechanisms of corporate governance, namely ownership structure, shareholders' rights and legal protection, board of directors, board committees, internal auditing and disclosure and transparency. Furthermore, it reviewed previous studies on corporate governance conducted in developing countries.

Chapter four described the methodology used to carry out this study in terms of research philosophy, paradigm and approach (Quantitative and Qualitative Methods). In addition, this chapter provided an overview of the current research design, which outlines the objectives, research questions and data collection methods. This latter is a combination of semi-structured interviews A&B and a questionnaire survey, as well as the three main stages of collecting data:

- The first stage was based on a qualitative approach where semi-structured interviews (A) were used to explore the current corporate governance in eight Libyan listed companies and to identify the current obstacles to the application of the LCGC.
- The second stage was based on a quantitative approach where a questionnaire survey was used to survey the perceptions of listed companies' staff (senior managers and employees in a financial capacity) and Libyan experts (academics and auditors) regarding the introduction of the LCGC.
- The third stage was based on a qualitative approach where semi-structured interviews (B) were used to examine the views of the Libyan regulators and officials in relation to identifying and decreasing obstacles.

Chapter five discussed the results of the semi-structured interviews (A) that were conducted with board members of eight Libyan listed companies on the current corporate governance practices and obstacles to the application of the LCGC. Chapter six examined the data from the questionnaire that was conducted with two targeted groups (listed companies' staff and Libyan experts) regarding the participants' perceptions on the introduction of LCGC in Libya. Chapter seven discussed the results from the semi-structured interviews B that were conducted with Libyan regulators and officials in relation to identified obstacles and ways of decreasing them. Chapter eight, the last chapter of this study, provided an overview of the whole study, which included a summary of the findings, recommendations and the study's potential contribution, as well as suggesting areas of further research.

## 8.3 Summary of Main Results of the Study

This study underscores the efforts of the Libyan regulator to enhance the system of corporate governance in Libya by introducing the LCCG, in order to improve the performance of companies and overcome the agency problem that can arise from the separation of management and control. Therefore, the Libyan business environment is in need of corporate governance mechanisms that recommend and impose certain principles, and companies have to be made aware of such a system in order to increase the accountability of management toward the stakeholders. Accordingly, this section provides a summary of the main findings of the research relating to three main stages of collecting data.

### 8.3.1 Results of Semi-Structured Interviews (A)

The main objective of the semi-structured interviews (A) at the first stage was to explore the nature and extent of current corporate governance practices in the eight listed Libyan companies following the introduction of the LCGC. It also attempted to identify the obstacles facing the application of the LCGC.

Regarding ownership structure, the results indicated that there were two types of ownership structure in listed Libyan companies: concentrated and distributed ownership. Under the concentrated ownership, fall three other categories, which are government, institutional and foreign shareholders. Four companies have government ownership – Wahda Bank (54.1%), Gamhuria Bank (89%), Libyan Insurance Co. (45%) and Al-Sahara Insurance Co. (45%) – and two companies have foreign shareholders – Wahda Bank with 19% and Sahara Bank 19%. However, all companies have institutional shareholders except for Wahda Bank and Gamhuria Bank. In terms of distributed ownership, in which individuals or small private firms own less than 5% of shares, all companies have varying ratios of this type of shareholding.

Regarding rights of shareholders, the results also indicated that respondents recognised the significance of voting by mail or the internet, but it was discovered that these methods were not used by companies in Libya, which emphasised the necessity of personal attendance at general meetings. On the other hand, respondents said that their companies allowed their shareholders proxy voting. However, the policy of cumulative voting was not used by any company in spite of its importance in protecting the rights of minority shareholders – this allowed them to work as a group to elect a candidate of their choice, who would represent them

and protect their rights as a member of the board of directors. Shareholders of all the companies obtained relevant and timely information regarding financial and non-financial matters. They also enjoyed share profiting as well as the right to attend and participate at the AGM.

With regard to the board structure, the results indicated that the majority of companies had the same board size, which consists of seven members including the chairman. All the participants said that the board members should be highly qualified and have the right mix of experience, skills and educational backgrounds. Moreover, the five banking companies have a majority of non-executive directors on their boards, while the three insurance companies have a ratio 4:7, 4:8 and 4:9 non-executive directors to executive directors on their boards. The results also revealed that all companies have different people in the two positions of the Chairman and the CEO.

When questioned about the tasks and responsibilities assigned to the board of directors, the results indicated that the majority of companies reported that their boards of directors played an important role in setting objective and strategy. In addition, the general written rules stipulating the responsibilities of the board in the banking sector were defined by the LBL (1/ 2005). However, some participants from the banking sector emphasised the need for their own written rules, which were heavily required by a foreign partner.

However, the results illustrated that all companies did not have their own corporate governance rules and written policies clarifying the relationship with stakeholders, despite the LCCG calls for these to be produced by the board of directors of all listed companies. This may be due to the fact that the concept of corporate governance is new in Libya. As regards top management performance evaluation, the results indicated that this was done by the board of directors, who carried out effective appraisal by using multiple financial and non-financial indicators as well as profit-related indicators. The results suggested that most companies had a good internal control system, and that there existed bodies inside and outside the companies that ensured the effectiveness of such a system.

The results also indicated that all the respondents agreed on the importance of having independent internal auditors, who were highly educated in both accounting and audit. However, the majority of respondents stated clearly that their companies had no clear written regulations for the directors and staff regarding conflict of interest. Both the company directors

and staff were guided by certain rules, which were derived from labour and commercial laws and other guidelines, as well as comparable regulations regarding what should be done by the employees. In addition, the results also revealed that disclosure and transparency of all companies was poor. Furthermore, some companies have no audit and nominating committees and their duties are performed by the board and the CEOs. However, all companies have control committees because it is required by Libyan law.

Finally, a number of obstacles affecting corporate governance were cited by the respondent: weakness of the organisation management, weakness of the legal environment, the influence and interference of the government, weakness of accounting and audit professions because of non-adoption of international standards, the current ownership structure of certain firms, absence of training programmes for members of the board of directors about the governance system, inadequacy of investors' awareness of the investment concept, the financial cost of implementing a governance system, a limited number of listed companies in the local market, the absence of a body to monitor practices and insufficient international pressure on Libya to apply a governance system.

### 8.3.2 Results of Questionnaire Survey

The main objective of the questionnaire at the second stage was to survey the respondents' perceptions regarding the introduction of the LCGC. It also attempted to identify the current obstacles facing the application of the LCGC. The primary data was obtained from a questionnaire designed to achieve these objectives. The questionnaire survey was distributed among two groups; the first consisted of the staff of companies listed on the LSM (senior managers and employees in the financial function), and the second consisted of Libyan experts (external auditors and academics).

Descriptive statistics were used in this study to define the characteristics of the participants of the study and to assist in answering the research questions. The study also employed the Mann-Whitney test to identify any significant differences between the two groups, since the questionnaire sought the respondents' opinions and general attitudes. The main results of this part indicated that most respondents had positive perceptions regarding the corporate governance mechanisms, namely shareholders' rights, board structure and responsibilities, internal auditing, disclosure and transparency, conflicts of interest and board committees as set out under the LCGC.

Analysis of the collated data supports, in general, most of the items presented in the questionnaire. Respondents strongly agreed with these mechanisms for protecting shareholders and stakeholders' rights as introduced by the LCGC. Their agreement with the items presented in the questionnaire was reflected in the high mean and median scores. Despite general agreement in opinion between respondents, there were also some significant differences regarding certain items in the questionnaire. Basically, these differences were in the degree of emphasis among the selected groups who took part in this study.

Finally, as regards factors that negatively affected corporate governance practices, the results indicated that most respondents agreed upon fifteen obstacles: weakness of the organisation management, weakness of legal environment, influence and interference of the government, weakness of accounting and audit professions because of non-adoption of international standards, current ownership structure of certain firms, absence of governance system training programmes for members of the board of directors, inadequacy of investors' awareness of the investment concept, the financial cost of implementing a governance system, the limited number of listed companies in the local market, absence of a body monitoring governance practice and insufficient international pressure on Libya to apply a governance system. This was reflected in the reported mean and median scores and no significant differences appeared among the two groups. Furthermore, the results also confirm the findings obtained from the interviews with board of directors of Libyan listed companies, which were conducted in the first stage of this study.

### 8.3.3 Results of Semi-Structured Interviews (B)

The main objective of the semi-structured interviews (B) in the final stage of the study was to examine the views of the Libyan officials and regulators in relation to identified obstacles and ways of decreasing them, specifically after the introduction of the LCCG. The primary data was obtained from semi-structured interviews (B) designed to achieve these objective. The semi-structured interviews (B) were conducted with twelve representatives; four Libyan officials and regulatory bodies, the MTE, the LSM, the IMB and the CBL.

The interviews findings indicated that corporate governance is a new phenomenon in the Libyan business environment. However, it was clear that support for introducing a corporate governance system in Libyan companies was much stronger since all interviewees were in favor of introducing the LCGC. Most of the interviewees considered corporate

governance as very important for companies. Furthermore, the most common benefits of this system were mentioned by the interviewees: the protection of shareholders' rights, appropriate management performance and organising relationships between boards of directors, shareholders and auditing committees. They tended to perceive corporate governance from an agency theory perspective.

In addition, the interviewees all responded negatively to the current application of the LCGC by the listed Libyan companies, which confirms the results obtained from the first interviews with the board of directors regarding this matter. Moreover, this result also confirms that there are many obstacles facing the application of the LCGC. The interview findings indicated that all interviewees agreed about the role played by the audit committee. They recognised its overall importance in corporate governance.

Questions were also asked concerning obstacles affecting the implementation of corporate governance practices in Libya, and the results suggested that poor leadership in companies was regarded the most significant, followed by the lack of knowledge about corporate governance, the weakness of the legal environment, the impact of government intervention in companies, the lack of training among board of directors about corporate governance and weak investment awareness among investors. However, as regards how to overcome these obstacles, in general, interviewees suggested organising workshops and trainings, as well as developing corporate governance education programmes. In addition to this, companies needed more freedom, power and support from the government to publicise and apply corporate governance.

As regards the future improvement and development of corporate governance in Libya, the results suggested that most interviewees had the same idea on how to raise public awareness. They argued that this can be done through collaboration of all government and non-government authorities, working together to educate and spread awareness among all individuals and companies. In addition, both educational and professional institutions should work hand in hand with the government to plan conferences and media, and to publish booklets and newsletters on the state, stock market and organisational level in order to promote awareness of corporate governance.

Secondly, with regard to the issue of identifying the party responsible for improving corporate governance in Libya, the interviewees indicated clearly that this responsibility should

not lie with one party. Therefore, it should be shared between several parties. The government, the stock market, the audit committee, or the board of directors is not able to improve it alone. These respondents believed that for corporate governance to be effective, every party should play its role and combine their efforts to enforce it.

Finally, the issue of the responsibility of monitoring compliance with the LCGC, the interviewees had similar ideas regarding who should be responsible for monitoring compliance with the LCGC. They believed that it was a very hard task for one body to monitor the compliance with this code and suggested the cooperation of all bodies (both government and non-government), including the stock market, which, according to them, seems to be more powerful.

**8.4 Recommendations of the Study**

Globally, the issue of corporate governance is one of the main concerns of many regulators, academics and practitioners in most countries. Therefore, the Libyan government must provide an efficient stock market and improved levels of corporate governance practices among its economic activities. These efforts should include the following requirements:

- Libyan laws and administrative systems should be reviewed and updated in line with international corporate governance practices. The LCGC has little chance of successful implementation unless it is surrounded by a framework of law that protects the interests of corporate stakeholders, therefore there needs to be an updating on laws on personal property, land and asset sales, and grater legal protection for shareholders, especially minority shareholders. The institutions overseeing these laws also need to be trusted by the population at large and free from corruption. This point was made very forcibly by certain respondents among the Libyan officials interviewed, and is supported by the literature, (La Porta et al., 1997; Johnson, Boone et al., 2000; De Jong & Semenov, 2002; Denis & McConnell, 2003)

- The Libyan Institute of Directors should be established, which will play an important role overseeing corporate governance in Libya. It should also focus on improving awareness of this system, and providing appropriate training methods for directors. The aims of this institute should include efforts to overcome the obstacles to corporate governance implementation identified in this study. It should be an independent body consisting of experts in management and corporate governance from the business and

academic fields, shareholders and stakeholders and state officials. The need for a body of this kind was stressed by respondents among the Libyan officials and experts in particular.

- An independent government body with adequate resources should be established to monitor and evaluate implementation of corporate governance practice in Libya. Given the lack of experience in Libyan with a free-market economy in general, the need for this body is paramount, so oversee implementation of the code and to guide changes to governance structures within the organisations obliged by law to implement the code.

- More effort should be made to encourage an awareness of corporate governance in the Libyan business environment through conferences, seminars and publications. This was a point made by both individuals working for the companies listed on the LSM, and the officials interviewed, who were in agreement that an enormous amount of education and training were necessary to incorporate the LCGC into the everyday operations of Libyan companies.

- The LCGC should be a mandatory code and include penalties for non-compliance. Libyan business is in need of corporate governance mechanisms in order to improve the performance of companies and thus overcome the agency problem that can arise from the separation of management and ownership. Under the previous system of state control of business activities, the issue of agency problems did not arise, but with one of the aims of the new economic openness being the spread of share ownership and the inclusion of small investors in the LSM, it is necessary that such investors should receive adequate protection from the interests of their agents in management.

- There are many other board committees which are necessary to good corporate governance, but which are not specified in the LCGC. Among these are committees on information technology, committees on governance, committees on risk and committees set up to oversee the environmental performance of an organisation. These committees are recommended in the literature (Spira and Bender, 2004: Minichilli, Gabrielsson et al., 2007) and were mentioned by respondents among the officials interviewed.

- The LSM should provide corporate governance training and workshops to appropriate staff by building relationships with other countries and international organisations. It should also learn from the relevant experience of other emerging market economies. This development was seen as particularly important by the officials interviewed, whose oversight over the whole economy gave them a less positive view of the progress made in developing good corporate governance practice in Libya that the directors of the listed companies.

- All Libyan companies, both private and public, should be listed on the LSM, if the basic listing conditions are met. Moreover, the LSM should play an important role in encouraging them. Almost all participants were in agreement on this point, and it was a matter of concern particularly to the officials and experts interviewed that three years after the founding of the LSM, only the eight original members were listed and publicly tradable companies. The implementation of the recommendations above should go a long way to making conditions for the rapid expansion of the LSM possible.

- There is a need to activate the role of civil organisations. Professional associations, others representing shareholders, employees and other special interest groups should be encouraged in Libya to provide a forum to support the interests of the group members. Respondents from among the employees, experts and officials were on agreement on this point but acknowledged that such groups were easier to form among the professions than among potential shareholders and stakeholders.

- Encourage the creation of financial information institutions and a financial press. One of the great barriers to private investment in Libya is the paucity of information available to investors, and the difficulty of obtaining the information that is required to be communicated. A financial press free from undue influence by business interests would help to expand the investment base available to Libyan companies.

