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Corporate Governance in Kuwait
the role of merchant families

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Ayman Bader Al-Buloushi

2013

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Corporate Governance in Kuwait:

The Role of Merchant Families

Ayman Bader Al-Buloushi

A thesis Submitted to the University of Dundee in Fulfilment of the Requirements for the Degree of Doctor of Philosophy, October, 2013

School of Business

University of Dundee

Dundee, Scotland, UK

October 2013

Dedication

This thesis is dedicated to my father who was always proud of me, and to my wife that always supports me and encourages me to work towards my PhD. Also, I dedicate my thesis to my son Bader and two lovely daughters Noura and Wadha who have tolerated my PhD journey.

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List of Abbreviations

AGM	Annual General Meeting
BM	Board Members
CMA	Capital Market Authority
CEO	Chief Executive Officer
CBK	Central Bank of Kuwait
E	Executives
EM	Executive Management
GCC	Gulf Coperation Council
I	Investors
ICGN	International corporate governance network
KAC	Kuwait Airways Company
KFAED	Kuwait Fund for Arab Economics Development
KNPC	Kuwait National Petroleum Company
KIA	Kuwait Investment Authority
KNCC	Kuwait National Cinema Company
KOTC	Kuwait Oil Tanker Company
KPC	Kuwait Petroeum Company
KSE	Kuwait Stock Exchange
MC	Minimstry of Commerce
NBK	National Bank of Kuwait
OPEC	Organisation of Petroleum Exporting Countries
R	Regulators
UN	United Nations

Abstract

This thesis explores why there is no corporate governance code in Kuwait. It applied the new institutional sociology theory to explain the dominant logics; the community of practices, whether the current companies Act (article 15) is adequate and whether these practices coincide with international codes, such as the OECD principles of corporate governance, and the UK combined code. Twenty-three interviews have been conducted and 819 questionnaires have been distributed to legislators, regulators, board members, executive managements, and investors to explore their perceptions about the current practices and the factors preventing the issuance of a corporate governance code in Kuwait. The findings confirm that there is one community of practices within the organisational field of listed companies that contradicts the international normative practices around the world. This refers to the fact that the current Act has become outdated and weak as a result of the political pressure exerted by the merchant families' party in the parliament who have established a network of actors between them and the government to prevent the issuance of any act that would threaten their power and control over the listed companies.

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Declaration

I am hereby declare that I am the author of this thesis, that the work of which this thesis is a record has been done by myself, and that it has not previously been accepted for a higher degree.

Signed: .... **Date: ....**

Mr. Ayman Al-Buloushi

Certificate

We certify that Mr. Ayman Al-Buloushi has worked the equivalent of nine terms on this research, and the conditions of the relevant ordinance and regulations have been fulfilled.

Signed: .... **Date: ....**

Professor Christine Helliar

Signed: .... **Date: ....**

Dr. Gwen Hannah

Chapter 1

Introduction

1.1 Preface

The effectiveness of a corporate governance code differs from one country to another. The success of governance effectiveness and change in countries such as the UK and USA refer to their political, legal, and culture factors (Licht, 2001; Licht, 2004; Holm and Zaman, 2012; Prentice and Spence, 2006; Lu and Batten, 2001; Shleifer and Vishny, 1997; Roe, 2003).

Kuwaiti listed companies are controlled by powerful major family shareholders unlike in the west that has a dispersed ownership model, so the issuance of a corporate governance code may impede the control of these powerful shareholders and prevent possible entrenched self-interest from prevailing. Thus, the whole of Kuwait society including, investors, lenders, and employees … will benefit. One of these powerful major shareholder groups are families which are labelled “merchant families” in this thesis. Merchant families seek to list their companies’ shares to enable them to obtain loans from banks to fund their operations. Further, when the share prices of their listed companies increase, the wealth of the merchant families also increases. Minority investors in this thesis are individual private investors who own a small number of listed companies’ shares for investment. Minority investors are not large institutional investors or foreign owned companies, hence, these individuals lack power and voice.

Kuwait has suffered from corporate failure and market crashes which may have been due to the merchant families. The first crash was in 1981 in the Al-manakh market, but no update or

change has happened to the Companies' Act (Article 15) that was issued in 1960. The second crash occurred in 2008, and again there was no change in the existing Act. Despite Kuwait's two occasions of corporate failure and market crash, listed companies' governance continues to date, with no attempt to change the current 1960 Act or introduce a code of corporate governance.

This research examines whether the merchant families, as actors in the organisational field, who control Kuwait's listed companies, are the main reason for the absence of a Kuwaiti code of corporate governance, since the issuance of such a code would threaten their own self interests and control.

The particular singnifance of this research is to provide insights into the current practices of Kuwaiti listed companies and explore the factors that hinder the issuance of a Kuwaiti corporate governance code.

This thesis investigates the influence of the legal and political systems, and cultural factors in Kuwaiti society to identify to what extent these factors represent obstacles to a Kuwaiti code of corporate governance.

