

**Structure and Responsibilities of
Corporate Boards in Libyan
Commercial Banks: Insights from
Institutional Theory.**

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Abstract:

Research Purpose: This research uses a new institutional sociology perspective to investigate how different types of institutional pressures have influenced structure and responsibilities of corporate boards in Libyan commercial banks (LCBs).

Design/Methodology/Approach: For this purpose, two pieces of empirical work, semi-structured interviews and a questionnaire survey were conducted respectively. The interviews were held with a number of stakeholders to ascertain their views on corporate governance in LCBs. A questionnaire survey were conducted to examine whether the ownership structure or any other factors have affected the governance practices of these banks and whether certain features have been institutionalized.

Research Findings: The findings illustrate that different types of institutional pressures are shaping the current corporate boards practices and reforms in LCBs, especially coercive pressure from the Libyan Bank Law requirements and the Central Bank of Libya (CBL). The influences of these institutional pressures, to some extent, are deferent between LCBs according to the ownership structure, making some differences in responding to institutional pressures, and thus in corporate boards practices.

Research limitations: the limitations are concerned with the research methods used in this research. For example, some participants in the interviews or questionnaire survey may have misinterpreted or not understood some of the questions because they are not familiar with them and do not want to show their lack of knowledge and thus they

may not provide realistic answers. Moreover, in such research methods, the analysis of respondents' answers depends, to some extent, on the researcher's perspective and assessment, which can be more impressionistic and subjective. All these limitations mentioned above must be taken into account when using these findings.

Research Implications: This research provides empirical evidence for understanding the New Institutional Sociology perspective of how different types of institutional pressures (coercive, normative and mimetic pressures) influence and shape the board practices in LCBs. This research suggests new avenues of research by focusing more on the impact of institutional pressures over the institutionalizing process of board practices and corporate governance practices.

Practical Implications: This research helps the CBL as a regulator and policy maker of LCBs by identifying institutional factors affecting corporate governance practices in LCBs, and suggest how these practices can be improved.

Originality/Value: The main contribution made by this research is the use of a new institutional sociology perspective as a theoretical framework to interpret the findings, since such a perspective has not been used frequently by researchers in the corporate governance literature. In this regard, the research provides a general understanding of how different types of institutional pressures (coercive, normative and mimetic pressures) influence and shape the current practices of corporate governance in LCBs. Moreover, it provides evidence about whether such institutional pressures influence LCBs similarly or differently according to their different ownership structure.

Keywords: Corporate Governance, corporate board, a new institutional sociology perspective theory, Libya, Libyan Banks.

1. Introduction:

Corporate governance is necessary to guarantee a sound financial system and, consequently, a country's economic development (BCBS, 2006). Board of directors is one of the most important mechanisms for adopting and implementing good practice of corporate governance (Hussain and Mallin, 2003). Since the corporate scandals in 1990s, corporate governance reforms across the world have paid especial attention to issues related to the board of directors by various organisations, regulators and researchers around the world (Mallin, 2013). The debate in literature has focused on aspects of the board of directors such as board structure, and role of the board (Andres, et al., 2005).

Corporate governance in Libya did not receive any attention until 2006 when the Central Bank of Libya (CBL) issued its Corporate Governance Guideline for Boards of Directors of Libyan Commercial Banks (LCBs) as voluntary guideline. Although, the guideline was an initial step and

contain general guidance to improve corporate governance practices in Libyan commercial banks (LCBs), it was ignored by the LCBs (Zagoub, 2011).

This Guideline was developed and replaced by the Corporate Governance Code for the Banking Sector (2010), which mandatorily apply in 2011 (CBL, 2010). The Code aims to ensure that the LCBs comply with sound corporate governance practices that would contribute to the protection of shareholders and stakeholders.

However, corporate governance literature has paid very little attention to issues of governance in Libya. In particular, it was not clear how the effective of board in LCBs and what most influence factors in forming boards practices in LCBs. The academic research has not been focusing on the boards practices in LCBs from any theoretical perspective. (Zagoub, 2011).

This research uses a new institutional sociology (NIS) theoretical framework to iden-

tify and analyze the influences of external institutional pressures on current corporate boards' practices in LCBs. In particular, it use NIS theoretical approach to determine and explain the influences of the institutional pressures (regulation, cultural and social factors) on current corporate boards' practices in LCBs.

The Libyan context and external influences such as economic, social, legal and political factors all play an important role in the Libyan society, and therefore, such factors are likely to be an important to the corporate governance practices of LCBs. In this regard, Monks and Minow (2012) noted that national culture is a powerful force for the institutionalization of corporate governance practices.

Mallin (2015) also explained that the economic, social, legal and political systems of a particular country affect the development and institutionalization of corporate governance concepts and practices in that country. Accordingly, NIS is an appropriate theoretical framework in such a context

and is appropriate for the research objectives. More-over, NIS can contribute to provide an alternative perspective about how institutional pressures influence the implementation of corporate governance systems in organizations.

This paper organizes as follows. In the next section, we outline the features of the Libyan Commercial Banks background. We then provide an overview of a new institutional sociology theoretical framework. Section 4 outline the research method. While section 5 analyses the findings of empirical work. Section 6 concludes the major findings from the empirical work, which provides a picture on the structure and role of corporate boards in LCBs.

2. Corporate Governance of Libyan Banks:

The Libyan Banking sector has fifteen commercial banks. These banks can be categorized into three types of ownership structure: state-owned banks; mixed ownership; and private banks. The mixed ownership is

between the CBL or the Libyan government, domestic investors (private sector), and foreign investors. Although privatization of state owned banks process has taken place in 2007, state owned banks still dominate the Libyan banking sector and account for more than 85% of total banks' assets (Dempsey, 2013).

The Bank Law: the LBCs are governed and regulated by the Bank Law (2005) and the Corporate Governance Code for the Banking Sector (2010) which apply in 2011. The Bank Law issued in 2005 and considered to be most comprehensive banking legislation approved for many years (Otman and Karlberg, 2007). The Law attempts to modernize the Libyan financial and banking system in order to meet the international standards. In this respect, it aims to restructure and modernize the LCBs order to give the sectors a more active role in redistribution of capital flows to the country's most productive sectors (CBL, 2010). The Law consists of two chapters, the first deals with the CBL, specifying its power and operating framework, as well as

defining its precise legal relationship to the Libyan government. The second chapter covers the establishment and supervision of the LCBs, which liberalizes it from the control of State.

This chapter consists of some articles in relation to corporate governance issues such as board structure, number of board members and internal control. However, most relevant corporate governance aspects are covered in the Corporate Governance Code for the Banking Sector (2010).

The Corporate Governance Code for the Banking Sector:

Since 2005, the CBL is committed to adopting international standards of corporate governance through legislation and regulations. Therefore, it has developed Corporate Governance Guideline in 2006 with referencing to the Organization for Economic Co-operation and Development (OECD) Principles of corporate governance and the Basel Report on Banking Supervision for enhancing corporate governance for banking organization (2006).

However, this Guideline was not mandatory, and thus the LCBs did not comply with most of it. Therefore, this Guideline was developed and replaced by the Corporate Governance Code for the Banking Sector (2010), which mandatorily apply in 2011(CBL, 2010). The Code aims to ensure that the LCBs comply with sound corporate governance practices that would protect rights of shareholders and stakeholders. The Code consists of six parts: definitions; shareholders rights; board of directors; board committees; disclosure; and other requirements. The next section outlines issues related to the structure and responsibility of board of directors in the corporate governance literature with mentioned to the Libyan Corporate Governance Code for the Banking Sector.