- Libyan accounting and auditing professions should be developed through the adoption of international accounting and auditing standards. In addition, the accounting and auditing standards must be enforced by law and controlled by the Libyan government. The importance of a reliable and professional accounting system is highlighted in the literature and was mentioned by the Libyan officials interviewed as a necessary condition of good corporate governance.

- The current accounting and auditing curriculum of the Libyan education system should be revised and updated. This will facilitate the introduction of corporate governance and the adoption of international accounting and auditing standards. Long years of isolation have left the Libyan accounting profession struggling to catch up with developments in the developed world, and a process on reintegration and re-education is required.

### 8.5 Contribution of the Study

The current study will assist in filling the huge gap in literature regarding corporate governance practices in Libya. Indeed, this investigation will not only contribute to the study of developing countries, but also the Arab world, a region that is still deeply rooted in the social and economic structures of the past. In addition to this, there is also a lack of research that focuses on current corporate governance practices, perceptions and obstacles; most are positivist studies that evaluate companies' corporate governance according to their performance.

It is anticipated that this study can make a practical contribution to Libyan corporate governance by helping in the formation of a Libyan Institute of Directors, drawn from many of the groups surveyed by this study's research and tasked with overcoming the obstacles to effective corporate governance identified within it. This body should be independent, and should work with policy-makers who frame corporate governance legislation to see that the interests of all parties involved in a free-market economy with widely distributed ownership patterns are protected.

This body can also go some way to overcoming the gaps in knowledge and experience of corporate governance that exist in Libya by forming relationships with similar bodies in other countries, and establishing connections of knowledge transfer by such means as seminars, conferences, educational exchanges and corporate cooperation.

This study also contributes to knowledge by providing a general understanding of current corporate governance practices in Libyan businesses. It also provides an evaluation of the compliance of Libyan companies with LCGC. Another important contribution of this study is that it is the first attempt to reveal the current obstacles that affect the application of corporate governance. As far as the researcher is aware, this study is also the first of its kind in Libya and, therefore, it is hoped, provides useful insights, policy implication and recommendation for legislators, researchers and accounting and auditing professionals.

In terms of theory, the major contribution of this study is that stakeholder theory was more applicable to the situation in Libya at the time the study was conducted than agency theory. The data shows that legal protection for stakeholders was weak, especially for small shareholders, and that where improvements in protection for shareholders, and in corporate governance in general, had been achieved, this was usually due to the influence of foreign firms working in partnership with Libyan companies. The fact that Libya was not a stable economy at the time of the research and that uncertainty and a paucity of reliable information therefore characterised the investment environment meant that the considerable reserves of capital available in Libya, particularly in its banks, were under-utilised due to fear of the protection available to it in the investment market.

### 8.6 Limitations of the Study

To some extent, this study was limited by the size of the portion of the Libyan economy subject to the LCGC, consisting at the time of the research of only eight companies registered on the LSM, all of them from the country's financial services sector, with the result that a relatively small sample of interviewees and respondents was used. However, the study primarily investigates the current corporate governance practices, perceptions and obstacles in Libya following the introduction of the LCGC. In doing so, it attempts to elicit board of directors' views regarding the current corporate governance practices in eight listed companies and the obstacles to the application of the LCGC. Therefore, the semi-structured interviews (A) were conducted with board members of these companies.

Secondly, this study attempts to elicit the perceptions of Libyan listed companies' staff and experts regarding the introduction of the LCGC. The first group represented the internal group, which consisted of the staff of companies listed on the LSM (senior managers and employees in the financial function), and the second group represented the external group, which consisted of Libyan experts (external auditors and academics). Thirdly, the study attempts to examine the views of the Libyan regulators and officials in relation to identified obstacles and ways of decreasing them. Therefore, the semi-structured interview (B) was conducted with twelve interviewees representing four Libyan official and regulatory bodies. However, this study did not investigate corporate governance in other Libyan companies or business sectors, since they are not required to adopt the LCGC requirements and are not registered in the LSM.

In addition, the study included questions eliciting the respondents' perceptions of the issues under consideration. However, respondents' response may have been influenced by their values, beliefs and other factors, which may, in turn, have affected the quality of findings. Also, the study's findings were restricted to Libyan businesses; cultural, social, political, financial and investment differences from other countries may prevent wider generalisation. It is important to recognise that this study was essential exploratory in nature, and that while many issues which were expected to be of relevance were identified in the literature review, the data contained within this study is the first investigation of the extent of corporate governance implementation in Libya, and a pioneering attempt to identify the obstacles that will have to be overcome before the LCGC can be fully and widely implemented.

## 8.7Suggestions for Further Research

The current research project has exposed a number of areas that may need to be investigated further. Issues such as the role and responsibility of board of directors, board composition, board committees, the independence of board members and transparency and disclosure need to be investigated in other sectors due to their importance in Libyan economic development. Moreover, many ideas and questions were encountered, such as how this research could be improved and extended by further study. For example, would the findings of this study be the same if the study were replicated over time? Would the findings of this study be the same for other Libyan service companies? Would the findings of this study be the same if it were replicated using other research techniques? In this respect, further research is still required, much work remains to be done, and many questions need to be answered. This thesis is being completed in the early months of 2012, and since the research was conducted and its data analysed, enormous changes to Libya's political situation have occurred as a result of the revolution begun in February 2011.

Libya is making its first tentative steps towards the election of a representative and accountable government, and the management of the economy and institutions of Libya will necessarily be affected by the changes the country has undergone. In terms of the findings of this study and the need for further research into the problems with implementing corporate governance systems in Libya, these are unlikely to simply alter with a change of political context, rooted as they are as much in social and cultural issues as in political ones.

Therefore, it is expected that the findings of this study can be of use both to those responsible for devising a new legal framework for the Libyan business environment, and to researchers investigating corporate governance in a post-revolution context.

Despite the fact that this study is limited to some extent by the small portion of the Libyan economy currently operating under the LCGC, the study makes an original contribution to knowledge about corporate governance in the Libyan context; however, as mentioned before, research on corporate governance in developing economies is still limited and has only recently become a major focus of attention for academics, international organisations and governments. Therefore, further research on corporate governance is recommended in the context of other developing countries; in particular the obstacles to the implementation of the LCGC identified in this study require further research, both in terms of how they can be overcome in Libya, and how similar obstacles have been overcome in other developing economies.

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# Appendices

# Appendix A

## Questions of Semi-Structure Interview (A)
## With Eight Libyan Listed Companies

**Part 1: General Information**

1-Name of the company
2-Name of Participant (optional)
3-Position
4-Qualification
5-Number of years of experience

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**Part 2: Information about Corporate Governance Practices**

**1: Rights of shareholders:**

**1.1** In your opinion, how effectively does your company apply the Libyan Corporate Governance Code regarding the following rights of shareholders?

- Voting rights.
- Rights to obtain relevant and timely information.
- Right to share in the profits.
- Rights of attendance and participation at the AGM.

**2: Board of directors:**

**2:1.**How many members does the board have in total?

**2:2.**Are the majority of the board non-executive directors?

If so, what are the approximate proportions?
If not, could you explain why?

**2:3.**Are the chairman and CEO the same person?

**2:4.**In your opinion, to what extent does your board carry out the following tasks and responsibilities which are referred in the Corporate Governance Code?

**2:4:1.** Does the board shape the of the company's objectives and strategy

If so, which procedures does it use in doing that?

If not, why?

**2:4:2.**Has your company developed a set of written rules stipulating the role and responsibility of the board?

If so, which ones?

If not, can you please explain why?

**2:4:3.** Does the company have an internal control system?

If so, does it work effectively?

If not, why?

**2:4:4.**Does the board set corporate governance rules for the company?

If so, can you please list some?

If not, why?

**2:4:5.**Does the company has written policies clarifying the relationship with stakeholders?

If yes, can you please list some?

If no, can you please state why?

**2:4:6.**Does the board evaluates top management performance?

If so, which performance measures does it use?

If not, why?

**2:4:7.**Does the board reviews the company's internal policies?

If so, please explain how?

If not, why?

**2:4:8.** Does your company have an internal audit department?

If so, does the board set and supervises it and what are the main tasks of this department?

If not, please explain why?

**2:49.**Are the internal auditor independent and full-time employee?

If so, does the internal auditor supervise by the CEO and audit committee?

If not, why?

**3: Conflict of Interest and Board Committees:**

**3:1.** Does your company have clear written regulations for the directors and staff regarding conflict of interests?

If so, what does it consist of?

If not, please explain why?

**3:2.** Does your company have written professional code of conduct?

If so, what does it consist of?

If not, please explain why?

**3:3.** Does your company have an audit committee?

If so, please briefly explain its structure operations.

If not, please explain why it has not been formed.

3:4. Does your company have a nomination committee?

If so, please briefly explain its structure operations.
If not, please explain why it has not been formed.

3:5. Does your company have a control committee?

If so, please briefly explain its structure operations.
If not, please explain why it has not been formed.

3:6. Does your company have an investor relation unite?

If so, what are the main tasks?
If no, please explain why not?

**4: Disclosure and transparency:**

4:1.In your opinion, how effectively does your company apply the disclosure and transparency requirements of Corporate Governance Code in relation to:

- Firstly, ownership structure
- Secondly, the annual report of the board
- Thirdly, details of board committees
- Fourthly, company's social policies
- Fifthly, related party transactions
- Sixthly, corporate group structure
- Seventhly, quarterly financial statements
- Finally, the external auditor's report and fees

**Part 3: Obstacles affecting corporate governance practices:**

5.1- In your opinion, can you summarise the main obstacles which affect the application of Corporate Governance Code in your company in particular and in Libya environment in general?

## Appendix B

## Questionnaire Survey

**Dear Sir/Madam,**

I am a lecturer at Accounting Department in Academy of Graduate Studies, Benghazi Branch- Libya. I am currently a PhD student at University of Gloucestershire Business School UK.

The main aim of this study is to investigate the current corporate governance practices, perceptions and obstacles within Libya following the introduction of the Libyan Corporate Governance Code. Among the objectives of the study is to survey the perceptions of listed companies' staff and Libyan experts regarding the introduction of the Libyan Corporate Governance Code.

To achieve the above objective questionnaire were designed as methods of collecting data. I am therefore, approaching you as an experienced person in this area to obtain your perception on the importance of Libyan Code.

I would be very grateful if you would complete this questionnaire and include any other comments/ suggestions you feel appropriate. Your contribution towards the successful outcome of this study is invaluable.

It must be emphasised that your answer and opinions in this questionnaire will be treated in strictest confidence and no information gained from this survey will be identified with any particular person or organisation.

**Finally, please accept in advance my sincere thanks and appreciation for your assistance and cooperation.**

**Yours Faithfully,**

**Abdelhamid Magrus**

**E-mail s0710019@glos.ac.uk**

**Magrus_71@yahoo.com**

## Questionnaire for the Libyan Experts

Part 1: General and Background Information:

**Please indicate your answer by circling the appropriate number.**

**1/1.** What is your current job?

| Accounting Academic | External Auditor | Other* |
|---|---|---|
| 1 | 2 | 3 |

*Please specify: ..........................................................................

**1/2.** What is your total length of experience in your current job?

| Less than 1 year | 1-4 years | 5-9 years | 10-15 years | More than 15 years |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

**1/3.** What is your most recent educational qualification?

| Bachelor Degree | Master's Degree | PhD | Other* |
|---|---|---|---|
| 1 | 2 | 3 | 4 |

*Please specify: ..........................................................................

**1/4.** What was the principal area of study of your most recent educational qualification?

| Accounting | Bus. Admin | Economics | Finance | Other* |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

*Please specify: ..........................................................................

**1/5.** In which country did you obtain your most recent educational qualification?

| Libya | Other Arab country | USA | UK | Other* |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

*
Please specify: ..........................................................................

**Questionnaire for listed company staff**

Part 1: General and Background Information:

**1/1** Company Name........................................................................................

**Please indicate your answer by circling the appropriate number.**

**1/2.** What is your current job position?

| Member of board | Financial Manager | Internal Auditors | Accountant | Other* |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

*Please specify: ........................................................................

**1/3.** What is your total length of experience in your current job?

| Less than 1 year | 1-4 years | 5-9 years | 10-15 years | More than 15 years |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

**1/4.** What is your most recent educational qualification?

| A pre Degree Diploma | Bachelor Degree | Master's Degree | PhD | Other* |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

*Please specify: ........................................................................

**1/5.** What was the principal area of study of your most recent educational qualification?

| Accounting | Bus. Admin | Economics | Finance | Other* |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

*Please specify: ........................................................................

**1/6.** In which country did you obtain your most recent educational qualification?

| Libya | Arab country | USA | UK | Other* |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

*Please specify: ........................................................................

**Part 2: General perceptions on the Libyan Corporate Governance Code:**

As you know, the Libyan Corporate Governance Code is designed to prevent bankruptcy and collapse in the Libyan business environment and protect the rights of shareholders and other stakeholders. Below are series of statements and you are asked to show the extent to which you agree or disagree with each in terms of their importance to meeting the goals of the Code. Please circle, using a scale from 1-5, the answer that most closely corresponds to your perception of each statement.

| Strongly disagree | Disagree | Neutral | agree | Strongly agree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

**2/1: Shareholder rights under the Libyan Corporate Governance Code.**

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | The company should allow voting by mail. | 1 | 2 | 3 | 4 | 5 |
| 2 | The company should allow voting through the internet. | 1 | 2 | 3 | 4 | 5 |
| 3 | The company should allow proxy voting. | 1 | 2 | 3 | 4 | 5 |
| 4 | The company should allow cumulative voting. | 1 | 2 | 3 | 4 | 5 |
| 5 | Shareholders should obtain relevant information about the company .on a timely and regular basis. | 1 | 2 | 3 | 4 | 5 |
| 6 | Shareholders should have the right to prosecute the board of directors. | 1 | 2 | 3 | 4 | 5 |
| 7 | Shareholders should have the right to register and transfer ownership of shares | 1 | 2 | 3 | 4 | 5 |
| 8 | Shareholders should have an equal right to share in the profits. | 1 | 2 | 3 | 4 | 5 |
| 9 | The company should disclose a dividend policy. | 1 | 2 | 3 | 4 | 5 |
| 10 | The processes and procedures for the AGM should allow for equitable treatment of all shareholders. | 1 | 2 | 3 | 4 | 5 |
| 11 | Adequate time should be given to shareholders for asking questions and raising issues at the AGM. | 1 | 2 | 3 | 4 | 5 |
| 12 | The dates and locations of AGM should be carefully chosen in order to maximise attendance of shareholders. | 1 | 2 | 3 | 4 | 5 |
| 13 | Information on each board member candidate and his/her curriculum vitae should be disclosed before the AGM. | 1 | 2 | 3 | 4 | 5 |
| 14 | Information on each nomination and audit committee member candidate and his/her curriculum vitae should be disclosed before the AGM. | 1 | 2 | 3 | 4 | 5 |
| 15 | Information, qualifications and expected fees of an external auditor should be disclosed before the AGM. | 1 | 2 | 3 | 4 | 5 |
| 16 | Related-party transactions should be fully discussed at the AGM. | 1 | 2 | 3 | 4 | 5 |
| 17 | The board should submit an annual report to shareholders including:<br>• A comprehensive overview of the company's operations and financial status<br>• Prospective vision of the company's activities for the coming year;<br>• Audited annual results of an assessment of the efficiency of the company's internal control procedures<br>• A summary on capital changes<br>• The extent of the application of Corporate Governance Code. | 1 | 2 | 3 | 4 | 5 |
| 18 | The minutes of the AGM should be disclosed through its publication in newspapers and through the Stock Exchange. | 1 | 2 | 3 | 4 | 5 |

**2/2: Board structure and responsibility under the Libyan Corporate Governance Code.**

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | The size of the board of directors should not be less than three members and not more than eleven. | 1 | 2 | 3 | 4 | 5 |
| 2 | The majority of the board should be non-executive directors. | 1 | 2 | 3 | 4 | 5 |
| 3 | There should be separation between the post of chairman and CEO. | 1 | 2 | 3 | 4 | 5 |
| 4 | Each member of the board may not sit on more than three additional boards at the same time. | 1 | 2 | 3 | 4 | 5 |
| 5 | Most board members should have financial and technical skills to understand company's work and its financial reports. | 1 | 2 | 3 | 4 | 5 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 6 | Newly-assigned members of the board should receive financial and non-financial information about the company. | 1 | 2 | 3 | 4 | 5 | |
| 7 | The company should have written rules of the role and responsibility of the board. | 1 | 2 | 3 | 4 | 5 | |
| 8 | The board should shape and review the operational and financial plans and objectives of the company annually. | 1 | 2 | 3 | 4 | 5 | |
| 9 | The board should review the company's internal policies periodically. | 1 | 2 | 3 | 4 | 5 | |
| 10 | The board should shape and review the company's risk management policies. | 1 | 2 | 3 | 4 | 5 | |
| 11 | The board should play an important role in selecting, monitoring, and replacing the CEO. | 1 | 2 | 3 | 4 | 5 | |
| 12 | The board of directors should attend director training programmes about corporate governance. | 1 | 2 | 3 | 4 | 5 | |
| 13 | The board and top management should meet at least quarterly to discuss the company's future strategy. | 1 | 2 | 3 | 4 | 5 | |
| 14 | The board should formally evaluate performance of top management. | 1 | 2 | 3 | 4 | 5 | |
| 15 | The board should set corporate governance rules for the company. | 1 | 2 | 3 | 4 | 5 | |
| 16 | The board should set written policies clarifying the relationship with stakeholders. | 1 | 2 | 3 | 4 | 5 | |
| 17 | The board should set and monitor the system of internal control. | 1 | 2 | 3 | 4 | 5 | |
| 18 | The company should have an internal audit department. | 1 | 2 | 3 | 4 | 5 | |
| 19 | The internal auditor should be independent. | 1 | 2 | 3 | 4 | 5 | |
| 20 | The internal auditor should be supervised by the CEO and audit committee. | 1 | 2 | 3 | 4 | 5 | |
| 21 | The internal auditor should be a full-time employee. | 1 | 2 | 3 | 4 | 5 | |
| 22 | The internal auditor should submit a quarterly report to the board and control committee. | 1 | 2 | 3 | 4 | 5 | |

**2/3: Disclosure and transparency under the Libyan Corporate Governance Code.**

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | Disclosure should include information concerning significant changes in ownership. | 1 | 2 | 3 | 4 | 5 |
| 2 | Disclosure should include information on financial and operating results. | 1 | 2 | 3 | 4 | 5 |
| 3 | Disclosure should include names, background and their remunerations of board members. | 1 | 2 | 3 | 4 | 5 |
| 4 | Disclosure should include names, background and their remunerations of board committees. | 1 | 2 | 3 | 4 | 5 |
| 5 | Disclosure should include functions and tasks of board committees. | 1 | 2 | 3 | 4 | 5 |
| 6 | Disclosure should include shares of the members of the board. | 1 | 2 | 3 | 4 | 5 |
| 7 | Disclosure should include majority shareholders of the company. | 1 | 2 | 3 | 4 | 5 |
| 8 | Disclosure should include information on the rights of stakeholders. | 1 | 2 | 3 | 4 | 5 |
| 9 | Disclosure should include forecasts of the company's operations for the coming year. | 1 | 2 | 3 | 4 | 5 |
| 10 | Disclosure should include related party transactions in detail. | 1 | 2 | 3 | 4 | 5 |
| 11 | Disclosure should include corporate group structure. | 1 | 2 | 3 | 4 | 5 |
| 12 | Disclosure should include company environmental reports. | 1 | 2 | 3 | 4 | 5 |
| 13 | Disclosure should include company social policies and programmes. | 1 | 2 | 3 | 4 | 5 |
| 14 | Disclosure should include quarterly financial reports. | 1 | 2 | 3 | 4 | 5 |
| 15 | Disclosure should include the board's annual report. | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 16 | Disclosure should include external auditor's report. | 1 | 2 | 3 | 4 | 5 |
| 17 | Disclosure should include fees paid to external auditors. | 1 | 2 | 3 | 4 | 5 |
| 18 | The company should use its website to disclose all information. | 1 | 2 | 3 | 4 | 5 |
| 19 | The company should not leak any information before publication. | 1 | 2 | 3 | 4 | 5 |
| 20 | Disclosure should include Information about the company's application of the Libyan Corporate Governance Code. | 1 | 2 | 3 | 4 | 5 |

**2/4: Conflict of interests under the Libyan Corporate Governance Code.**

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | The company should have clear written regulations for the directors and staff regarding conflict of interests. | 1 | 2 | 3 | 4 | 5 |
| 2 | Board members, directors and staff may not trade company stocks for a specified period before the disclosure of company financial statements. | 1 | 2 | 3 | 4 | 5 |
| 3 | Board members, directors and staff may not trade company stocks after sudden financial events until such information is disclosed to the public. | 1 | 2 | 3 | 4 | 5 |
| 4 | Board members and directors may not obtain any loan from the company. | 1 | 2 | 3 | 4 | 5 |
| 5 | Board members and directors may not have direct or indirect interests in activities in which the company is involved. | 1 | 2 | 3 | 4 | 5 |
| 6 | The company should set up professional code of conduct, including:<br>• Dealing with the company regarding selling and buying shares and other transactions.<br>• Disclosure of new policies<br>• Professional criteria for interaction between staff, directors and customers. | 1 | 2 | 3 | 4 | 5 |

**2\5 Board committees under the Libyan Corporate Governance Code.**

Please indicate your perception of the importance of having and operating the following board committees in terms of meeting the goals of the Libyan Corporate Governance Code. Again, please indicate this by circling the appropriate number on a scale from 1-5 for each of the following statements.

| Not important at all | Not very Important | Don't know | important | Very Important |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

**2\5\1:Audit Committee:**

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | The company should have an audit committee. | 1 | 2 | 3 | 4 | 5 |
| 2 | The audit committee should consist of three non-executive directors elected by the board. | 1 | 2 | 3 | 4 | 5 |
| 3 | The audit committee should include a member with accounting and finance expertise. | 1 | 2 | 3 | 4 | 5 |
| 4 | The audit committee should meet at least once every 3 months. | 1 | 2 | 3 | 4 | 5 |
| **The audit committee tasks and responsibilities should include:** | | | | | | |
| 5 | Recommending the appointment and removal of the external auditor and the identification of fees. | 1 | 2 | 3 | 4 | 5 |
| 6 | Reviewing the external auditor's comments on financial statement. | 1 | 2 | 3 | 4 | 5 |
| 7 | Reviewing the independence of the external auditor. | 1 | 2 | 3 | 4 | 5 |
| 8 | Reviewing the external auditor's plan and making suggestions. | 1 | 2 | 3 | 4 | 5 |
| 9 | Reviewing the company's accounting policies and giving opinions and recommendations. | 1 | 2 | 3 | 4 | 5 |
| 10 | Assessing the efficiency of the financial manager and other financial staff. | 1 | 2 | 3 | 4 | 5 |
| 11 | Reviewing and discussing the internal audit department plan and its efficiency. | 1 | 2 | 3 | 4 | 5 |
| 12 | Reviewing the independence of the internal auditor. | 1 | 2 | 3 | 4 | 5 |
| 13 | Reviewing the internal auditor's reports and any corrective measures taken. | 1 | 2 | 3 | 4 | 5 |

| 14 | Reviewing the financial statements before presenting them to the board and giving opinions and recommendations. | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|

**2/3/2:Nomination committee:**

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | The board should have a nomination committee. | 1 | 2 | 3 | 4 | 5 |
| 2 | The nomination committee members should be elected by the board. | 1 | 2 | 3 | 4 | 5 |
| **The nomination committee tasks and responsibilities should include:** | | | | | | |
| 3 | Recommending candidates for membership of the board to the AGM. | 1 | 2 | 3 | 4 | 5 |
| 4 | Reviewing skills and qualifications required for the board membership. | 1 | 2 | 3 | 4 | 5 |
| 5 | Reviewing the board structure and making recommendations of possible changes. | 1 | 2 | 3 | 4 | 5 |
| 6 | Defining the board's weaknesses and strengths and proposing remedies in accordance with company interests. | 1 | 2 | 3 | 4 | 5 |
| 7 | Setting clear policies of compensation and remuneration for board members and senior executives. | 1 | 2 | 3 | 4 | 5 |

**2/3/3:Control committee:**

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | The company should have a control committee. | 1 | 2 | 3 | 4 | 5 |
| 2 | The control committee should consist of at least three members appointed by the AGM. | 1 | 2 | 3 | 4 | 5 |
| 3 | The control committee should represent all shareholders of the company. | 1 | 2 | 3 | 4 | 5 |
| **The control committee tasks and responsibilities should include:** | | | | | | |
| 4 | Controlling the company administration and verification of its legal progress. | 1 | 2 | 3 | 4 | 5 |
| 5 | Verification of the validity and legitimacy of contracts conducted by the company. | 1 | 2 | 3 | 4 | 5 |
| 6 | Ensuring that all the accounting procedures are in accordance with legal and regulatory rules. | 1 | 2 | 3 | 4 | 5 |
| 7 | Permitting committee members at any time to inspect the company and its work progress. | 1 | 2 | 3 | 4 | 5 |

**Part 3: General perceptions on the obstacles affecting Corporate Governance practice:**

Please circle on a scale from 1-5 the extent to which you agree or disagree that the following obstacles will affect the application of the Libyan Code.

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | Poor leadership within Libyan companies. | 1 | 2 | 3 | 4 | 5 |
| 2 | Weakness of the legal environment for companies. | 1 | 2 | 3 | 4 | 5 |
| 3 | Lack of knowledge about corporate governance among the Libyan companies | 1 | 2 | 3 | 4 | 5 |
| 4 | Current ownership structure of companies. | 1 | 2 | 3 | 4 | 5 |
| 5 | Lack of training among directors of companies about corporate governance. | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 6 | Impact of government intervention in companies. | 1 | 2 | 3 | 4 | 5 |
| 7 | Weakness of the accounting profession in Libya resulting from a lack of adoption of International Accounting Standards. | 1 | 2 | 3 | 4 | 5 |
| 8 | Weakness of the auditing profession in Libya resulting from a lack of adoption of International Auditing Standards. | 1 | 2 | 3 | 4 | 5 |
| 9 | Weak investment awareness among investors. | 1 | 2 | 3 | 4 | 5 |
| 10 | Absence of a Libyan Capital Market Authority. | 1 | 2 | 3 | 4 | 5 |
| 11 | Cost of application corporate governance system. | 1 | 2 | 3 | 4 | 5 |
| 12 | Absence of Institute of Directors. | 1 | 2 | 3 | 4 | 5 |
| 13 | Limited number of listed companies. | 1 | 2 | 3 | 4 | 5 |
| 14 | Lack of an independent institution or body to monitor corporate governance practices. | 1 | 2 | 3 | 4 | 5 |
| 15 | Weak international pressure on Libya for the application of corporate governance (World Bank). | 1 | 2 | 3 | 4 | 5 |

**Finally, are there any other comments or suggestions you think relevant to the issues addressed in this questionnaire? If so, please use the space provided below to detail them**

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***THANK YOU VERY MUCH FOR YOUR PARTICIPATION IN THIS STUDY.***

## Appendix C
### Arabic Version of Questionnaire Survey

**الأخ الفاضل/الأخت الفاضلة**

**تحية طيبة وبعد**

أنا معيد بقسم المحاسبة بأكاديمية الدراسات العليا فرع بنغازي – ليبيا ، وأنا حالياً طالب دكتوراه بجامعة قلوسترشير كلية إدارة الأعمال بالمملكة المتحدة .

إن الغرض الرئيسي من البحث هو دراسة الممارسات الحالية والتصورات والمعوقات لتطبيق نظام حوكمة الشركات في ليبيا بعد إصدار دليل الحوكمة من قبل سوق الأوراق المالية الليبي ، ومن بين أهداف هذه الدراسة هو القيام باستطلاع ومسح التصورات و الآراء حول أهمية قواعد دليل حوكمة الشركات الليبي

من اجل تحقيق هذا الهدف تم إعداد استمارة استبيان كأداة لجمع البيانات ، عليه تم اختياركم كخبير في هذا المجال للحصول على رأيكم أو تصوركم حول أهمية قواعد هذا الدليل ، سأكون شاكراً وممتناً لكم على استكمالكم لهذا الاستبيان وإدراج أي تعليق أو ملاحظة ترونها مهمة ، كما أن مشاركتكم في إنجاح هذه الدراسة ستكون عظيمة الفائدة

ونؤكد هنا بأن إجابتكم وآرائكم المقدمة في هذا الاستبيان ستعامل بسرية تامة ولن تحدد أي معلومات تم الحصول عليها في هذا الاستبيان مقرونة باسم أي شخص أو منظمة .

**أخيراً أرجو منكم تقبل فائق الشكر والتقدير عن مشاركتكم وتعاونكم**

**الباحث/عبد الحميد المقروس**

s0710019@glos.ac.uk

magrus_71@yahoo.com

## قائمة استقصاء للخبراء الليبي

الجزء الأول: معلومـــــــــــــــــــــات عامــــــــــــــة:

يرجى ن سيادتكم التكرم بالإجابة على الأسئلة التالية من خلال وضع دائرة على الرقم الذي يتناسب مع إجابتكم.

1-1ما هي الوظيفة الحالية؟

| عض هيئة تدريس | مراجع خارجي | أخرى* |
|---|---|---|
| 1 | 2 | 3 |

*من فضلك حدد ............................................................

2-1 كم عدد سنوات الخبرة في هذه الوظيفة؟

| أقل من سنة | 1-4 سنوات | 5-9 سنوات | 10-15 سنة | أكثر من 15 سنة |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

3-1 ما هو أخر مؤهل علمي تم الحصول عليه؟

| البكالوريوس | ماجستير | دكتوراه | أخرى* |
|---|---|---|---|
| 1 | 2 | 3 | 4 |

*من فضلك حدد ............................................................

4-1 ما هو التخصص العلمي لهذا المؤهل؟

| المحاسبة | إدارة إعمال | الاقتصاد | التمويل | أخرى* |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

*من فضلك حدد ............................................................

5-1 ما هي الدولة التي تم الحصول منه على هذا المؤهل العلمي؟

| ليب ا | دولة عربية خرى | الولايات المتحدة | بريطانيا | أخرى* |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

*من فضلك حدد ............................................................