2.1 Structure of Board of Directors:

The Cadbury Report (1992) paid especial attention to the board of directors and stated that it is one of the most important mechanisms for achieving good corporate gover-

nance practices. The board of directors is mainly responsible for planning, monitoring and achieving a company's objectives. In order to effectively fulfill these board's responsibilities, members of the board of directors should be qualified, have a clear understanding of their duty towards the company, and be accountable to all shareholders and other stakeholders. Moreover, they should be able to exercise their responsibilities in an objective manner and independent judgment. This can be achieved by different means to the board composition such as board size, a balance of both nonexecutive directors (NEDs) and independent non-executive directors, (Denis and McConnell, 2003). In this regard, several corporate governance principles and codes emphasized the importance of appropriate board composition, and that board composition has a direct impact on the activities and performance of a company (Klein, 1998).

2.1.1 Non - Executive Directors (NEDs) and Independent Non-Executive Directors:

Following corporate scandals, much attention has been paid to the role and effectiveness of both NEDs and INEDs in corporations. NEDs and INEDs can play a fundamental role in assisting the board of directors in fulfilling its responsibilities effectively, especially in monitoring management (Gillan, 2006). Therefore, most leading corporate governance codes and principles recommended that the majority of board members should be INEDs.

There is much evidence in the corporate governance literature that the existence of and INEDs on boards adds value to the effectiveness of board of directors. For example, Gup (2007) claimed that a higher proportion of outside independent directors are associated with less likelihood of corporate wrongdoing. Ariff and Hoque (2007) found that banks, in particular, that have higher proportion of independent members are more likely to have a

diversity of ideas and points of view. Deli and Gillan (2000) also found that board independence is correlated with good governance and higher performance.

In the Middle East and North Africa region (MENA), Sourial (2004) concludes that, despite codes requiring a sufficient number of non-executive directors in order to exercise independent judgment, in practice, the independence of board members are not visible in most cases. He noted that one of the main reasons for this situation is the controlling shareholders who are usually in a position to choose all board members. Moreover a clear definition of an independent non-executive director poses a problem in the MENA region, since social and cultural factors such as family and personal relationships play a significant role that impede the presence of INEDs. This result is in line with the findings of the International Finance Corporation (IFC) and Hawkamah (2008), which concluded that just half of listed companies and banks in the MENA region only

have a single, or no INED, on their board, although the presence of INEDs has become a fundamental condition for good corporate governance.

In Libya, the Libyan Corporate Governance Code (2010) requires that the board should be independent from bank management to avoid conflict between the management process and the monitoring process and improve the accountability process for bank's management. Therefore, the Code requires that the board should only comprise of NEDs and the number of INEDs should be no less than two members.

However, there is no evidence in practice indicates that banks comply with this requirement and boards of banks are paying any attention to ensure that directors are independent (Zagoub, 2011).

2.1.2 Size of Board of Directors:

Having either too few or too many directors can impede the effectiveness of a board of directors in fulfilling its roles

(Solomon, 2013). A small board of directors may not allow the company to benefit from an appropriate mix-of skills and relevant experience, while a larger board is difficult to manage, and can be time consuming. Therefore, board size should enable a company to hold productive and constructive discussions and make prompt and real decisions. Moreover, it is important that boards should have an appropriate balance in terms of executive and non-executive directors and in terms of the skills and experience that those directors bring to the board (Mallin, 2015).

Board size is determined by law, and therefore, the selection of right board size should reflect an appropriate balance within the legal framework for a particular country (IFC and Hawkamah, 2008). However, the literature on the issue of board of director size generally indicated that smaller boards seem to perform more effectively because they can hold more candid discussions, make decisions more quickly (Denis, 2001). Hermalin and Weisbach

(2003) found that board composition and size appear to be related to the quality of the board's decisions on CEO replacement, acquisitions, and executive compensation.

In the MENA region, the evidence suggested that boards generally have the right board size, since the majority of boards have eight or so members. IFC and Hawkamah (2008) found that board size in MENA banks are usually composed of ten or more members, while the boards of listed companies typically have eight to ten. These numbers generally appear to be in-line with good practice, if slightly on the high side.

In Libya, the Libyan Banks Law (2005) requires that the number of board directors should be between five and seven NEDs. However, there is no evidence to affirm that boards of Libyan banks comply with these numbers in practice.

2.2 Responsibility of Board of Directors:

Since the corporate scandals, much attention has been paid to the responsibility and functions of the board by various organizations, regulators and researchers around the world (2013). According to Mallin (2015), it is essential for every company to clearly define the roles, duties, and responsibilities of directors. Traditionally, the board of directors is responsible for managing the affairs of the company in the best interests of the shareholders (Kaen, 2003). Cadbury (2002) explained that the primary function of directors is the leadership and guidance of the corporation and accountability for protecting shareholders' interests in order to maximize their wealth.

The duties and functions of the board of directors are set by a variety of regulatory sources such as law, regulations and codes of practice (Brennan, 2006). However, corporate governance codes across the world described the duties and functions of the board. With

regard to the banking sector, boards of directors in banks should play a key role in monitoring executive management and making decisions that have a significant influence on the bank's performance (Spong and Sullivan, 2007).

The Basel Committee on Banking Supervision (BCBS) Recommendations (2006) affirmed that a bank's board of directors is a key mechanism to monitor bank's managers and advise them on strategy and its implementation. The BCBS (2006) identified key roles of boards of directors for enhancing governance in banks as: (i) setting corporate objectives and defining clear lines of responsibility and accountability; (ii) meeting the obligations of accountability to shareholders and taking into account the interests of stakeholders, especially the interests of depositors; (iii) raising awareness of risks throughout the individual and group structure of the bank; (iv) expanding audit scope in situations where transparency of structures is lacking; and (v) effectively using the work of

internal and external auditors and other control functions.

In the MENA region, countries paid attention to the powers and duties of board members, since board responsibilities are defined by company laws in most MENA countries. These included the responsibilities for ensuring the strategic guidance of companies, for ensuring the integrity of the corporation's accounting and financial systems and accountability to shareholders (MENA-OECD Working Group on Corporate Governance, 2005).

IFC and Hawkamah (2008) noted that the role of the board regarding providing strategic guidance to, and oversight over, management is not always understood in practice. They found that the vast majority of boards in MENA banks and listed companies are responsible for setting company strategy, contrary to good practice which calls for management to develop this, and for the board to approve and then monitor management's execution of strategy. Moreover, They found that most boards in the region

may not have the necessary independence to properly fulfill their oversight function. Therefore, they recommended that banks and listed companies should review, clarify, and formalize the role of the board in a corporate governance code or board charter.

In Libya, the Libyan Corporate Governance Code (2010) stated that the board of directors' responsibilities are regulated in accordance with the powers given to the board under the bank statute and the relevant laws and legislation. However, there is no evidence that the boards of directors practice effectively their responsibilities in practice.

2.3 Board of Directors' Committees:

There is a general recognition that the efficient functioning of boards can improve by delegating specific responsibilities to smaller, specialized, committees (OECD, 2006). Therefore, various corporate governance codes and laws across the world recommended or required that boards establish

several committees and delegates particular functions and duties to those committees.