## قائمة استقصاء للعاملين بالشركات المدرجة بالسوق المالي الليبي

### الجزء الأول: معلومـــــــــــــــــــات عامـــــــــة:

يرجى من سيادتكم التكرم بالإجابة على الأسئلة التالية من خلال وضع دائرة على الرقم الذي يتناسب مع إجابتكم.

1-1 أسم الشركة:..............................................................................

2-1 ما هي الوظيفة الحالية؟

| عضو مجلس إدارة | مدير مالي | مراجع داخلي | محا سب | أخرى * |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

*من فضلك حدد ..........................................................................

3-1 كم عدد سنوات الخبرة في هذه الوظيفة؟

| أقل من سنة | 1-4 سنوات | 5-9 سنوات | 10-15 سنة | أكثر من 15 سنة |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

4-1 ما هو أخر مؤهل علمي تم الحصول عليه؟

| أقل من البكالوريوس | البكالوريوس | ماجستير | دكتوراه | أخرى* |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

*من فضلك حدد ..........................................................................

5-1 ما هو التخصص العلمي لهذا المؤهل؟

| المحاسبة | إدارة إ مال | الاقتصاد | التمويل | أخرى* |
|---|---|---|---|---|
| 1 | 2 | | 4 | 5 |

*من فضلك حدد ..........................................................................

6-1 ما هي الدولة التي تم الحصول منه على هذا المؤهل العلمي؟

| ليبيا | دولة عربية أخرى | الولايات المتحدة | بريطانيا | أخرى* |
|---|---|---|---|---|
| 1 | 2 | | 4 | 5 |

*من فضلك حدد ..........................................................................

**الجزء الثاني: الانطباع العام حول مبادئ دليل حوكمة الشركات الليبي.**

**كما تعلمون ؛ إن دليل حوكمة الشركات الليبي مصمم بهدف حماية بيئة الأعمال الليبية من الإفلاس والانهيار ،وكذلك لغرض حماية حقوق المساهمين و حقوق أصحاب المصالح الآخرين. وأدناه مجموعة من العبارات والمطلوب من سيادتك أن تبين مدى موافقتك أو عدم موافقتك على كل عبارة من حيث أهميتها في تحقيق الأهداف المصمم من أجله هذا الدليل وذلك من خلال وضع دائرة على المقياس من 1 -5 حول الرقم الذي يتناسب مع إجابتكم .**

| غير موافق تماما | غير موافق | محايد | موافق | موافق ت اما |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

**2-1 حقوق المساهمين بموجب دليل حوكمة الشركات الليبي يتضمن مايلي:**

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | يجب أن تسمح الشركة باستخدام البريد للتصويت. | 1 | 2 | 3 | 4 | 5 |
| 2 | يجب أن تسمح الشركة باستخدام ال نترنت للتصوي . | 1 | 2 | 3 | 4 | 5 |
| 3 | يجب أن تسمح الشركة باستخدام سياسة لتصويت بالوكالة. | 1 | 2 | 3 | 4 | 5 |
| 4 | يجب أن تسمح الشركة باستخدام سياسة التصويت التراكمي. | 1 | 2 | 3 | 4 | 5 |
| 5 | للمساهمين حق الحصو على المعلومات ذات الصلة في الوقت المناسب وعلى أساس منتظم. | 1 | 2 | 3 | 4 | 5 |
| 6 | يجب أن يتمتع المس همين بحق حرية م اضاة الإدارة. | 1 | | 3 | 4 | 5 |
| 7 | يجب أن يتمتع المساهمين بحق حرية تسجيل ونقل مل ية الأسهم. | 1 | 2 | 3 | 4 | 5 |
| 8 | يجب أن يتمتع المساهمين بحق متساو في المشاركة في الأر اح. | 1 | 2 | 3 | 4 | 5 |
| 9 | يجب أن تفصح الشركة عن سياسات توزيع الأرباح. | 1 | 2 | 3 | 4 | 5 |
| 10 | يجب أن تسمح إ راءات وطرق ا عقاد الجمعية العمومية بالمعاملة العادلة لجميع المساهم ن. | 1 | 2 | 3 | 4 | 5 |
| 11 | يجب إعطاء الوقت الكافي للمساهمين لطرح الأسئلة و إثارة بعض القضايا في اجتماع الجم ية العمومية. | 1 | 2 | 3 | 4 | 5 |
| 12 | تواريخ وأماكن انعقاد الجمعية العمومية يجب اختياره بعناية لحث المسا مين على الحضو . | 1 | | 3 | 4 | 5 |
| 3 | يجب الإفصاح عن معلومات كل مرشح لعضوية مجلس الإدارة وسيرته لذاتية قبل انعقاد الجمعية العمومية. | 1 | 2 | 3 | 4 | 5 |
| 1 | يجب الإفصاح عن م لومات كل مرشح لعضوية لجنة الترشيح و لجنة المراجعة وسيرته الذاتية قبل انعقا الجمعية الع ومية. | 1 | 2 | 3 | 4 | 5 |
| 15 | يجب الإفصاح عن المعلومات والمؤهلات والأتعاب المتوقعة للمراجع الخارجي قبل انعقاد الجمعية لعمومية. | 1 | 2 | 3 | 4 | 5 |
| 16 | يجب أن يتم مناقشة الصف ات مع الأطراف ذات العلاقة في الجمعية العمومية. | 1 | 2 | 3 | 4 | 5 |
| 17 | يجب أن يعد مجلس الإدارة تقريرا سنويا للعرض على المساهمين يتضمن مايلي:<br>o نظرة شاملة عن أعمال الشركة ومركزها المالي.<br>o النظرة المستقبلية لنشاط الشركة للعام المقبل.<br>o نتائج المراجعة السنوية الخاصة بتقييم كفاءة إجراءات الرقابة الداخلية بالشركة<br>o نبذة عن أهم التغيرات في هيكل رأس مال الشركة. | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | o مدى الالتزام بتطبيق قواعد حوكمة الشركات. | | | | | |
| 18 | يجب الإفصاح عن محضر انعقاد الجمعية العمومية من خلال نشره في الصحف وموقع السوق المالي. | 1 | 2 | 3 | 4 | 5 |

**2:2 هيكل ومسؤوليات مجلس الإدارة بموجب دليل حوكمة الشركات الليبي يتضمن مايلي:**

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | يجب أن لا يقل حجم مجلس الإدارة عن ثلاثة أعضاء ولا يزيد عن احد عشر عضوا. | 1 | 2 | 3 | 4 | 5 |
| 2 | يجب أن تكون أغلبية أعضاء مجلس الإدارة من الأعضاء غير التنفيذيين. | 1 | 2 | 3 | 4 | 5 |
| 3 | يجب أن يتم الفصل بين وظيفة رئيس مجلس الإدارة والرئيس التنفيذي للشركة. | 1 | 2 | 3 | 4 | 5 |
| 4 | لا يجوز أن يكون لعضو مجلس الإدارة عضوية أكثر من ثلاث شركات في آن واحد. | 1 | 2 | 3 | 4 | 5 |
| 5 | يجب أن يتوفر لدى بعض أعضاء مجلس الإدارة بعض المهارات المالية والفنية لتفهم أعمال الشركة و تقاريرها المالية. | 1 | 2 | 3 | 4 | 5 |
| 6 | يجب أن يحصل أعضاء مجلس الإدارة الجدد على المعلومات المالية وغير المالية الكافية عن الشركة. | 1 | 2 | 3 | 4 | 5 |
| 7 | يجب أن يكون لدى الشركة قواعد مكتوبة بدور ومسؤول ات واختصاصات مجلس الإدارة. | 1 | 2 | 3 | 4 | 5 |
| 8 | يجب أن يقوم مجلس الإدارة بوضع ومراجعة خطط وأهداف الشركة المالية و التشغيلية سنويا. | 1 | 2 | 3 | 4 | 5 |
| 9 | يجب أن يقوم مجلس الإدارة بمراجعة السياسات الداخلية للشركة بصفة دورية. | 1 | 2 | 3 | 4 | 5 |
| 10 | يجب أن يقوم مجلس الإدار بوضع ومراجعة سياسات إدارة المخاطر للشركة. | 1 | 2 | 3 | 4 | 5 |
| 11 | يجب أن يلعب مجلس الإدارة دورا هاما في اختيار و مراقبة و تغيير الرئيس التنفيذي للشركة. | 1 | 2 | 3 | 4 | 5 |
| 12 | يجب على أعضاء مجلس الإدارة حضور برامج تدريبية حول حوكمة الشركات. | 1 | 2 | 3 | 4 | 5 |
| 13 | يجب أن يجتم مجلس الإدارة بالإدارة العليا للشركة كل ثلاث أشهر على الأقل لمناقشة الاستراتيجيات المستقبلية للشركة. | 1 | 2 | 3 | 4 | 5 |
| 14 | يجب أن يقوم مجلس الإدارة بشكل رسمي بتقييم أداء الإدارة العليا. | 1 | 2 | 3 | 4 | 5 |
| 15 | يجب أن يقوم مجلس الإدارة بوضع قواعد لحوكمة الشركات خاصة بالشركة. | 1 | 2 | 3 | 4 | 5 |
| 16 | يجب أن يقوم مجلس الإدارة بوضع سياسات توضح العلاقة مع أصحاب المصالح. | 1 | 2 | 3 | 4 | 5 |
| 17 | يجب أن يقوم مجلس الإدارة بوضع ومراقبة نظام الرقابة الداخلية للشركة. | 1 | 2 | 3 | 4 | 5 |
| 18 | يجب أن يكون لدى الشركة قسم للمراجعة الداخلية. | 1 | 2 | 3 | 4 | 5 |
| 19 | يجب أن يتمتع المرا ع الداخلي بالاستقلالية. | 1 | 2 | 3 | 4 | 5 |
| 20 | يجب أن تكون تبعية المراجع الداخلي للمدير التنفيذي ولجنة المراجعة بالشركة. | 1 | 2 | 3 | 4 | 5 |
| 21 | يجب أن يكون المراجع الداخلي موظف بدوام كامل في الشركة. | 1 | 2 | 3 | 4 | 5 |
| 22 | يجب أن يقدم المراجع الداخلي تقريرا ربع سنوي لمجلس الإدارة وللجنة المراقبة بالشركة | 1 | 2 | 3 | 4 | 5 |

**2- 3 الإفصاح والشفافية بموجب دليل حوكمة الشركات الليبي يتضمن مايلي:**

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | يجب الإفصاح عن التغيرات الهامة في حقوق الملكية. | 1 | 2 | 3 | 4 | 5 |
| 2 | يجب الإفصاح عن النتائج المالية والتشغيلية للشركة. | 1 | 2 | 3 | 4 | 5 |
| 3 | يجب الإفصاح عن أسماء أعضاء مجلس الإ ارة وسيرهم الذاتية ومكافآتهم. | 1 | 2 | 3 | 4 | 5 |
| 4 | يجب الإفصاح عن أسماء أعضاء لجان مجلس الإدارة وسيرهم الذاتية ومكافآتهم. | 1 | 2 | 3 | 4 | 5 |
| 5 | يجب الإفصاح عن مهام واختصاصات لجان مجلس الإدارة. | 1 | 2 | 3 | 4 | 5 |
| 6 | يجب الإفصاح عن ملكية أسهم أعضاء مجلس الإدارة. | 1 | 2 | 3 | 4 | 5 |
| 7 | يجب الإفصاح عن الأغلبية من حملة الأسهم في الشركة. | 1 | 2 | 3 | 4 | 5 |
| 8 | يجب الإفصاح عن حقوق أصحاب المصالح. | 1 | 2 | 3 | 4 | 5 |
| 9 | يجب الإفصاح عن العمليات التشغيلية للشركة للعام القادم. | 1 | 2 | 3 | 4 | 5 |

| 10 | يجب أن يتم الإفصاح عن تفاصيل الصفقات المبرمة مع الأطراف ذات العلاقة. | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 11 | يجب الإفصاح عن الشركات التابعة للشركة. | 1 | 2 | 3 | 4 | 5 |
| 12 | يجب الإفصاح عن التقارير البينيه للشركة. | 1 | 2 | 3 | 4 | 5 |
| 13 | يجب الإفصاح عن التقارير والبرامج الاجتماعية للشركة. | 1 | 2 | 3 | 4 | 5 |
| 14 | يجب الإفصاح عن التقارير المالية الربع سنوية. | 1 | 2 | 3 | 4 | 5 |
| 15 | يجب الإفصاح عن التقرير السنوي لمجلس الإدارة. | 1 | 2 | 3 | 4 | 5 |
| 16 | يجب الإفصاح عن تقرير المراجع الخارجي. | 1 | 2 | 3 | 4 | 5 |
| 17 | يجب الإفصاح عن الأتعاب المدفوعة للمراجع الخارجي. | 1 | 2 | 3 | 4 | 5 |
| 18 | يجب أن تستخدم الشركة موقعها على الانترنت للإفصاح عن جميع معلوماتها. | 1 | 2 | 3 | 4 | 5 |
| 19 | يجب أن تراعي الشركة عدم تسريب أي معلومات قبل النشر. | 1 | 2 | 3 | 4 | 5 |
| 20 | يجب الإفصاح عن مدى التزام الشركة بتطبيق دليل حوكمة الشركات. | 1 | 2 | 3 | 4 | 5 |

**4-2 تعارض المصالح بموجب دليل حوكمة الشركات الليبي يتضمن مايلي:**

| 1 | يجب أن يكون لدى الشركة نظام مكتوب ومعروف لأعضاء مجلس الإدارة و العاملين بشأن تعارض المصالح. | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 2 | لا يجوز لأعضاء مجلس الإدارة و المدراء و العاملين التعامل في أسهم الشركة لمدة محددة تسبق الإعلان عن نتيجة نشاطها. | 1 | 2 | 3 | 4 | 5 |
| 3 | لا يجوز لأعضاء مجلس الإدارة و المدراء و العاملين التعامل في أسهم الشركة لفترة تلي الأحداث المالية المفاجئة حتى يتم الإفصاح عن مثل ذه المعلومات للجمهور. | 1 | 2 | 3 | 4 | 5 |
| 4 | لا يجوز لأعضاء مجلس الإدارة و المدراء الحصول على أي قروض مالية من الشركة. | 1 | 2 | 3 | 4 | 5 |
| 5 | لا يجوز لأعضاء مجلس الإدارة و المدراء أن يكون لهم مصلحة مباشرة أو غير مباشرة في أ عمال وعقود الشركة. | 1 | 2 | 3 | 4 | 5 |
| 6 | يجب أن تضع الشركة قواعد للسلوك المهني تتضمن:<br>o قواعد التعامل مع الشركة.<br>o طرق الإعلان عن السياسات الجديدة.<br>o معايير السلامة والصحة المتبعة.<br>o المعايير المهنية السليمة للتعامل بين المدربين و بينهم وبين من هم خارج الشركة. | | | | | |

**5-2 لجان مجلس الإدارة بموجب دليل حوكمة الشركات الليبي يتضمن مايلي:**

**الرجاء حدد رأيك في درجة أهمية وجود لجان مجلس الإدارة التالية وأهمية مهامها وعملياتها من حيث تحقيقها للأهداف المرجوة من دليل حوكمة الشركات وذلك من خلال وضع دائرة حول الرقم الذي يتناسب مع إجابتك على المقياس 1- 5 على كل فقرة من الفقرات التالية.**

| غير مهم جدا | غير مهم | لا اعرف | مهم | مهم جدا |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

**5-2-1 لجنـــة المراجـــعة:**

| 1 | يجب أن تكون لدى الشركة لجنة للمراجعة. | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 2 | يجب أن تتكون لجنة المراجعة من ثلث أعضاء غير تنفيذيين. | 1 | 2 | 3 | 4 | 5 |
| 3 | يجب أن تتضمن لجنة المراجعة عضو مختص في الشؤون المالية والمحاسبية. | 1 | 2 | 3 | 4 | 5 |
| 4 | يجب أن تجتمع لجنة المراجعة على الأقل مرة كل ثلاث أشهر. | 1 | 2 | 3 | 4 | 5 |
| | **مهـــــام ومسؤوليات لجنة المراجعة يجب أن تتضمن مايلي:** | | | | | |
| 5 | التوصية بتعين المراجع الخارجي وعزله وتحديد أتعابه. | 1 | 2 | 3 | 4 | 5 |
| 6 | مراجعة ملاحظات المراجع الخارجي على القوائم المالية . | 1 | 2 | 3 | 4 | 5 |

| 7 | التأكد من استقلالية المراجع الخارجي. | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 8 | دراسة خطة المراجعة مع المراجع الخارجي والإدلاء بملاحظات عليها. | 1 | 2 | 3 | 4 | 5 |
| 9 | دراسة السياسات المحاسبية المتبعة والإدلاء برأيها وتوصياتها بخصوصها. | 1 | 2 | 3 | 4 | 5 |
| 10 | دراسة ومناقشة خطة المراجعة الداخلية وكفاءتها وقدرتها. | 1 | 2 | 3 | 4 | 5 |
| 11 | التأكد من استقلالية المراجع الداخلي عن إدارة الشركة. | 1 | 2 | 3 | 4 | 5 |
| 12 | دراسة تقارير المراجع الداخلي والإجراءات التصحيحية لها. | 1 | 2 | 3 | 4 | 5 |
| 13 | دراسة القوائم المالية قبل عرضها على مجلس الإدارة وإبداء الرأي والتوصية في شأنها. | 1 | 2 | 3 | 4 | 5 |

**5-2-2 لجنـــة الترشيحات:**

| 1 | يجب أن تكون لدى الشركة لجنة للترشيحات. | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 2 | يجب اختيار أعضاء لجنة الترشيحات من مجلس الإدارة. | 1 | 2 | 3 | 4 | 5 |
| **مهـــام ومسؤوليات لجنة الترشيحات يجب أن تتضمن مايلي:** | | | | | | |
| 3 | التوصية للجمعية العمومية بالترشيح لعضوية مجلس الإدارة. | 1 | 2 | 3 | 4 | 5 |
| 4 | المراجعة السنوية للاحتياجات المطلوبة من المهارات والمؤهلات المناسبة لعضوية مجلس الإدارة. | 1 | 2 | 3 | 4 | 5 |
| 5 | مراجعة هيكل مجلس الإدارة ورفع التوصيات في شأن التغيرات التي يمكن إجراؤها. | 1 | 2 | 3 | 4 | 5 |
| 6 | تحديد جوانب الضعف والقوة في مجلس الإدارة واقتراح معالجتها بما يتفق مع مصلحة الشركة. | 1 | 2 | 3 | 4 | 5 |
| 7 | وضع سياسات واضحة لتعويضات ومكافآت أعضاء مجلس الإدارة. | 1 | 2 | 3 | 4 | 5 |

**5-2-3 لجنـــة المراقبة:**

| 1 | يجب أن تكون لدى الشركة لجنة للمراقبة. | 1 | 2 | 3 | | 5 |
|---|---|---|---|---|---|---|
| 2 | يجب أن تتكون لجنة المراقبة على الأقل من ثلاث أعضاء يتم تعينهم من الجمعية العمومية للشركة. | 1 | 2 | 3 | 4 | 5 |
| 3 | لجنة المراقبة يجب أن تمثل جميع المساهمين بالشركة. | 1 | 2 | 3 | 4 | 5 |
| **مهـــام ومسؤوليات لجنة المراقبة يجب أن تتضمن مايلي:** | | | | | | |
| 4 | مراقبة الشركة والتأكد من سير أعمالها من الناحية القانونية. | 1 | 2 | 3 | 4 | 5 |
| 5 | التأكد من صحة العقود التي تبرمها الشركة وشرعيتها. | 1 | 2 | 3 | 4 | 5 |
| 6 | التأكد من أن جميع الإجراءات المحاسبية بأنها تمت وفقا للقواعد القانونية والتنظيمية. | 1 | 2 | 3 | 4 | 5 |
| 7 | يجوز لأعضاء لجنة المراقبة تفتيش الشركة ومراقبة سير أعمالها في إي وقت. | 1 | 2 | 3 | 4 | 5 |

**الجزء الثالث: الانطباع العام عن العقبات التي تؤثر في تطبيق دليل حوكمة الشركات الليبي.**

**الرجاء وضع دائرة حول الرقم الذي يتناسب مع إجابتكم على المقياس 1- 5 فيما يتعلق بدرجة موافقتكم أو عدم موافقتكم على العقبات التالية التي يمكن أن تؤثر في تطبيق دليل حوكمة الشركات الليبي.**

| موافق تماما | موافق | محايد | غير موافق | غير موافق تماما |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

| 1 | ضعف الإدارة داخل الشركات الليبية. | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 2 | ضعف البيئة القانونية للشركات. | 1 | 2 | 3 | 4 | 5 |
| 3 | قلة المعرفة عن نظام حوكمة الشركات. | 1 | 2 | 3 | 4 | 5 |
| 4 | هيكل الملكية الحالي للشركات. | 1 | 2 | 3 | 4 | 5 |

| 5 | عدم وجود برامج تدريبية لأعضاء مجالس الإدارة عن حوكمة الشركات. | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 6 | تأثير الدولة وتدخلها في الشركات. | 1 | 2 | 3 | 4 | 5 |
| 7 | ضعف مهنة المحاسبة لعدم تبني معايير المحاسبة الدولية. | 1 | 2 | 3 | 4 | 5 |
| 8 | ضعف مهنة المراجعة لعدم تبنى معايير مهنة المراجعة | 1 | 2 | 3 | 4 | 5 |
| 9 | ضعف الوعي الاستثماري لدى جمهور المستثمرين. | 1 | 2 | 3 | 4 | 5 |
| 10 | عدم وجود هيئة للسوق المالي الليبي. | 1 | 2 | 3 | 4 | 5 |
| 11 | التكلفة المالية للتطبيق نظام حوكمة الشركات. | 1 | 2 | 3 | 4 | 5 |
| 12 | عدم وجود معهد لتدريب وأعداد المديرين. | 1 | 2 | 3 | 4 | 5 |
| 13 | محدودية ع د الشركات المسجلة بالسوق المالي الليبي. | 1 | 2 | 3 | 4 | 5 |
| 14 | عدم وجود هيئة أومؤسسة مستقلة لمراقبة تطبيق حوكمة الشركات. | 1 | 2 | 3 | 4 | 5 |
| 15 | ضعف الضغوط الدولية على ليبيا لتطبيق حوكمة الشركات مثل البنك الدولي | 1 | 2 | 3 | 4 | 5 |

أخيرا, إذا كان لدى سيادتكم أي تعليقات أو مقترحات أضافية ترون أنها ذات أهمية لإثراء نتائج هذا البحث فيرجى استخدام المساحة التالية والمخصصة لهذا الغرض.

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**شكرا جزيلا على مشاركتكم في هذه الدراسة**

## Appendix D

### Questions of Semi-Structure Interview (B)
### With Libyan officials and regulators

**Part 1: General Information**

1-Name of Participant (optional)
2-Position
3-Qualification
4-Number of years of experience

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**Part 2: Overview of current corporate governance practices:**

Q1.What is your view about the Libyan corporate governance code issued by LSM?

Q.2.What is your view of the benefits of implementing corporate governance in Libya?

Q3.What is your view of the current state of corporate governance especially in Libyan financial sector? Do you think that listed companies apply the LCGC?

Q4.What is your view of the role played by the audit committee?

1. Improving the implementation of corporate governance and protecting minority shareholders
2. Ensuring the independence of the external auditors.
3. Ensuring the independence of the board members.

Q5.According to interviews results, most listed companies did not have audit committees. In your opinion, what is the reason behind that?

**Part 3: Current obstacles:**

According to interview results with board members of listed companies and the questionnaire results of the perceptions of company staff and Libyan experts, there are 15 obstacles identified by the participants:

| Identified obstacles | | | |
|---|---|---|---|
| 1 | Poor leadership within Libyan companies. | 8 | Weakness of the auditing profession in Libya resulting from a lack of adoption of International Auditing Standards. |
| 2 | Weakness of the legal environment for companies. | 9 | Weak investment awareness among investors. |
| 3 | Lack of knowledge about corporate governance among Libyan companies | 10 | Absence of a Libyan Capital Market Authority. |

| 4 | Current ownership structure of companies. | 11 | Cost of the application of a corporate governance system. |
|---|---|---|---|
| 5 | Lack of training among directors of companies about corporate governance. | 12 | Absence of an Institute of Directors. |
| 6 | Impact of government intervention in companies. | 13 | Limited number of listed companies. |
| 7 | Weakness of the accounting profession in Libya resulting from a lack of adoption of International Accounting Standards. | 14 | Lack of an independent institution or body to monitor corporate governance practices. |
| 15 | Weak international pressure on Libya for the application of corporate governance (e.g. World Bank). | | |

**Looking at these 15 obstacles:**

Q6. Which five obstacles would you consider to be the most significant?

| 1 | |
|---|---|
| 2 | |
| 3 | |
| 4 | |
| 5 | |

Q7 if we can look at each one of five obstacles:

Q7.1.Why do you think this obstacle is significant?
Q7.2.What could be done to overcome this obstacle?

Q8. Are there any other obstacles from the list or from your own experience that are that are important?
If so, what are they and how could they be overcome?

**Part 4: Future development:**

Q9. In your opinion, how can we raise public awareness of corporate governance in Libya?

Q10. In your opinion, who should improve corporate governance practices in Libya and why?

Q11. In your opinion, who should be responsible for monitoring compliance with the LCGC and why?

# Appendix E

## Arabic Version of Questions of Semi-Structured Interview (B)

## أسئلة المقابلات الشخصية

### الجزء الأول : معلومات عامة

1 -- اسم المشارك (اختياري)..............................................................
2 -- الوظيفة \ المنصب..........................................................................
3 -- العلمي المؤهل...........................................................................
4 -- عدد الخبرة سنوات..........................................................................

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### الجزء الثاني : الممارسات الحالية لحوكمة الشركات

س 1 ما هي وجهة نظرك حول دليل حوكمة الشركات الصادر عن السوق المالي الليبي؟

س 2 ما هي وجهة نظرك حول فوائد تطبيق حوكمة الشركات في ليبيا؟

س 3 ما هي وجهة نظرك للحالة الراهنة لتطبيق حوكمة الشركات وخاصة في القطاع المالي الليبي بنوك وشركات تأمين؟ هل تعتقد أن الشركات المدرجة في السوق المالي الليبي تطبق دليل حوكمة الشركات الليبي؟

س 4 ما رأيك في الدور الذي تلعبه لجنة المراجعة؟

- تحسين تنفيذ حوكمة الشركات وحماية الأقلية مساهمي.
- ضمان استقلالية المراجعين الخارجيين.
- ضمان استقلالية أعضاء مجلس الإدارة.

س 5 وفقا لنتائج المقابلات الشخصية مع المصارف وشركات التأمين المدرجة في السوق المالي ، تبن أن معظم الشركات المدرجة لم يكن لديها لجان مراجعة الحسابات. في رأيك ، ما هو السبب ذلك وراء؟

### الجزء الثالث : المعوقات الحالية للتطبيق الحوكمة :

وفقا لنتائج المقابلة الشخصية مع أعضاء مجالس الإدارة للشركات المدرجة ونتائج الاستبيان لمسح تصورات موظفي هذه الشركات وكذلك مراجعين الحسابات الخارجيين وأعضاء هيئة التدريس تبين أن هناك ما يقارب عن 15 معوق تواجه تطبيق هذا النظام في ليبيا وهي:

| المعوقات | | | |
|---|---|---|---|
| 1 | ضعف الإدارة داخل الشركات الليبية. | 2 | ضعف البيئة القانونية للشركات. |
| 3 | قلة المعرفة عن نظام حوكمة الشركات. | 4 | هيكل الملكية الحالي للشركات. |
| 5 | عدم وجود برامج تدريبية لأعضاء مجالس الإدارة عن حوكمة الشركات. | 6 | تأثير الدولة وتدخلها في الشركات. |
| 7 | ضعف مهنة المحاسبة لعدم تبني معايير المحاسبة الدولية. | 8 | ضعف مهنة المراجعة لعدم تبنى معايير مهنة المراجعة. |
| 9 | ضعف الوعي الاستثماري لدى جمهور المستثمرين | 10 | عدم وجود هيئة للسوق المالي الليبي |

| 11 | التكلفة المالية للتطبيق نظام حوكمة الشركات | 12 | عدم وجود معهد لتدريب وأعداد المديرين. |
|---|---|---|---|
| 13 | محدودية عدد الشركات المسجلة بالسوق المالي الليبي | 14 | عدم وجود هيئة أو مؤسسة مستقلة لمراقبة تطبيق حوكمة الشركات. |
| 15 | ضعف الضغوط الدولية على ليبيا لتطبيق حوكمة الشركات مثل البنك الدولي | | |

س 6 بالنظر إلى هذه المعوقات ، حسب اعتقادكم ما هي أهم خمسة معوقات؟

| | |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |

س 7 بالنظر إلى كل معوق على حدة حسب تحديدك ، لماذا يعتبر هذا المعوق مهم؟ و كيف يمكن معالجة هذا المعوق والتغلب عليه حسب وجهة نضرك؟

س 8 هل هناك أية معوقات أخرى ترونها ذات أهمية من القائمة أو من خلال خبرتكم وتجربتكم الخاصة؟

إذا كان الإجابة بنعم ، ما هي وكيف يمكن عليها للتغلب؟

## الجزء 4 : الرؤية المستقبلية

س 9 في رأيك ، كيف يمكننا رفع مستوى الوعي العام لحوكمة الشركات في ليبيا؟

س 10 في رأيك ، ما هي الجهة المسئولة عن تحسين ممارسات حوكمة الشركات في ليبيا ، ولماذا؟

س 11 في رأيك ، ما هي الجهة المسئولة عن مراقبة تطبيق حوكمة الشركات في ليبيا ، ولماذا؟

## Appendix F

**The Libyan Corporate Governance Code**

**Libyan Stock Market**

# THE LIBYN CORPORATE GOVERNANCE CODE

**Issued by the Libyan Stock Market**

**English Translation of the Official Arabic Text**

**Arabic is the official language of the Libyan Stock Market**

**The current version of these Rules can be found at the LSM**

**http://libyastockmarket.com**

**(2007)**

## Introduction

The importance of management emerges from the reality of the evolution of economic activities and the growing role of organizations in various aspects. The organizations have become involved with many internal and external variables, as well as expanding the size of these organizations, increasing competition and increasing the problems they face, which reflected the post of administration to be more difficult and complicated.