The most common and usually recommended committees are the audit, remuneration, nomination and risk committees (see for example: UK Corporate Governance Code 2014; OECD, 2006; BCBS, 2006). Regarding the banking sector, the BCBS (2006) stated that these specialized committees have become increasingly recommended in the banking sector and each bank should have these board sub-committees. The following sub-sections discuss these committees.

In MENA countries, the evidence on board committees is not clear. Although many corporate governance codes and regulations recommended or required boards to put these in place, the empirical evidence suggested otherwise. IFC and Hawkamah (2008) found that the majority of listed companies and banks have audit committees, however, only a tiny percentage of audit committees are composed of a majority of independent directors, in

accordance with good corporate governance. However, they found that nominations, remuneration and risk committees are not common in the MENA region. IFC and Hawkamah (2008) justified this situation as there is confusion as to which issues the board should focus its attention on, against those under the responsibility of management.

In Libya, the Libyan Commercial Law (2010, Articles No.196) mandates that every corporation sets up only a monitoring committee consisting of three members, and at least one member should have university degree in financial and accounting experience and one have university degree in Law. The Law required that a member of the monitoring committee should not have any close family relationships or any business relationship with the company itself or other companies under the company's control. According to the Libyan Commercial Law (2010), the main responsibilities of the monitoring committee are: (i) monitoring the company board and senior

management to ensure that it works in accordance with the law and the company's articles of association; (ii) ensuring that the company is maintaining adequate accounting records; (iii) ensuring that balance sheet and profit and loss accounts reflect the company's accounting records.

However, the monitoring committee is not a board committee, since it is established, and its members directly appointed, by shareholders. Moreover, the committee should submit its report directly to the shareholders assembly.

Regarding the Libyan banking sector, the Corporate Governance Code for Banking Sector (2010) required that every bank have an audit, remuneration, risk management, and governance committees. All these committees are directly subordinated to the bank's board of directors. The members of these committees should be appointed by the board based on the recommendation of the chairperson or two board members. The board should

be responsible for determining the authorities of these committees. However, there is no empirical evidence about board committees that are in place in Libyan banks.

2.4 The Role of Central Bank of Libya (CBL):

The Central Bank of Libya (CBL) is 100% state ownership and represents the monetary authority in Libya. The CBL is the major body that regulates and supervises banks in Libya. Regarding the role of the CBL, the Bank Law (2005) broadened the mandate and responsibilities of the CBL. The CBL is, by law, responsible mainly for: currency issuance; monetary policy; financial stability; reserve management; supervision on the banks activities; and supervision of the foreign exchange market. Regarding supervision role on banks activities, the Law gives the CBL all authorities to ensure that banks comply with the Bank Law, and all related banking regulations. In this context, the CBL is now undertaking a comprehensive restructuring program to meet the credit needs of the Libyan

economy and to contribute to advancing economic and social development in Libya. This program is expected to modernize the CBL; strengthen the public financial management, and improve the monitoring mechanisms on banking activities. In this context, the banking supervision is being enhanced through improving regulations in line with international standards. For example, the CBL has established the Department of Monetary and Banking Supervision to monitor the banking activities. The Department is mainly responsible for issues related to monetary and banking affairs such as: monitoring the required reserves of the LCBs, and the liquidity position; monitoring the financial positions of the LCBs and expressing the necessary notices; monitoring the LCBs' compliance with the Bank Law and the Corporate Governance Code (CBL, 2005).

3. A New Institutional Sociology Theoretical Framework:

A new institutional sociology (NIS) theory provides a useful conceptual framework to

understand how external institutional pressures that reflect socio-economic legal and cultural frameworks influence on structures and practices adopted by countries or organizations (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Carruthers, 1995; Hussain and Hoque, 2002). NIS argue that institutions adopt particular structures and practices not because they are rational choice, but because they are required by external factors (Moll et al., 2006). In this sense, DiMaggio and Powell (1983) argued that organizations are subject to rules and regulations to which they must conform to ensure their legitimacy. NIS, also, argue that organizations that operating in same environments are influenced by same external institutional pressures. Therefore, they tend to be similar in their structures and practices to obtain legitimacy (DiMaggio & Powell, 1983; Powell & DiMaggio, 1991). This similarity is called institutional isomorphism, which outlined next section.

3.1 Source and types of external institutional pressures:

DiMaggio and Powell (1983) divided institutional isomorphism into three mechanisms, whereby institutional practices such as corporate governance practices adapt and change through the institutionalization process. These mechanisms are coercive, mimetic, and normative pressures.

Coercive isomorphism: DiMaggio and Powell (1983) argued that coercive isomorphism arises from political pressures exerted by institutions upon which organizations depend for critical resources and long-term survival, such as the state's laws and regulations. Such pressures force organizations to adopt specific internal structures and practices. They explained that organizations depend upon stakeholders for accessing resources, and face formal and informal pressures from such stakeholders upon which they depend to access resources and gaining legitimacy in society. Accordingly, organizations have to comply with the requirements of such stakeholders.

Organizations may therefore have coerced by their influential stakeholders to conform to best structures and practices, for example corporate governance practices. In this context, coercive isomorphism involves pressures exerted by regulators, investors, and other stakeholders to establish corporate governance systems and practices. Consequently, a growing number of organizations establish and adopt corporate governance codes and practices.

Mimetic isomorphism arises from the pressures that organisations face to adopt similar procedures and practices as those adopted by other leading organizations, especially those in the same sector. Organizations try to modify their internal structures and practices to emulate those adopted by other organizations (Moll et al., 2006). DiMaggio and Powell (1983, p.151) referred to this type of isomorphism pressure as “standard responses to uncertainty”. They argued that when organisations face an uncertain environment, when structures and practices are not well under-

stood, when organizations’ objectives are ambiguous, organizations may tend to form their policies and practices as those adopted by other similar, more successful, organizations. They also argued that mimetic isomorphism is a process of change initiated internally when organizations understand that changes will help the organization to improve its chances of survival. By applying this to corporate governance systems, mimetic change may occur when organizations perceive that adopting a certain aspect of corporate governance, such as an audit committee, will contribute to improving its institutional practices and thus achieve its objectives more effectively and efficiently.

Normative isomorphism or pressure arises from professionalism, which pressures organizations to adopt structures and practices recommended by particular dominant professions, professional bodies and consultants (DiMaggio and Powell, 1983). For example, banks may be influenced by international banking organizations such as

the BCSB or OECD to adopt corporate governance guidelines. Such organizations expect banks to comply with international corporate governance principles and practices.

However, DiMaggio and Powell (1983) argued that these three mechanisms of institutional pressures are not separately influence the organizations from the impact of other mechanisms, but they may affect them simultaneously. In this context, Unerman and Bennett (2004) expressed that mimetic or normative isomorphism without coercive pressure from stakeholders (such as regulators); is unlikely to be enough to pressurize organizations to mimic or to be better than the institutional practices of other organizations.

3.2 Strategic response to institutional pressures:

In order to deal with institutional pressures, organizations may adopt several strategies to respond to the institutional pressures imposed on them (Oliver, 1991). They may purposefully comply with regu-

lations or adopt specific formal structures and procedures. However, they may alternately adopt a manipulative strategy, in order to gain legitimacy and thereby secure resources on which they depend (Edelman, 1992). In this context, some researchers have attempted to link these institutional pressures with organizational strategy choices that may be employed by organizations to deal with such institutional pressures.