The emergence of conflict of interest and tensions between the parties related to the organization, and the extent of their responsibilities to the organization' owners and other stakeholders, such as employees, creditors, suppliers and competitors, led to the need for special mechanisms that define the relationship between all these parties, in order to reduce tensions between these parties and influence organizations' performance. These special mechanisms are called "corporate governance".

**A) The Rights of Shareholders**

Prove to the shareholders of all rights related to the share and, in particular the right to a share of the profits that are to be distributed, and the right to a share of the Company's assets upon liquidation, the right to attend general assemblies, and participation in its deliberations and vote on resolutions, the right to dispose of shares, the right to control of the Governing Council and has filed a responsibility to the members of the Council, the right of inquiry and information request as not to compromise the interests of the company is not inconsistent with the market system and its implementing regulations.

**B) Facilitate the Exercise of Shareholder Rights and Access to Information**

1) The basis system of the company and its internal regulations must include procedures and precautions necessary to ensure that all shareholders of their rights.

2) It must provide all the information that would enable shareholders to exercise their rights to the fullest, so that this information is complete and accurate, and to occur in a systematic manner and on time, on company use the most effective ways to communicate with shareholders, and shall be no discrimination between shareholders with respect to provision of information.

**(C) The Rights of Shareholders Concerning the Meeting of the General Meeting**

(1) The general meeting have right to hold session at least once a year during the four months following the end of the fiscal year of the company.

(2) General meeting held at the invitation of the board of directors and the board of directors shall invite the general meeting of the meeting if requested by the External Auditor or a number of shareholders representing ownership at least 1/5 of capital.

(3) The announcement of the date, the location and the agenda of the general meeting ten days at least in advance. The invitation must be published in the market and the company websites, and in two widely circulated, and should use media technology to connect to the shareholders.

(4) Shareholders must have opportunities to participate effectively and vote in the general meeting meetings. Shareholders must also be informed about the rules governing those meetings and the procedures of voting.

(5) Facilitate a greater participation by shareholders in general meeting, including the selection of appropriate time and place, voting through the international information networks (Internet), and through the systems provided by the market.

(6) The board of directors must take into account when preparation the agenda of the general meeting, the issues that shareholders wishes to be included on the agenda of the board.

(7) Shareholders have right to discuss topics on the agenda of the General Assembly and ask questions about them to the members of the Governing Council and the External Auditor. The board of directors or the External Auditor has to answer shareholders' questions to the extent that does not jeopardize the company's interest to damage.

(8) Subjects presented to the general meeting must be provided with sufficient information to enable shareholders to make their own decisions.

(9) Shareholders must have right to access to the general meeting's minutes by publishing them in newspapers and the market website. Also the company must provide the market with a copy of the minutes of general meeting within fifteen days from the date of conference.

(10) The market must be informed of the results of the general meeting minutes immediately through the publication of the summary of general meeting decisions in two widely circulated daily newspapers, one in Arabic at least.

**D) Voting Rights**

1) The vote is a fundamental right for the shareholder cannot be removed in any way, and the company avoid any action which may hamper the use of the right to vote, and must facilitate the exercise of shareholder right to vote and facilitated, including the use of technological methods and international information networks (internet).

2) In the general meeting, may approach the division of votes when voting to choose members of the board of directors.

3) The shareholder has right to entrust- by written- another shareholder of non-members of the board of directors and non-employees to attend a meeting of the general meeting.

4) The representatives of legal persons - such as investment funds - the disclosure of their policies to vote, and the actual vote in their annual reports, as well as the disclosure of how to deal with any fundamental conflicts of interest that may affect the exercise of fundamental rights of their investments.

**E) The Rights of Shareholders in Dividends**

1) The board of directors must establish a clear policy related to the distribution of profits in the interests of shareholders and the company. Shareholders must be informed of this policy through the general meeting.

2) The general meeting proposed dividend and the date of distribution, and the end of the right to distribution of profits which must be:

A - Two days before the date of distribution in the case of securities deposited centrally.

B - three days before the date of distribution in the case of capital securities are not deposited centrally.

**F) Disclosure and Transparency**

The company should develop policies and procedures of disclosure and supervisory regulations in written form in accordance with the rules determined by the market.

**G) Disclosure in the Report of the Board of Directors**

The report of the board of directors must contain the follows:

1) All what has been applied from the provisions of these general rules.

2) The names of companies that a member of the board of directors has board ship with them.

3) The composition of the management and classification of its members as follows: chairman, member of the board... etc.

4) A brief description of terms of reference of board committees and functions, such as audit committee, nominations and compensation committee, with the names of these committees and their chairmen and members and the number of meetings

5) A statement of compensation and allowances paid to both the head and members of the board of directors and members of the oversight committee and senior executives who received the highest emoluments and allowances in the company.

6) Any penalty or sanction or restriction imposed on the company from any supervisory or regulatory or judicial proceedings.

7) The results of the annual review for the evaluation of the efficiency of internal control procedures of the company.

**H) Board of Directors**

The functions of the board of directors must include the following:

**a-** The adoption of a strategic direction and key objectives of the company and overseeing its implementation, including:

1- Develop a comprehensive strategy for the company and major plans of action and risk management policy, review and guidance.
2- Determine the optimal capital structure of the company strategies and financial goals and adoption of annual budgets.
3- Supervision of major capital expenditure for the company, owning assets and dispose of it.
4- Setting the targeted objectives and monitoring of implementation and overall performance of the company.
5- Periodic review of organizational and functional structures in the company and its adoption.

**b-** To set systems and controls of internal control and supervision, including:

1- Setting a written policy governing conflict of interests, and to address potential conflicts of between executives and shareholders, including misuse of corporate assets and facilities, and abuse resulting from dealings with the people involved.
2- To ensure the integrity of financial systems and accounting, including regulations relating to the preparation of financial reports.
3- Ensure the application of control systems suitable for risk management, and through the identification of public perception of risks that may face to the company and put it transparently.

4- Annual review for the evaluation of the efficiency of internal control procedures in the company.

C- Setting the governance system, including private company does not conflict with the provisions of these rules and the general supervision and control of its effectiveness and modified as needed.

**D-** Setting clear and specific policies, standards and procedures of board membership, and put them into effect after approval by the general meeting.

**E-** Setting a written policy governing the relationship with stakeholders for their protection and preservation of their rights. Particular, this policy must over the following:

1- Procedures regarding to compensate stakeholders in the case of violation of their rights.
2- Procedures for the settlement of complaints or disputes that may arise between the company and stakeholders.
3- Appropriate procedures to establish good relations with customers and suppliers and maintain the confidentiality of Information related to them.
4- Rules of professional conduct for managers and employees of the company to be compliant with the ethical and professional standards governing the relationship between them and stakeholders
5- Company's contribution of workers social activities.
6- The development of policies and procedures which ensure respect for the company's rules and regulations and its commitment to disclose material information to shareholders and creditors and other stakeholders.

**I) the Responsibilities of the Board of Directors**

1) The Board of directors handles all the powers and authorities for controlling the company and remains the ultimate responsibility for the company to the board of directors, even though it established committees or authorized entities or other individuals to do some work. Also the board must avoid issuance of warrants general or unspecified duration.

2) Must specify the responsibilities of the board of directors clearly in the statute of the company.

3) The board of directors must achieve its duty responsibly, and in good faith and seriousness and attention, and its decisions must be based on adequate information from the executive management, or any other reliable source.

4) Member of the board of directors represents all shareholders, and must be bound to do in the interest of the company in general, not the interests of the group represented or voted on his appointment to the board of directors.

5) The board of directors must determine the powers delegated to executive management and must determine the decision making's procedures and duration of the mandate. Executive management must provide the board of directors periodic reports on the practices of the powers delegated.

6) The board of directors must ensure that procedures are in place to inform the new board members related to company activities.

7) The board of directors must ensure that the company provides adequate information on its affairs to all members of the board of directors in general and non-executive directors in particular, in order to carry out their duties and functions efficiently.

8) The board of directors is not allowed to sell the company's assets or deposit, or discharge the Company's debtors from their obligations, unless authorized to do so in the company and the conditions contained therein. If the company did not include provisions in this regard, it is not permissible for the board to conduct referred to only with the permission of the general meeting.

**K) The Composition of the Board of Directors**

The following must be adhered to regarding the composition of the board of directors.

1) The number of board members must be between 3 and11.
2) The general meeting must appoint members of the board of directors for the period stipulated in the statute provided not exceed three years, and may be re-appointment of members of the board of directors unless the statute dictates otherwise.
3) The majority of board members must be from non-executives.
4) Separation between the position of Chairman of the board of directors and any executive function as the company did not put the company's interest to do so.
5) The number of independent board members must be two members or one third of the members of the board, whichever is greater.
6) The statute must show how the board membership be finished and that the general meeting may at any time to isolate all the members of the board of directors or some of them, even if the statute texts otherwise.

7) When the board membership is finished, the company must notify the market immediately with the reasons.

8) The member of the board of directors is not allows to have other board membership for more than three boards at the same time.

**L) The Board of Directors' Committees and Their Independence**

1) In order to perform its functions effectively, the board of directors must form an appropriate number of committees as the company's needs and circumstances.

2) the formation of committees that follow the board of directors must be with general procedures established by the board of directors including determine of committee's task, the duration of action and the powers granted to them during this period.

The committee must inform the board of directors of the findings or decisions with absolute transparency. The board of directors must observe the work of the committees on a regular basis to verify its work assigned to it.

3) A sufficient number of non-executive directors must be appointed on committees in the tasks that may result in cases of conflict of interest, such as checking the integrity of financial reporting and non-financial transactions, reviewing bargains of relevant persons, nomination for board membership, the appointment of executives, and designing of compensation.

**M) The Audit Committee**

a- the board of directors must constitute a committee from non-executive members to be called "audit committee" no fewer than three members, of whom shall be a competent finance and accounting.

b- The board of directors must issue rules for selection of members of the audit committee and their length of tenure, and the committee's method of work.

C - The audit committee' tasks of and its responsibilities include in particular:

1- Supervision of the internal audit department in the company, in order to verify their effectiveness in the implementation of the work and the tasks set by the board of directors.

2- To examine the internal control system and set a written report on its views and recommendations in this regard.

3- Examine the internal audit reports and follow up the implementation of corrective actions to the observations contained therein.

4- Recommendation for the board of directors to appointment and dismissal the external auditors and determine their fees, and taking into account when recommending the appointment to ensure their independence.

5- Follow-up of the external auditors and the adoption of any action outside the scope of audit work assigned to them during their audit work.

6- Review the audit plan with the external auditor and make comments on it. Also review the comments of external auditor on the financial statements and follow up thereon.

7- Reviewing the financial statements before submission to the board of directors and to express an opinion and recommendation in respect thereof.

8- Study followed accounting policies and give opinion and recommendation in respect thereof.

**N) Nominations Committee**

**a.** The board of directors must constitute a committee called "Nominations Committee".

**b.** The general meeting- according to the board of directors- must issue the rules for selection members of the nominations committee and their length of tenure, and the committee's method of work.

**c.** The tasks of the nominations committee and its responsibilities must include the .following:

1- Recommendation for the general meeting regarding nominations to the board of directors membership according to the standards adopted taking into account not nominate any person who had been convicted of a crime involving moral turpitude and the Secretariat.

2- The annual review of needs for appropriate skills for membership of the board of directors and prepare a description of capabilities and qualifications required for membership of the board of directors.

3- Review the structure of the board of directors and make recommendations regarding the changes that can be made.

4- Identify weaknesses and strengths in the board of directors, and propose how to deal with them with in accordance with the company' interests.

5- Annual guarantee of the independence of the board's members and that there is no conflicts of interests if the member is also a member of other boards of directors.

6- Setting clear compensation policies for the board of directors' members and senior executives. These policies must take into account the use of standards that linked compensation to company performance.

**O) Board of Directors Meetings and Its Agenda**

1) The members of the Board of directors have to allocate sufficient time for their responsibilities, including the preparation of meetings of the board and ensure its presence.

2) The board of directors must have regular meetings, by invitation from chairman of the board or his deputy in his absence. The chairman of the board must invite the board to hold an emergency meeting when requested by three of the members.

3) The Chairman of the board of directors has to consult with other members and the chief executive officers (the CEO) when preparing a specific agenda to be presented to the board of directors. The Chairman of the board of directors has to send the agenda accompanied by such documents to the members before the meeting by sufficient time, so they can study issues and prepare well for the meeting. If one or more members object to this agenda, this objection has to be written in the minutes of the meeting.

4) The board of directors must document its meetings and prepare minutes for the discussions and deliberations, including the voting process that has been compiled, and save it to be easy to go back to them.

**P) Board of directors' compensation**

The general meeting has to determine the level and structure of compensation for the board of directors' members. The compensation may be paid as a certain remuneration, allowance for attending meetings, non-cash benefits or a percentage of the company profits. The member allows having two or more of these advantages.

**Q) Internal audit management**

1. The company must have well-set internal control system.

2. The internal audit management must have a full-time responsible who follow the senior management directly.

3. Internal audit's manager must submit a quarterly report to the board of directors and to the audit committee regarding the extent that the company is committed by the laws and rules governing their activities.

4. Issues and objectives of management functions and internal audit terms of reference of a decision of the Board of Directors

**R) Conflict of Interest**

1. The company must have a written system related to conflict of interest. This system has to be known by all board members, managers and employees.

2. It is prohibited for all board members, managers and company's employees to deal with the company's securities for a specified period preceding the announcement of the result before the announcement of the activity or any other information that has a financial nature.

3. The corporation must set rules of professional conduct include:

a - Rules for dealing with the company.

b - What are delegated powers.

c - Methods of the announcement of new policies.

d - Standards of safety and health practices.

e - Sound professional standards for interaction between managers and employees and the outsiders.

4. The company should develop an internal system to monitor the application of the rules of professional conduct.

5. In its dealing with suppliers, the company must choose suppliers who deal with the same level of professionalism and moral pursued.

6. The chairman or members of the board of directors are not allowed to have any directly or indirectly self-interests related to the company's business.

7. The chairman or members of the board of directors and managers are not allowed to participate in any action that would compete with the company or to participate in any activities that the company practices.

8. It is forbidden for the company to provide any kinds of loans to the chairman or any board members. Also it is forbidden for the company to guarantee any loan held by them with others

**S) Control Committee**

The company must have an oversight committee consisting of not less than three members appointed by the general meeting. The committee must have all rights and committed by all duties settled in the Libyan commercial law. The tasks of this committee are:

1. Overseeing the company management's actions in order to ensure that they are legal.
2. Ensure the validity of company contracts and their legitimacy.
3. Review and audit company accountants' books, as prescribed by the law.
4. Ensuring that all accounting procedures in accordance with legal and regulatory rules.
5. The members of the control committee have the right to inspect the company and its work progress.
6. The members of the control committee have the right to ask managers about any information related to any specific operations.
7. The committee has to document its investigations and inquiries in a special archive.

# Appendix G

## Non-Parametric Test: Mann-Whitney Test

**Ranks**

| | TYPE | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| The company should allow voting by mail. | comp | 100 | 98.73 | 9873.00 |
| | expe | 108 | 109.84 | 11863.00 |
| | Total | 208 | | |
| The company should allow voting through the internet. | comp | 100 | 105.29 | 10529.00 |
| | expe | 108 | 103.77 | 11207.00 |
| | Total | 208 | | |
| The company should allow proxy voting. | comp | 100 | 107.19 | 10719.00 |
| | expe | 108 | 102.01 | 11017.00 |
| | Total | 208 | | |
| The company should allow cumulative voting. | comp | 100 | 100.04 | 10003.50 |
| | expe | 108 | 108.63 | 11732.50 |
| | Total | 208 | | |

**Test Statistics** [a]

| | The company should allow voting by mail. | The company should allow voting through the internet. | The company should allow proxy voting | The company should allow cumulative voting |
|---|---|---|---|---|
| Mann-Whitney U | 4823.000 | 5321.000 | 5131.000 | 4953.500 |
| Wilcoxon W | 9873.000 | 11207.000 | 11017.000 | 10003.500 |
| Z | -1.377 | -.192 | -.636 | -1.070 |
| Asymp. Sig. (2-tailed) | .168 | .848 | .525 | .285 |

a. Grouping Variable: TYPE

**Ranks**

| | TYPE | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| Shareholders should obtain relevant information about the company on a timely and regular basis. | comp | 100 | 104.98 | 10498.00 |
| | expe | 108 | 104.06 | 11238.00 |
| | Total | 208 | | |
| Shareholders should have the right to prosecute the board of directors. | comp | 100 | 104.04 | 10404.00 |
| | expe | 108 | 104.93 | 11332.00 |
| | Total | 208 | | |
| Shareholders should have the right to register and transfer ownership of shares | comp | 100 | 104.94 | 10494.50 |
| | expe | 108 | 104.09 | 11241.50 |
| | Total | 208 | | |
| Shareholders should have an equal right to share in the profits. | comp | 100 | 104.17 | 10416.50 |
| | expe | 108 | 104.81 | 11319.50 |
| | Total | 208 | | |
| The company should disclose a dividend policy. | comp | 100 | 106.21 | 10621.50 |
| | expe | 108 | 102.91 | 11114.50 |
| | Total | 208 | | |

**Ranks**

| | TYPE | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| The processes and procedures for the AGM should allow for equitable treatment of all shareholders. | comp | 100 | 106.66 | 10666.00 |
| | expe | 108 | 102 50 | 11070.00 |
| | Total | 208 | | |
| Adequate time should be given to shareholders for asking questions and raising issues at the AGM. | comp | 100 | 113.61 | 11360.50 |
| | expe | 108 | 96.07 | 10375.50 |
| | Total | 208 | | |
| The dates and locations of AGM should be carefully chosen in order to maximise attendance of shareholders. | comp | 100 | 111.54 | 11154.00 |
| | expe | 108 | 97 98 | 10582.00 |
| | Total | 208 | | |
| Information on each board member candidate and his/her curriculum | comp | 100 | 107 01 | 10701.00 |
| | expe | 108 | 102.18 | 11035 00 |
| | Total | 208 | | |
| Information on each nomination and audit committee member | comp | 100 | 102 65 | 10265.00 |
| | expe | 108 | 106.21 | 11471 00 |
| | Total | 208 | | |
| Information, qualifications and expected fees of an external auditor should be | comp | 100 | 104.44 | 10444.00 |
| | expe | 108 | 104.56 | 11292.00 |
| | Total | 208 | | |
| Related-party transactions should be fully discussed at the | comp | 100 | 109.33 | 10933.50 |
| | expe | 108 | 100.02 | 10802.50 |
| | Total | 208 | | |
| The board should submit an annual report to shareholders including: | comp | 100 | 107.39 | 10739.00 |
| | expe | 108 | 101 82 | 10997.00 |
| | Total | 208 | | |
| The minutes of the AGM should be disclosed through its publication in | comp | 100 | 114.43 | 11442.50 |
| | expe | 108 | 95.31 | 10293 50 |
| | Total | 208 | | |

**Test Statistics[a]**

| | The processes and procedures for the AGM should allow for equitable treatment of all shareholders | Adequate time should be given to shareholders for asking questions and raising issues at the AGM | The dates and locations of AGM should be carefully chosen in order to maximise attendance of shareholders | Information on each board member candidate and his/her curriculum vitae should be disclosed before the AGM | Information on each nomination and audit committee member candidate and his/her curriculum vitae should be disclosed before the AGM | Information, qualifications and expected fees of an external auditor should be disclosed before the AGM | Related-party transactions should be fully discussed at the AGM | The board should submit an annual report to shareholders including: | The minutes of the AGM should be disclosed through its publication in newspapers and through the Stock Exchange |
|---|---|---|---|---|---|---|---|---|---|
| Mann-Whitney U | 5184.000 | 4489.500 | 4696 000 | 5149.000 | 5215.000 | 5394 000 | 4916 500 | 5111.000 | 4407.500 |
| Wilcoxon W | 1070.000 | 0375.500 | 0582.000 | 1035.000 | 10265.000 | 0444.000 | 10802.500 | 0997.000 | 10293.500 |
| Z | -.554 | -2 309 | -1.808 | -.641 | -.469 | - 015 | -1 180 | - 745 | -2.400 |
| Asymp. Sig (2-taile | .579 | .021 | .071 | .522 | .639 | .988 | .238 | .456 | .016 |

a. Grouping Variable: TYPE

**Ranks**

| | TYPE | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| The size of the board of directors should not be less than three members and not more than eleven. | comp | 100 | 104.00 | 10400.00 |
| | expe | 108 | 104.96 | 11336.00 |
| | Total | 208 | | |
| The majority of the board should be non-executive directors. | comp | 100 | 104.32 | 10431.50 |
| | expe | 108 | 104.67 | 11304.50 |
| | Total | 208 | | |
| There should be separation between the post of chairman and CEO. | comp | 100 | 95.07 | 9507.00 |
| | expe | 108 | 113.23 | 12229.00 |
| | Total | 208 | | |
| Each member of the board may not sit on more than three additional | comp | 100 | 92.76 | 9276.00 |
| | expe | 108 | 115.37 | 12460.00 |
| | Total | 208 | | |
| Most board members should have financial and technical skills to | comp | 100 | 95.58 | 9558.00 |
| | expe | 108 | 112.76 | 12178.00 |
| | Total | 208 | | |
| Newly-assigned members of the board should receive financial | comp | 100 | 95.42 | 9542.00 |
| | expe | 108 | 112.91 | 12194.00 |
| | Total | 208 | | |

**Test Statistics[a]**

| | The size of the board of directors should not be less than three members and not more than eleven. | The majority of the board should be non-executive directors. | There should be separation between the post of chairman and CEO. | Each member of the board may not sit on more than three additional boards at the same time. | Most board members should have financial and technical skills to understand company's work and its financial reports. | Newly-assigned members of the board should receive financial and non-financial information about the company. |
|---|---|---|---|---|---|---|
| Mann-Whitney U | 5350.000 | 5381.500 | 4457.000 | 4226.000 | 4508.000 | 4492.000 |
| Wilcoxon W | 10400.000 | 10431.500 | 9507.000 | 9276.000 | 9558.000 | 9542.000 |
| Z | -.125 | -.045 | -2.345 | -2.906 | -2.342 | -2.354 |
| Asymp. Sig. (2-tailed) | .901 | .964 | .019 | .004 | .019 | .019 |

a. Grouping Variable: TYPE

**Ranks**

| | TYPE | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| The company should have written rules of the role and responsibility of the board. | comp | 100 | 97.14 | 9713.50 |
| | expe | 108 | 111.32 | 12022.50 |
| | Total | 208 | | |
| The board should shape and review the operational and financial plans and objectives of the company annually | comp | 100 | 96.26 | 9626.00 |
| | expe | 108 | 112.13 | 12110.00 |
| | Total | 208 | | |
| The board should review the company's internal policies periodically. | comp | 100 | 99.59 | 9959.00 |
| | expe | 108 | 109.05 | 11777.00 |
| | Total | 208 | | |
| The board should shape and review the company's risk management | comp | 100 | 98.20 | 9820.00 |
| | expe | 108 | 110.33 | 11916.00 |
| | Total | 208 | | |
| The board should play an important role in selecting, monitoring, and | comp | 100 | 100.22 | 10022.00 |
| | expe | 108 | 108.46 | 11714.00 |
| | Total | 208 | | |
| The board of directors should attend director training programmes | comp | 100 | 108.15 | 10815.00 |
| | expe | 108 | 101.12 | 10921.00 |
| | Total | 208 | | |
| The board and top management should meet at least quarterly to | comp | 100 | 98.13 | 9813.00 |
| | expe | 108 | 110.40 | 11923.00 |
| | Total | 208 | | |
| The board should formally evaluate performance of top management. | comp | 100 | 100.41 | 10041.00 |
| | expe | 108 | 108.29 | 11695.00 |
| | Total | 208 | | |
| The board should set corporate governance rules for the company | comp | 100 | 100.75 | 10075.50 |
| | expe | 108 | 107.97 | 11660.50 |
| | Total | 208 | | |
| The board should set written policies clarifying the relationship with | comp | 100 | 102.11 | 10210.50 |
| | expe | 108 | 106.72 | 11525.50 |
| | Total | 208 | | |
| The board should set and monitor the system of internal control. | comp | 100 | 105.83 | 10583.50 |
| | expe | 108 | 103.26 | 11152.50 |
| | Total | 208 | | |

**Test Statistics**

| | The company should have written les of th role and sponsib ty of the board. | he boar should hape an eview th peration and financial lans an bjectives of the company annually. | he boar should eview th company interna policies eriodica y. | he boar should hape an eview th ompany' risk managem ent policies. | he boar should play an mportan role in electing nonitori g, and eplacing he CEO | he boar directo should attend director training rogramn s about corporate overnan e. | he boar and top managem nt shoul meet at least uarterly discuss the ompany' future strategy. | he boar should formally evaluate erforma e of top managem ent. | he boar hould se corporate overnan rules fo the company | he boar should et writte policies larifying the elations ip with takehol ers. | he boar hould se and onitor th ystem o internal control |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mann-Whitne | 63.500 | 76.000 | 09.000 | 70.000 | 72.000 | 35.000 | 63.000 | 91.000 | 25.500 | 60.500 | 66.500 |
| Wilcoxon W | 13.500 | 26.000 | 59.000 | 20.000 | 22.000 | 21.000 | 13.000 | 41.000 | 75.500 | 10.500 | 52.500 |
| Z | -1.889 | -2.104 | -1.238 | -1.587 | -1.065 | -.905 | -1.610 | -1.027 | -.932 | -.605 | -.339 |
| Asymp. Sig. ( | .059 | .035 | .216 | .112 | .287 | .365 | .107 | .305 | .351 | .545 | .735 |

a Grouping Variable: TYPE

**Ranks**

| | TYPE | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| The company should have an internal audit department. | comp | 100 | 96.93 | 9693.50 |
| | expe | 108 | 111.50 | 12042.50 |
| | Total | 208 | | |
| The internal auditor should be independent. | comp | 100 | 99.79 | 9978.50 |
| | expe | 108 | 108.87 | 11757.50 |
| | Total | 208 | | |
| The internal auditor should be supervised by the CEO and audit committee. | comp | 100 | 99.63 | 9962.50 |
| | expe | 108 | 109.01 | 11773.50 |
| | Total | 208 | | |
| The internal auditor should be a full-time employee. | comp | 100 | 92.32 | 9231.50 |
| | expe | 108 | 115.78 | 12504.50 |
| | Total | 208 | | |
| The internal auditor should submit a quarterly report to the board and | comp | 100 | 94.17 | 9416.50 |
| | expe | 108 | 114.07 | 12319.50 |
| | Total | 208 | | |

**Test Statistics** [a]

| | The company should have an internal audit departme nt. | The internal auditor should be independ ent. | The internal auditor should be supervised by the CEO and audit committee. | The internal auditor should be a full-time employee. | The internal auditor should submit a quarterly report to the board and control committee. |
|---|---|---|---|---|---|
| Mann-Whitney U | 4643.500 | 4928.500 | 4912.500 | 4181.500 | 4366.500 |
| Wilcoxon W | 9693.500 | 9978.500 | 9962.500 | 9231.500 | 9416.500 |
| Z | -1.984 | -1.205 | -1.189 | -3.045 | -2.654 |
| Asymp. Sig. (2-tailed) | .047 | .228 | .234 | .002 | .008 |

a. Grouping Variable: TYPE

**Test Statistics**

| | sclosu shoul nclude ormati ncerni gnifica anges mersh | isclos shou nclude orma n on nanci and eratii esults | sclosu shoul nclude ames ckgro and th munei ons of board ember | sclosu should nclude ames ckgro and th muner ons of board mmitt s. | isclos shou nclude nctio d tas f boar ommit es. | sclosu should nclude ares the embe of the board | isclos shou nclude najorit areho s of t mpan | isclos shou nclude orma on th ghts d takeho ers. | sclosu should nclude recas of the mpan eratio for the coming year. | sclosu should nclude related party nsacti n deta | sclosu should nclude orpora group ructure | isclos shou nclude mpan vironi ental eports | isclos shoul nclude mpar social olicie and rogran mes. | sclosu should nclude uarter nanci eports | sclosu should lude t board's annua report. | sclosu should nclude xterna uditor' report. | sclosu should nclude es pai extern uditors | The mpan shoul use its bsite isclos all orma n. | The mpan ould n ak an ormati before ublicat n. | sclosu should nclude ormati bout th mpany plicati of the Libyan orpora verna Code |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mann-Wh | 9.500 | .000 | 3.000 | 7.000 | .000 | 5.500 | .000 | .500 | 3.000 | 7.500 | 7.500 | 2.000 | .000 | 4.500 | 6.500 | 6.500 | 8.000 | .000 | 9.500 | 3.000 |
| Wilcoxon | 5.500 | .000 | 9.000 | 7.000 | .000 | 5.500 | .000 | .500 | 3.000 | 7.500 | 3 500 | .000 | .000 | 4 500 | 2.500 | 6.500 | 8.000 | .000 | 5.500 | 3.000 |
| Z | -.306 | -.867 | -.043 | -.107 | -.165 | -.453 | -.498 | -.082 | 1.270 | -.958 | -.133 | -.869 | -.074 | -.616 | 1.094 | 1.703 | -.609 | -.748 | -.151 | -.668 |
| Asymp S | .760 | 386 | 966 | .915 | 869 | 650 | .619 | .935 | .204 | .338 | .894 | .385 | .941 | .538 | 274 | .088 | .542 | .454 | .880 | .504 |

a Grouping Variable: TYPE

**Test Statistics[a]**

| | Disclosure should include information on the rights of stakeholders | The company should have clear written regulations for the directors and staff regarding conflict of interests | Board members, directors and staff may not trade company stocks for a specified period before the disclosure of company financial statements. | Board members, directors and staff may not trade company stocks after sudden financial events until such information is disclosed to the public | Board members and directors may not obtain any loan from the company | Board members and directors may not have direct or indirect interests in activities in which the company is involved. | The company should set up professional code of conduct, including· |
|---|---|---|---|---|---|---|---|
| Mann-Whitney U | 5366.500 | 5003 000 | 5130.500 | 5073.000 | 4516 500 | 5366.000 | 5262.500 |
| Wilcoxon W | 10416 500 | 10889.000 | 10180 500 | 10123.000 | 9566.500 | 10416.000 | 10312 500 |
| Z | -.082 | -.995 | -.659 | -.801 | -2 103 | -.082 | -.334 |
| Asymp Sig (2-tailed) | .935 | .320 | .510 | .423 | .035 | .935 | .738 |

a Grouping Variable· TYPE

**Ranks**

| | TYPE | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| Disclosure should include information on the rights of stakeholders. | comp | 100 | 104 17 | 10416 50 |
| | expe | 108 | 104 81 | 11319.50 |
| | Total | 208 | | |
| The company should have clear written regulations for the directors and staff regarding conflict of interests. | comp | 100 | 108.47 | 10847.00 |
| | expe | 108 | 100.82 | 10889.00 |
| | Total | 208 | | |
| Board members, directors and staff may not trade company stocks for a specified period before the disclosure of company financial statements. | comp | 100 | 101.81 | 10180 50 |
| | expe | 108 | 107.00 | 11555.50 |
| | Total | 208 | | |
| Board members, directors and staff may not trade company stocks after sudden financial | comp | 100 | 101.23 | 10123.00 |
| | expe | 108 | 107.53 | 11613.00 |
| | Total | 208 | | |
| Board members and directors may not obtain any loan from the company | comp | 100 | 95 67 | 9566.50 |
| | expe | 108 | 112.68 | 12169 50 |
| | Total | 208 | | |
| Board members and directors may not have direct or indirect interests in activities in which the | comp | 100 | 104.16 | 10416 00 |
| | expe | 108 | 104.81 | 11320 00 |
| | Total | 208 | | |
| The company should set up professional code of conduct, including. | comp | 100 | 103.13 | 10312 50 |
| | expe | 108 | 105 77 | 11423 50 |
| | Total | 208 | | |