Oliver (1991) identified five strategic responses namely: acquiescence, compromise, avoidance, defiance, and manipulation. Oliver (1991) and Khadaroo and Shaikh (2007) explained that the acquiescence strategy means that organizations accept and adhere to institutional pressures by establishing, changing or modifying their structures and practices to comply with widely accepted ones (such as best practices of corporate governance). The compromise strategy means that organizations attempt to balance the requirements of external institutional pressures (such as expectations of regulators) with their current structures and

practices. For example, they may negotiate with institutional stakeholders (such as regulators) to obtain an agreeable solution that meets the requirements of regulators at a lower cost to the organizations. Although such strategies may be considered as passive strategy, organizations may conversely employ active-negative strategies such as avoidance, defiance, and manipulation. Organizations may employ an avoidance strategy to avoid compliance with the requirements of institutional pressures by hiding their non-compliance or changing their objectives and activities. Some organizations may defy the requirements of institutional pressures (such as corporate governance practices) by dismissing, challenging or assaulting them. Finally, other organizations may attempt to manipulate the requirements by influencing and dominating institutional pressures (such as regulators) and processes.

The NIS theory is used to examine what external institutional pressures make organizations similar, how and/or why organizations adopt or design

their practices to be able to conform to society level regulations and/or expectations (DiMaggio and Powell 1983 and Scott, 2004; Scapens, 2006). For example, Khadaroo and Shaikh (2007) used an institutional theory framework to explain the current corporate governance reform in Malaysia. They explored the roles played by both existing and new institutions in announcing regulations and voluntary codes on corporate governance. They argued that three types of institutional isomorphism (coercive; normative and mimetic pressures) have formed current corporate governance practices in Malaysia. They found that the Malaysian approach to corporate governance is not a compromise between regulations and a laissez-faire system, but it is highly geared towards regulations.

They also found that normative pressures are exerted by industry and professional bodies. However, they noted that regulation, industry, and professional bodies face these three types of institutional pressures from other countries

towards reforming and strengthening existing corporate governance practices.

However, the NIS framework has some limitations. Greenwood and Hinings (1996) argued that NIS is not frequently considered as a theory of organizational change, but more as an explanation of the similarity of isomorphism and the stability of organizational engagements in a given society or organizations. Consequently, the theory is silent on why some organizations adopt radical change whereas others do not, despite experiencing the same institutional pressures.

4. Research Methodology:

As the study analyses the perceptions of stakeholders on structure and responsibilities of corporate boards in LCBs, it is appropriate to analyze respondents' responses in terms of the behaviour of different descriptive statistical parameters. For this purpose, qualitative research approach used to gather in-depth perceptions of different stakeholders across LCBs. This paper employed questionnaire

survey and some semi-structured interviews to acquire data. To analyze data obtained, descriptive statistical parameters were employed. These includes numbers, percentages of frequencies and means in order to establish how participants perceived practices of corporate boards in LCBs.

Questions of both interviews and questionnaire are about practices of boards corporate in LCBs. They were prepared in light of the research objectives, and related corporate governance literature. Participants in interviews and questionnaire (Stakeholders) were chosen to include many different stakeholders, and to reflect the broad experience of stakeholders' insight into LCBs. These stakeholders include board members; executive managers; regulators and other stakeholders. The other stakeholders includes several types of stakeholders such as individual shareholders, institutional investors, external auditors, a corporate legal consultant, customers (depositor and borrower), and an academic. Interviewees include members from the Central Bank of Libya,

the Libyan Stock Market and the Libyan State Audit Institution.

Two hundred and twelve questionnaires (212) were distributed. One hundred and twenty four (124) were returned and considered appropriate to be analyzed (with response rate of 58%). In addition, some relevant LCBs' stakeholders were interviewed face to face in the two main cities in Libya namely Tripoli and Benghazi.

5. Results Analysis:

5.1 Perceptions on Corporate Governance Practices in LCBs:

Before focusing on the structure and responsibility of the corporate boards in LCBs, respondents were asked to express how they perceived, in general, the corporate governance practices in each of the LCBs.

All the interviewees agreed that LCBs have not yet established their own corporate governance principles. They affirmed that LCBs only adopt and comply with some prac-

tices of corporate governance contained in the Bank Law (2005). The majority of interviewees (80%) argued that LCBs are still in the early stages of applying and complying with corporate governance practices and only some corporate governance practices have been applied. They also argued that LCBs need time and many things need to be done before they can apply and comply fully with the practices of corporate governance. An academic (OS4) suggested that:

“The most important aspect of corporate governance needed for LCBs is a high degree of institutionalization and institutional stability. Libyan Banks and other organizations should institutionalize their corporate governance practices in order to gain their stability and legitimacy in society.”

In questionnaire, results in Figure(1) Appendix (1) indicate that 60% of stakeholders considered corporate governance practices in LCBs as poor or very poor practices. These results were consistent with the interview findings above.

Although the stakeholders rated corporate governance practices in all LCBs as poor or very poor, it seems that they distinguished between state-owned banks, mixed-ownership banks and private banks. This can be noted from Figure 2 Appendix (2), which indicates that most of the state-owned and mixed-ownership banks were ranked in first and second, while most of the private banks were ranked in third as they had very poor corporate governance practices. Therefore, it may be concluded that the ownership structure of the LCBs has some influence on their corporate governance practices. Such an influence may reflect a coercive isomorphism arising from regulation and government influences that are involved in the ownership governance structure of these banks.

The results Figure (2) also show that only corporate governance practices in mixed ownership banks are satisfactory. This result may reflect the impact of privatization and foreign investors such as BNP Paribas . Such an influence may be attributed to the normative

pressures (isomorphism) arising from the influence of a professional banking organization (DiMaggio and Powell, 1983). In the case of mixed ownership banks, this can be interpreted by saying that corporate governance practices of mixed ownership banks may have begun to be shaped by the practices used by the strategic partnerships (foreign banks).

This result may indicate that stakeholders in LCBs believe that the entry of foreign investors in the Libyan banking sector will help LCBs to improve their corporate governance practices. In this context, some of interviewees who believe that the entry of foreign investors, especially the Western banks will develop the infrastructure of LCBs in order to apply effectively corporate governance practices.

5.2 Structure and Responsibility of Corporate Boards in LCBs:

This section focused on issues of boards of directors such as factors influencing the

nomination and appointment of board members in LCBs; the compliance of the banks with legal requirements for directors' appointment; evaluation of the board responsibilities.

5.2.1 Factors Influencing the Selection of Board of Directors:

Respondents were asked to assess whether a set of factors had the same influence on the selection of board members in LCBs. As shown in Figure (3), Appendix (3) responses indicate that the factors seen as influencing the appointment of board of directors are the CBL intervention; having relevant qualifications; and having banking experience. Having a good reputation and family or personal relationships were considered by respondents to have less of an influence. Factors such as leadership skills; government intervention; and owning shares in the bank were regarded as having a moderate or no influence.

However, the results reveal that the influence of these factors was not considered by

respondents to have the same influence on the process of selecting the board of directors in all the LCBs. The influence of Central Bank of Libya was considered the most influential factor in the case of stated-owned banks, with a mean of 2.77, while its influence was less in the case of mixed ownership and private banks, with means of 2.47 and 2.33 respectively. This result was not surprising because the Libyan Bank Law gives the Central Bank of Libya (the governor) the right to approve or disapprove of the nominations of board of directors in any Libyan bank. One of the respondents wrote the following on this question:

“The board of directors of the State-owned banks is an executive tool for the decisions and instructions of the Central Bank of Libya, as it is the owner. Consequently, the CBL is the most influential factor in appointing the board of directors. The board of Directors of Private banks fully reflects the major shareholders, who directly or indirectly control the board of directors. Therefore, the desire of major shareholders is the most important factor in appointing the board of directors. The board of

directors of mixed ownership banks have more powers and responsibilities than other banks because of the impact of a foreign partner. Accordingly, the CBL and major shareholders have less influence in appointing its board of directors.”

However, none of the LCBs has a nomination committee, so boards of directors are appointed by the major shareholders. Thus, the major shareholder or/and the CBL as regulator nominate board members and the final selection is made during the Annual General Meeting as part of the normal election process. In contrast, having relevant qualifications and banking experience were regarded by respondents as having more influence in mixed ownership; than in stated-owned and private banks. This may indicate the influence of privatisation and foreign investors, which reflects the institutional normative pressure over mixed ownership.

Unsurprisingly, respondents thought that family or personal relationships were an influential factor in the case of private banks, since it was ranked

second with a mean of 2.26, but was less of an influence in state-owned banks, and only moderately influential in mixed ownership banks. Respondents considered government intervention as influential only in state-owned banks, while its impact was considered as a moderate influence in mixed ownership banks and not influential in private banks. This may reflect the influence of different ownership structure over the LCBs, for example, the government intervention over stated-owned banks was influential more than the mixed ownership and private banks. This suggests that coercive pressure arising from influence of ownership structure differently affects the process of board members appointment.

The results also reveal some similarities among the LCBs regarding the impact of leadership skills and owning shares in the bank. Respondents considered leadership skills to have a moderate influence in the LCBs, while owning shares in the bank was considered not influential in state-owned banks and mixed ownership banks, but

it had a moderate influence in appointing directors in private banks.

The overall results suggest that the LCBs do not respond to the influence of institutional factors in the same way. While stated-owned banks are more influenced by the legal, regulatory, and governmental influences (coercive pressures), it seems that mixed ownership banks is, to some extent, influenced by normative pressures that come from an international professional banking organizations such as BNP Paribas. Moreover, the results suggest that mixed ownership banks may adopt a strategy to modify its internal structure and practices of corporate governance to emulate the external coercive pressures. However, private banks was also influenced by coercive pressures, such as social and cultural factors, and family and personal relationships are more apparent.

Although the results did not indicate any mimetic pressures exercised over the LCBs, such pressures may be implicit in the coercive pressures as argued by

Unerman and Bennett (2004) who express that mimetic or normative isomorphism without coercive pressure from stakeholders (such as regulators); is unlikely to be enough to pressurize organizations to mimic or to be better than the institutional practices of other organizations.

Excluding the impact of the CBL, the results are consistent with the results of Hussain and Mallin (2003) who report that relevant skills and business experience and reputation are the most influential factors on the appointment of board members in Bahrain, and to some extent, agree with Falgi (2009) with regard to the influence of personal relationships in Saudi companies.

5.2.2 Compliance with the Boards Composition Requirements

This section examines responses about the extent to which the LCBs comply with the Libyan Bank's requirements of the composition of the board of directors. Figure (4) Appendix (4) provides the percentages of

respondents who considered that the composition of the board of directors in each of the LCBs was according to the requirements. As shown in Figure 4, respondents strongly believed that the LCBs complied with the requirement that only between five and seven non-executive directors should sit on the boards. In addition, except for mixed ownership banks, there was no agreement between the respondents about whether boards of directors in state-owned banks and private banks have clearly defined their authorities and responsibilities or whether there are at least two independent non-executive directors on boards of both banks.

However, although the majority of respondents believed that the nomination process of board members in both state-owned banks and private banks was not a formal or transparent process, the results were less clear in the case of mixed ownership banks, and just below half of the respondents considered it had a formal and transparent process. Furthermore, the vast majority of respondents did not consider

that any of the LCBs had an orientation and training programme for their directors.

From an institutional theory perspective, it seems that institutional pressures (coercive pressures) arising from the legal and regulatory requirements are the most influential in forming the composition of boards in LCBs since majority of respondents (stakeholders of LCBs) affirmed that all LCBs comply with the legal requirements of boards' composition requirements. Accordingly, the legal and regulatory factor (coercive pressures) appear to be the most influential factors over the practices of corporate governance regarding the boards' composition in LCBs and have resulted in composition of all boards being similar. However, the impact of other non-mandatory requirements recommended by professions organization such as the BCBS recommendations (normative pressures) had moderate or no influence. In addition, their influences are, to some extent, not similar on all banks, since the results did not provide clear evidence about them. The next

section analyses the stakeholders' view about the role of the boards in LCBs.

5.2.3 Responsibilities of Boards of Directors:

This section analyses stakeholders' assessments of the level at which board members in the LCBs fulfill their functions and discharge their responsibilities. The respondents were asked to evaluate a set of board practices for which board members should be responsible. Figure (5) Appendix (5) summarizes the responses of respondents shown in Table (1) Appendix (6). The results indicate that no board practices are assessed by respondents as good, except for attending and discussing board meeting agendas. Only eight of eighteen board practices were rated as satisfactory, while the other nine practices were considered as unsatisfactory. This suggests that there is a general dissatisfaction by stakeholders with the performance of boards of directors in respect of the responsibilities that they should shoulder.

However, the results reveal the practices of board of directors of mixed ownership banks appear to be the best among the LCBs, since only one board practice was rated as unsatisfactory. Only one board practices of state-owned banks was rated as good, the other practices were considered as satisfactory or unsatisfactory. With respect to private banks, it appears that most of the respondents expressed great dissatisfaction with the performance of its board of directors, as all board practices were rated as unsatisfactory, except attending and discussing board meeting agendas.

This result suggests that good board practices in mixed ownership banks and, to some extent in state-owned banks, are being shaped by institutional pressures to conform the development in international good practices. These pressures arise from pressures exercised by regulatory institutions (the CBL) which reflect the (coercive isomorphism), and by professional banking institutions (foreign investors) which reflect normative isomorphism. This

also suggests that both mixed ownership banks and state-owned banks may adopt acquiescence or compromise strategies to response to these pressures, while private banks is adopting avoidance or manipulation strategies, since most its board practices are unsatisfactory. From this, it can be concluded that the different ownership structure and the privatization of LCBs with the participation of foreign investors may have an impact in improving the practices of corporate governance in LCBs.

5.2.4 Committees of Boards of Directors:

This section elicited respondents' views about board committees in the LCBs. In particular, the questions in this section were designed to assess the existence, membership structure, and the evaluation of the work of board committees. As shown in Figure 6 Appendix (7), there was a considerable agreement among respondents that the LCBs had only monitoring and audit committees. However, the outcomes did not indicate any agreement among respo-

ndents regarding the existence of other board committees in the LCBs.

Furthermore, Figure (6) shows that, apart from the monitoring committee, the board of directors of private banks does not have any of these core committees and private banks' adherence to legal requirements was very weak regarding board committees. Regarding state-owned banks, although there was wide agreement that the bank complied with the legal requirements, there was only some agreement that the nomination committee existed in state-owned banks, while the other committees do not exist. With respect to mixed ownership banks, although the results indicate only some agreement that the nomination and remuneration committees exist, mixed ownership banks was, in general, the best of the LCBs in compliance with the legal requirements regarding the committees of the board of directors. This result can be explained as a result of the normative institutional influence, deriving from the influence of a foreign strategic partner that participates in

the management of mixed ownership banks strategically.