**Ranks**

| | TYPE | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| The company should have an audit committee. | comp | 100 | 111.54 | 11154.00 |
| | expe | 108 | 97.98 | 10582.00 |
| | Total | 208 | | |
| The audit committee should consist of three non-executive directors elected by the board. | comp | 100 | 106.07 | 10607.50 |
| | expe | 108 | 103.04 | 11128.50 |
| | Total | 208 | | |
| The audit committee should include a member with accounting and finance expertise. | comp | 100 | 106.10 | 10609.50 |
| | expe | 108 | 103.02 | 11126.50 |
| | Total | 208 | | |
| The audit committee should meet at least once every 3 months. | comp | 100 | 100.30 | 10030.00 |
| | expe | 108 | 108.39 | 11706.00 |
| | Total | 208 | | |
| Recommending the appointment and removal of the external auditor and | comp | 100 | 101.29 | 10129.50 |
| | expe | 108 | 107.47 | 11606 50 |
| | Total | 208 | | |
| Reviewing the external auditor's comments on financial statement. | comp | 100 | 99.55 | 9955.00 |
| | expe | 108 | 109.08 | 11781.00 |
| | Total | 208 | | |
| Reviewing the independence of the external auditor. | comp | 100 | 106.75 | 10674.50 |
| | expe | 108 | 102.42 | 11061.50 |
| | Total | 208 | | |
| Reviewing the external auditor's plan and making suggestions. | comp | 100 | 97.43 | 9743.00 |
| | expe | 108 | 111.05 | 11993.00 |
| | Total | 208 | | |
| Reviewing the company's accounting policies and giving opinions and | comp | 100 | 98.27 | 9827.00 |
| | expe | 108 | 110.27 | 11909.00 |
| | Total | 208 | | |
| Assessing the efficiency of the financial manager and other financial staff. | comp | 100 | 99.26 | 9926.50 |
| | expe | 108 | 109.35 | 11809.50 |
| | Total | 208 | | |
| Reviewing and discussing the internal audit department plan | comp | 100 | 108.60 | 10860.00 |
| | expe | 108 | 100.70 | 10876.00 |
| | Total | 208 | | |
| Reviewing the independence of the internal auditor. | comp | 100 | 102.82 | 10282.00 |
| | expe | 108 | 106.06 | 11454.00 |
| | Total | 208 | | |
| Reviewing the internal auditor's reports and any corrective measures | comp | 100 | 102.43 | 10243.50 |
| | expe | 108 | 106.41 | 11492.50 |
| | Total | 208 | | |

**Test Statisfics**

| | The company should have an audit ommittee | he audit ommittee should onsist of three on-executive directors lected by he board | The audit ommittee should nclude a member with ccounting and finance xpertise | The audit ommittee should meet at east once every 3 months | ecommending the ppointment and emoval of the external uditor and the entification of fees | eviewing the external auditor's omments on financial tatement | eviewing the dependence of the external auditor. | Reviewing the external auditor's plan and making uggestions | eviewing the ompany's ccounting policies nd giving opinions and ecommendations. | ssessing the fficiency of the financial manager nd other financial staff. | eviewing and iscussing e internal audit epartment plan and its fficiency | eviewing the dependence of the internal auditor. | eviewing e internal auditor's reports and any orrective neasures taken. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mann-Whitne | 96.000 | 42.500 | 40.500 | 80.000 | 79.500 | 05.000 | 75.500 | 93.000 | 77.000 | 76.500 | 90.000 | 32.000 | 93.500 |
| Wilcoxon W | 82.000 | 28.500 | 26.500 | 30.000 | 29.500 | 55.000 | 61.500 | 43.000 | 27.000 | 26.500 | 76.000 | 82.000 | 43.500 |
| Z | -1.808 | -.384 | -.424 | -1.058 | -.784 | -1.284 | -.574 | -1.749 | -1.573 | -1.335 | -1.031 | -.433 | -.525 |
| Asymp. Sig ( | .071 | .701 | .672 | .290 | .433 | .199 | .566 | .080 | .116 | .182 | .302 | .665 | .600 |

a Grouping Variable: TYPE

**Ranks**

| | TYPE | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| *The board should have a* nomination committee. | comp | 100 | 101.97 | 10197.50 |
| | expe | 108 | 106.84 | 11538.50 |
| | Total | 208 | | |
| *The nomination* committee members should be elected by the board. | comp | 100 | 95.03 | 9502.50 |
| | expe | 108 | 113.27 | 12233.50 |
| | Total | 208 | | |
| Recommending candidates for membership of the board to the AGM. | comp | 100 | 100.53 | 10053.00 |
| | expe | 108 | 108.18 | 11683.00 |
| | Total | 208 | | |
| Reviewing skills and qualifications required for the board membership. | comp | 100 | 104.50 | 10449.50 |
| | expe | 108 | 104.50 | 11286.50 |
| | Total | 208 | | |
| Reviewing the board structure and making recommendations of | comp | 100 | 101.50 | 10150.50 |
| | expe | 108 | 107.27 | 11585.50 |
| | Total | 208 | | |
| Defining the board's weaknesses and strengths and proposing | comp | 100 | 104.77 | 10477.00 |
| | expe | 108 | 104.25 | 11259.00 |
| | Total | 208 | | |
| Setting clear policies of compensation and remuneration for board | comp | 100 | 98.15 | 9815.00 |
| | expe | 108 | 110.38 | 11921.00 |
| | Total | 208 | | |

**Test Statistics[a]**

| | The board should have a nomination committee. | The nomination committee members should be elected by the board. | Recommending candidates for membership of the board to the AGM. | Reviewing skills and qualifications required for the board membership. | Reviewing the board structure and making recommendations of possible changes | Defining the board's weaknesses and strengths and proposing remedies in accordance with company interests. | Setting clear policies of compensation and remuneration for board members and senior executives. |
|---|---|---|---|---|---|---|---|
| Mann-Whitney U | 5147.500 | 4452.500 | 5003.000 | 5399.500 | 5100.500 | 5373.000 | 4765.000 |
| Wilcoxon W | 10197.500 | 9502.500 | 10053.000 | 10449.500 | 10150.500 | 11259.000 | 9815.000 |
| Z | -.617 | -2.253 | -1.002 | -.001 | -.737 | -.066 | -1.538 |
| Asymp. Sig. (2-tailed | .537 | .024 | .316 | .999 | .461 | .947 | .124 |

a. Grouping Variable: TYPE

**Ranks**

| | TYPE | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| The company should have a control committee. | comp | 100 | 100.07 | 10007.00 |
| | expe | 108 | 108.60 | 11729.00 |
| | Total | 208 | | |
| The control committee should consist of at least three members appointed by the AGM. | comp | 100 | 95.46 | 9546.50 |
| | expe | 108 | 112.87 | 12189.50 |
| | Total | 208 | | |
| The control committee should represent all shareholders of the company. | comp | 100 | 98.97 | 9897.00 |
| | expe | 108 | 109.62 | 11839.00 |
| | Total | 208 | | |
| Controlling the company administration and verification of its legal progress | comp | 100 | 109.18 | 10918.00 |
| | expe | 108 | 100.17 | 10818.00 |
| | Total | 208 | | |
| Verification of the validity and legitimacy of contracts conducted by the company | comp | 100 | 105.82 | 10582.00 |
| | expe | 108 | 103.28 | 11154.00 |
| | Total | 208 | | |
| Ensuring that all the accounting procedures are in accordance with legal and regulatory rules | comp | 100 | 104.32 | 10432.00 |
| | expe | 108 | 104.67 | 11304.00 |
| | Total | 208 | | |
| Permitting committee members at any time to inspect the company and its work progress | comp | 100 | 102.13 | 10212.50 |
| | expe | 108 | 106.70 | 11523.50 |
| | Total | 208 | | |

**Test Statistics**[a]

| | The company should have a control committee. | The control committee should consist of at least three members appointed by the AGM. | The control committee should represent all shareholders of the company. | Controlling the company administration and verification of its legal progress. | Verification of the validity and legitimacy of contracts conducted by the company. | Ensuring that all the accounting procedures are in accordance with legal and regulatory rules. | Permitting committee members at any time to inspect the company and its work progress. |
|---|---|---|---|---|---|---|---|
| Mann-Whitney U | 4957.000 | 4496.500 | 4847.000 | 4932.000 | 5268.000 | 5382.000 | 5162.500 |
| Wilcoxon W | 10007.000 | 9546.500 | 9897.000 | 10818.000 | 11154.000 | 10432.000 | 10212.500 |
| Z | -1.129 | -2.231 | -1.353 | -1.200 | -.343 | -.046 | -.598 |
| Asymp. Sig. (2-tailed) | .259 | .026 | .176 | .230 | .732 | .963 | .550 |

a. Grouping Variable: TYPE

**Ranks**

| | TYPE | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| Poor leadership within Libyan companies | comp | 100 | 107.88 | 10787.50 |
| | expe | 108 | 101.38 | 10948.50 |
| | Total | 208 | | |
| Weakness of the legal environment for companies. | comp | 100 | 103.64 | 10364.50 |
| | expe | 108 | 105.29 | 11371.50 |
| | Total | 208 | | |
| Lack of knowledge about corporate governance among the Libyan companies | comp | 100 | 105.10 | 10509.50 |
| | expe | 108 | 103 95 | 11226.50 |
| | Total | 208 | | |
| Current ownership structure of companies. | comp | 100 | 107.91 | 10791.00 |
| | expe | 108 | 101.34 | 10945.00 |
| | Total | 208 | | |
| Lack of training among directors of companies about corporate | comp | 100 | 104.54 | 10453.50 |
| | expe | 108 | 104 47 | 11282 50 |
| | Total | 208 | | |
| Impact of government intervention in companies. | comp | 100 | 108.28 | 10828.00 |
| | expe | 108 | 101.00 | 10908 00 |
| | Total | 208 | | |
| Weakness of the accounting profession in Libya resulting from a lack | comp | 100 | 107.45 | 10745 00 |
| | expe | 108 | 101 77 | 10991.00 |
| | Total | 208 | | |
| Weakness of the auditing profession in Libya resulting from a lack of | comp | 100 | 105.46 | 10546.50 |
| | expe | 108 | 103.61 | 11189 50 |
| | Total | 208 | | |
| Weak investment awareness among investors | comp | 100 | 106.31 | 10631 00 |
| | expe | 108 | 102.82 | 11105 00 |
| | Total | 208 | | |
| Absence of a Libyan Capital Market Authority. | comp | 100 | 105.32 | 10531.50 |
| | expe | 108 | 103.75 | 11204.50 |
| | Total | 208 | | |
| Cost of application corporate governance system. | comp | 100 | 109.66 | 10966.00 |
| | expe | 108 | 99.72 | 10770.00 |
| | Total | 208 | | |
| Absence of Institute of Directors. | comp | 100 | 101.00 | 10100.00 |
| | expe | 108 | 107 74 | 11636.00 |
| | Total | 208 | | |
| Limited number of listed companies | comp | 100 | 106.07 | 10607.50 |
| | expe | 108 | 103.04 | 11128 50 |
| | Total | 208 | | |
| Lack of an independent institution or body to monitor corporate | comp | 100 | 108 32 | 10832.50 |
| | expe | 108 | 100.96 | 10903.50 |
| | Total | 208 | | |
| Weak international pressure on Libya for the application of corporate | comp | 100 | 103.64 | 10364.00 |
| | expe | 108 | 105.30 | 11372.00 |
| | Total | 208 | | |

**Test Statistics**

| | Poor eadership within Libyan ompanies | Weakness f the legal environment for companies | Lack of knowledge about corporate governance among the Libyan companies | Current ownership structure companies. | Lack of training among directors companies about corporate governance | mpact of government intervention in companies | Weakness of the accounting profession in Libya resulting from a lack f adoption of international accounting Standards | Weakness of the auditing profession in Libya resulting from a lack f adoption of international Auditing Standards | Weak investment awareness among investors | bsence of a Libyan Capital Market Authority | Cost of application corporate governance system | bsence of nstitute of Directors | Limited number of listed companies | ack of an independent nstitution r body to monitor corporate governance practices | Weak international pressure on Libya for the application of corporate governance (World Bank) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mann-Whitney | 62 500 | 314 500 | 340 500 | 059 000 | 396 500 | 022 000 | 105 000 | 303 500 | 219 000 | 318 500 | 884 000 | 050 000 | 242 500 | 017 500 | 314 000 |
| Wilcoxon W | 48 500 | 364 500 | 226 500 | 945 000 | 282 500 | 08 000 | 991 000 | 189 500 | 105 000 | 204 500 | 770 000 | 100 000 | 28 500 | 03 500 | 364 000 |
| Z | - 833 | - 205 | - 145 | - 821 | - 008 | - 923 | - 710 | - 233 | - 446 | - 196 | -1 240 | - 854 | - 387 | - 930 | -.207 |
| Asymp Sig (2 | 405 | 838 | 885 | 412 | 993 | 356 | 478 | 816 | 655 | 844 | 215 | 393 | 699 | .352 | 836 |

a Grouping Variable TYPE