The respondents were also asked about the extent of compliance in the LCBs with the requirements of board committees' membership composition. According to Figure (7) Appendix (8), the respondents only regarded the monitoring committees in the LCBs as consisting of only members from outside the bank as required by the Libyan Commercial Law. However, the respondents did not consider any of the other board of directors committees in the LCBs to be composed of the required members.

Overall, the results in this section suggest that the monitoring committee is the most common committees in all LCBs. Only few banks, especially state-owned banks or mixed banks, have recently established the audit committee since it became a new legal requirement. This finding indicates that board committees in LCBs are below the minimum level of international practice of corporate governance.

Although the overall results did not provide clear evidence about the level of practices of boards of directors in Libyan banks, the results indicated that there was dissatisfaction from stakeholders with the boards practices in all LCBs and that these practices did not achieve the required level. This result suggests that most board members were influenced by the same environment characteristics and the legal requirements for board's composition, since they had the almost same practices. For example, they all, according to the Law, are non-executive directors and worked for their banks as part time. Moreover, they all had many duties in other companies or organizations and thus did not dedicate enough time to fulfill their duties as required. These characteristics have resulted in many of their practices to be similar.

However, the overall results also suggest that the level of board practices in fulfilling their responsibilities may vary from one bank to another according to the bank size, its ownership structure or/and the experience

of its board members. The state-owned banks may face more coercive pressures from the CBL and government as they are the major owner of these banks. Such pressure are exerted by the intervention and influence of CBL over the boards roles of these banks in order to protect the public interest, while the private banks are faced more influences from their major shareholders in accordance with their interests. In addition, LCBs that have entered into a strategic partnership with foreign banks may also face normative pressure from the new professional board members or executive managers appointed in these banks. This might explain why only these banks had some good practices than other banks.

The above summary suggests that influences of institutional factors on LCBs are not clear and the findings did not bring enough evidence on the influences such factors on LCBs. One reason for this can be attributed to the political instability, which affect completely in the running the country's economic and social

affairs, making it difficult to examine all the institutional factors at play. However, it can be suggested that the institutional influences arising from the Libyan Bank Law requirements may have, to some extent, influence on LCBs especially in banks that have largely or partly state ownership to comply more than private banks with good corporate governance practices.

6. Conclusions:

This research used a new institutional sociology perspective to investigate how different types of institutional pressures have influenced structure and responsibilities of corporate boards in Libyan commercial banks (LCBs).

The findings indicate that, although some board practices are satisfactory, especially in term of compliance with board composition requirements, most other board practices are not. However, the results reveal that the performance of boards in state-owned banks or in mixed ownership banks (privatized banks with a foreign strategic

partner), are assessed in general to be better than those in private banks are.

From a new institutional sociology perspective, it is arguable that such differences may reflect the impact of the ownership structure and the strong impact of the CBL as a powerful regulator, which exerts coercive pressures over board members of state-owned banks and mixed ownership banks. It may also reflect the impact of a foreign strategic partner of privatized banks, which may exert normative pressures in addition to coercive pressures over the board members of these banks through professional board members. Moreover, state-owned banks and mixed ownership banks are old and large banks, and thus may face more coercive pressures from the CBL and government as the major owner of these banks and represents social interests. Thus, these banks may adhere more to banking regulations to gain their legitimacy and preserve their power in society.

The results can be interpreted in the light of new institutional sociology and, as argued by Oliver (1991) and Goodstein (1994), that large organizations, state-owned banks and mixed ownership banks, are more susceptible to institutional pressures than small organizations, because of their impact in society or because of their ownership structure and, thus, they are more likely to receive more attention from the regulator (the CBL) and the public. Accordingly, they are more responsive and less resistant to institutional pressures (isomorphism) than the smaller organisation in order to conform to legal, social or economic norms.

Moreover, taking into account the market share and long history of state-owned banks and mixed ownership banks in the Libyan banking sector, such results may reflect that both banks are more susceptible to strong competitive institutional pressures than other banks. Therefore, state-owned banks and mixed ownership banks may focus more on efficiency or legitimacy considerations than other banks, which faces more

pressures from its major owners in accordance with their personal interests more than efficiency or legitimacy considerations. Therefore, it can be concluded that a bank's ownership structure, history, size and privatization policy have, to some extent, impacted on the board practices.

Overall, the findings illustrate that there is a need for more effort and pressure to be exerted by the CBL to encourage and press corporate boards in LCBs to adopt better corporate governance practices.

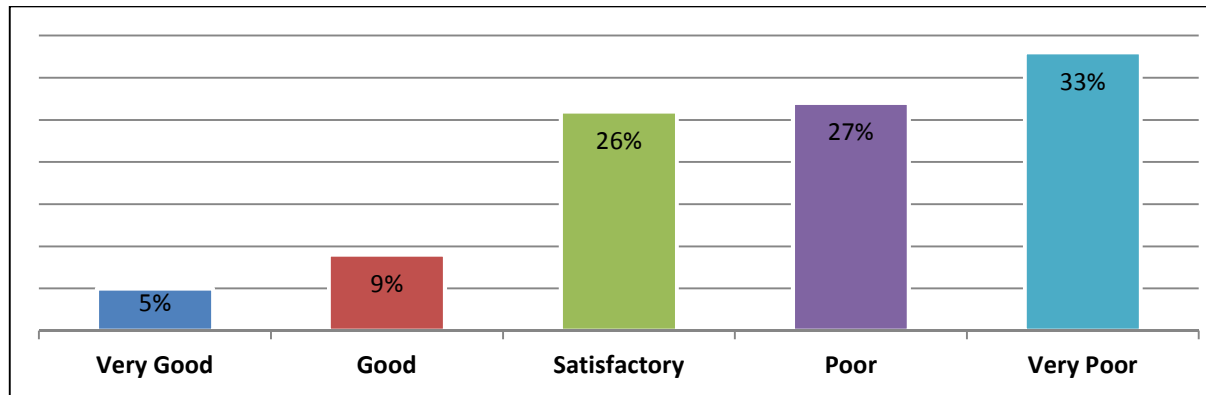
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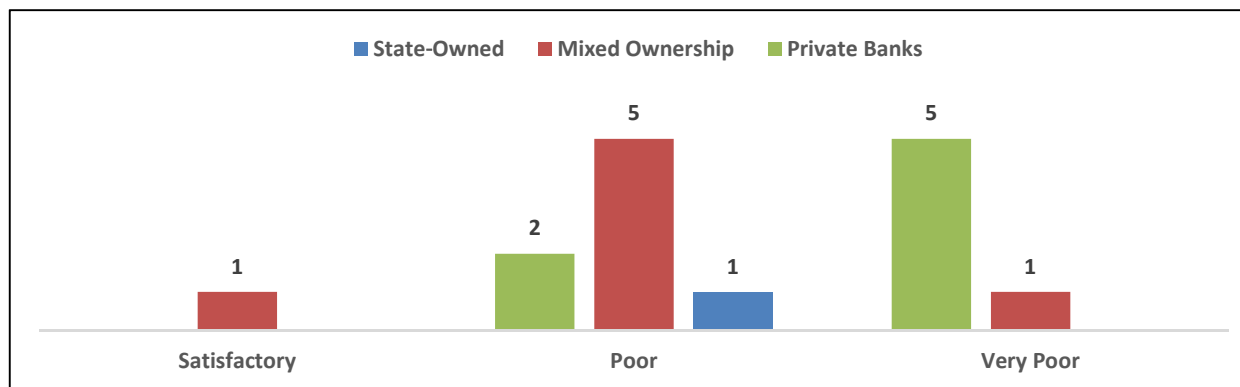
Appendix (1)
Figure 1: Stakeholders Perception of Corporate Governance Practices in LCBs



Note: This figure shows the percentages of stakeholders' perceptions about the state of corporate governance practices LCBs. A 5-point Likert scale was used in these questions. It ranged from 5 = "Very Good" to 1 = "Very Poor".

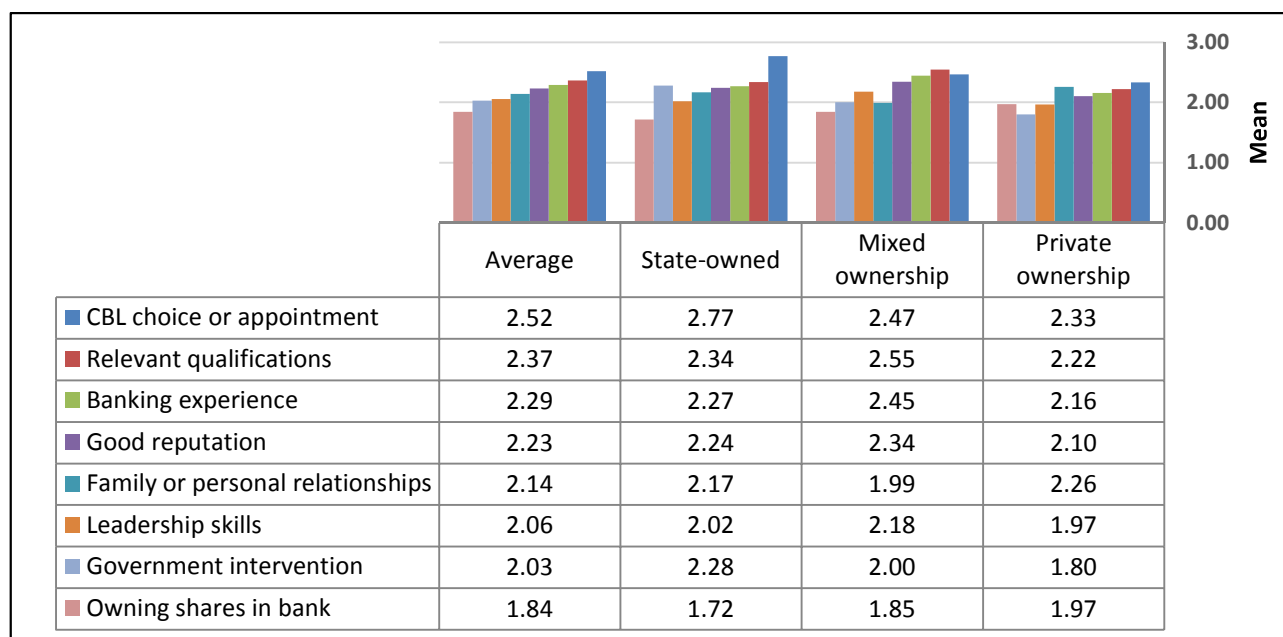
Appendix (2)

Figure 2: Ownership Structure and Corporate Governance Practices in LCBs



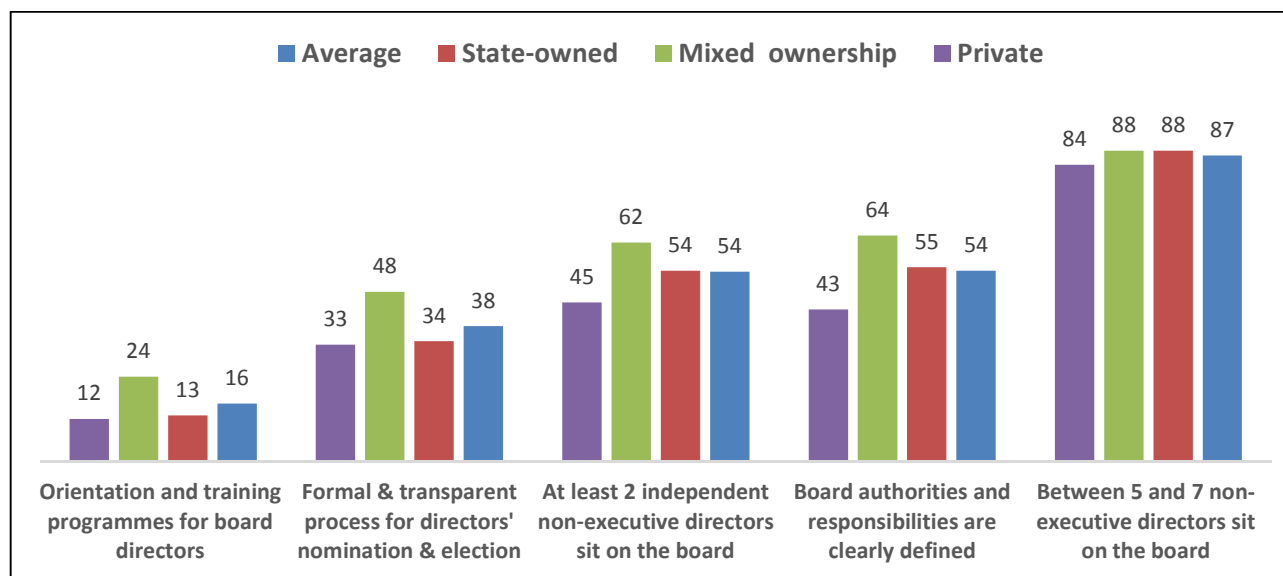
Note: This figure shows number of LCBs categorized according to ownership structure and the state of corporate governance practices.

Appendix (3)
Figure 3. Factors Influencing the Selection of Board Members



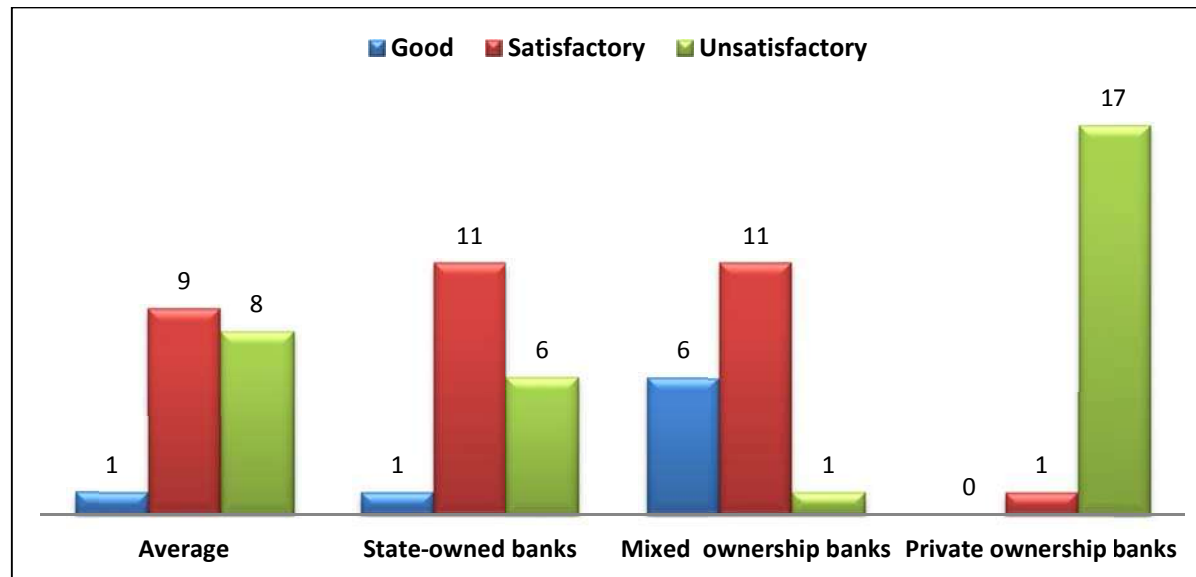
Note: This figure summarises the perceptions of the stakeholders about the key factors influencing the appointment board of directors. A 3-point Likert scale was used in these questions, (3) influential, (2) moderate influence and (1) not influential.

Appendix (4)
Figure 4. The Compliance with the Requirements of Composition of the Boards



Note: This figure shows the percentages of the stakeholders who responded "Yes" about the compliance of these banks with the requirements of board of directors' composition.

Appendix (5)
Figure 5. Evaluation of Practices of Board of Directors



Note: This Figure summarises respondents' evaluation of the board's practices in each of the LCBs.

Appendix (6)

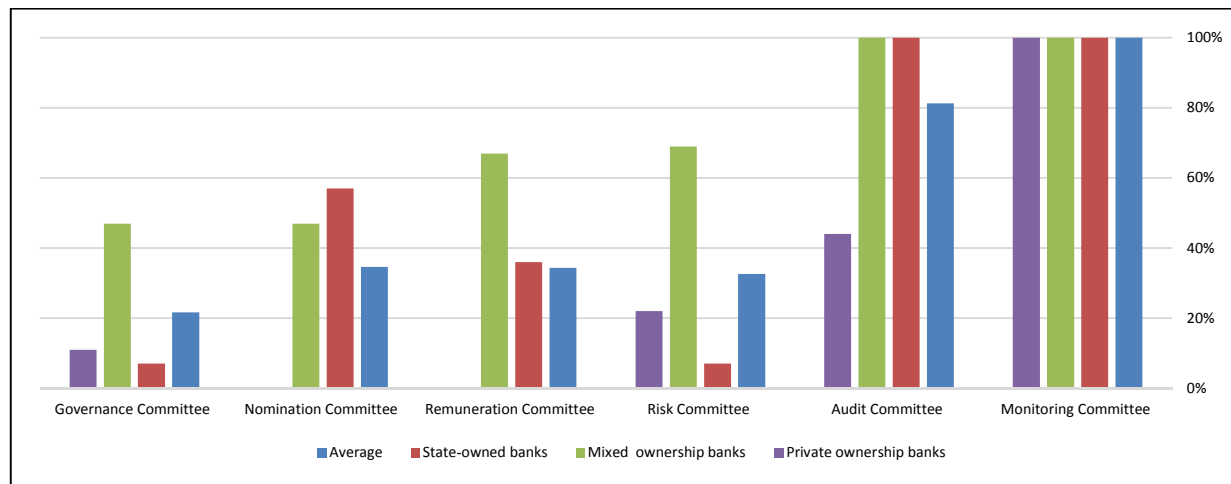
Table 1. Evaluation of Practices of Board of Directors in each of the LCBs

Responsibility Practice	Evaluation	Means			
		Average	State-owned banks	Mixed ownership banks	Private ownership banks
Attending and discussing board meeting agendas	Good	2.30*	2.34*	2.44*	2.10
Approving and overseeing the bank's strategies and objectives	Satisfactory	2.03	2.07	2.23*	1.81*
Monitoring executive management		2.00	2.07	2.17*	1.76*
Inspecting information from executive management		1.98	2.00	2.17*	1.76*
Ensuring appropriate internal control systems are in place.		1.97	2.06	2.15*	1.70*
Replacing key executives when necessary		1.96	1.97	2.13	1.79*
Adopting compensation consistent with the bank's objectives		1.93	1.92	2.12	1.76*
Enhancing internal control and the audit function		1.93	2.00	2.15*	1.63*
Setting and enforcing clear lines of accountability		1.91	1.96	2.05	1.73*
Ensuring the effectiveness of compliance function		1.90*	1.96	2.07	1.67*
Exercising sound judgment about the affairs of the bank	Unsatisfactory	1.90*	1.94	2.04	1.71*
Taking into account the interests of stakeholders		1.87*	1.86*	2.04	1.71*
A clear understanding of its role in corporate governance		1.83*	1.88	2.06	1.56*
Applying high ethical standards		1.83*	1.85*	1.97	1.67*
Overseeing the risk management system and policies		1.77*	1.81*	1.97	1.55*
Monitoring the effectiveness of the bank's governance practices		1.72*	1.79*	1.88	1.51*
Overseeing the disclosure and communication to stakeholders		1.71*	1.66*	1.88	1.60*
Conducting appropriate self-evaluations		1.69*	1.72*	1.81*	1.54*

Note: This table summarises respondents' views on the level of board of directors' practices in each of the LCBs. A 3-point Likert scale was used in these questions. Its range are 3 = "Good", 2 = "Satisfactory", and 1 = "Unsatisfactory".

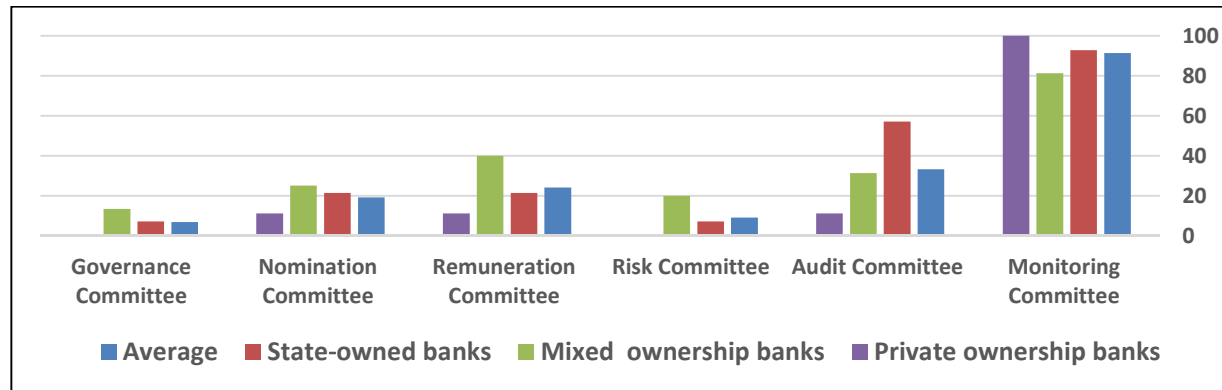
An * indicates that the mean is significantly different from the response of 2.00 at 5% level.

Appendix (7)
Figure 6. The Existence of Board of Directors' Committees



This Figure shows the percentages of respondents who considered the existence of these committees. A “Yes” or “No” question was used in this question.

Appendix (8)
Figure 7.The Membership Structure of Board Committees



This Figure shows the percentages of respondents about the extent to which the LCBs comply with the required board committee membership structure. A yes or no question was used in these questions. A “Yes” or “No” question was used in this question.