All of the above motivated the researcher to investigate why there has been no change in the Companies' Act (Article 15) since it was issued in 1960. In particular, the research investigates whether the current act is similar to other countries and examines current practices to understand the organisational logics, and identify the logic of the actors and their actor networks.

1.2 Research Questions

Three key research questions attempt to explore the view and knowledge of regulators, legislators, board members, executive management, and investors of listed companies of current corporate governance practices and the Companies Act (Article 15):

1. Why is there no corporate governance code in Kuwait?
2. Which factors affect corporate governance practices in Kuwait?
3. Is there a single community of practice?

1.3 Scope of the Research

The thesis uses an interpretive paradigm and a New Institutional Sociology (NIS) perspective to examine and interpret the perceptions of the interviewees and questionnaire respondents to discover why there is no corporate governance code in Kuwait, and explores the factors that influence the current practices of listed companies, especially that of the merchant families. The thesis also explores whether there is a single community of practice within the organisational field of Kuwaiti listed companies. This community of practice is defined as the practices of organisations that share the same cultural, social, and political background where isomorphic pressures have shaped current practice to be homogenous rather than heterogeneous. Further, the thesis explores the prevailing organisational logics, which are based on material and symbolic carriers that are current practices, the Companies Act (Article 15), networks between the actors, and the beliefs and thoughts.

In order to answer all the above questions, two research methods are used to answer the research questions: semi-structured interviews and a questionnaire survey covering all related

groups in the organisational field of listed companies, such as investors, regulators, legislators, board members, and executive management.

1.4 Structure of the Thesis

The thesis consists of eight chapters. The first chapter provides an introduction to the thesis, research topics, research questions, and thesis structure. Chapter two presents an overview of the Kuwaiti context, including the establishment of the country, the general background and role of merchant families pre and post the oil discovery era, and their impact on the country's social, political, legal, and cultural environment.

The third chapter reviews and outlines the general literature on corporate governance, its history and development, and the factors that influence the issuance of a corporate governance code. Also, the chapter reviews previous studies on the effectiveness of corporate governance in developing countries and how political, legal, and cultural factors influence the corporate governance code in these countries.

Chapter four discusses the theoretical framework that is adopted to interpret the research findings. This thesis applies a New Institutional Sociology (NIS) perspective to explore the dominant logic of the organisational field of listed companies in Kuwait and whether there is a single community of practices and if so, what types of institutional pressure shape the community of practice.

Chapter five discusses the research methodology and methods and justifies the selection of the research paradigm, and methods adopted in this study. This thesis uses an interpretative

approach to explain the main reason behind the absence of a Kuwaiti code of corporate governance based on different groups' perceptions.

Chapters 6 and 7 analyse and present the findings of the two pieces of empirical work, semi-structured interviews and a questionnaire survey. These methods are employed to outline the primary data of this thesis. Interviews were employed to gather different perspectives from different groups about the main reason behind why there is no Kuwaiti code of corporate governance, and to identify the institutional factors that influence current practices. The questionnaire survey is employed to explore further current practices, whether there is one or more community of practice, and also confirm the findings of the interviews about the main reason behind the absence of a Kuwaiti corporate governance code.

Chapter eight summarises the findings of the empirical chapters, which outline the main obstacles against issuing a Kuwaiti code of corporate governance, and identify the dominant logics within the organisational field that resist the process of change. The next chapter gives an overview of the Kuwaiti context.

Chapter 2

The Kuwait context

2.1 Introduction

The present chapter examines the effects of the political, legal, and cultural factors upon corporate governance within the specific context of Kuwait. Following the discovery of crude oil in 1936, there was a dramatic change in the economic, political and legal systems in this country. The historical context has been explored to identify the role of the merchant families in the political, economic, and cultural situation in the country.Section 2.2 illustrates the emergence of the state of Kuwait. Section 2.3 compares the economic situations which prevailed in Kuwait pre- and post-discovery of crude oil in order to explain the resulting transformation in the country's economy. In addition, the role of governors and merchant families in politics, law and culture in both pre and post-crude oil eras is explained in this chapter: Section 2.4 gives an account of Kuwait's political situation during the same era, and describes the impact on politics of the economic powers of merchant families; the development of the legal system as a result of economic change is discussed in Section 2.5; and this followed by a review of cultural influences in Section 2.6. First, however, a brief account is given in Section 2.2 below of important historical events which led to the emergence of Kuwait as an independent state.

2.2 The Emergence of the State of Kuwait

During the seventeenth century a colony was established in the middle east by the descendants of nomadic tribes and clans who migrated from neighbouring countries such as Saudi Arabia, Iraq and Iran, to settle on the coast of the Arabian Gulf in an attempt to avoid, not only the persistent drought of the desert and its resulting poverty and starvation, but also the threat of war from other nomadic tribes who still traversed the desert. On arrival at the coast, the migrants built forts to protect themselves, giving rise to the name 'Kuwait', which is derived from *kut,* an Arabic word for "fort" (Casey, 2007).

Casey (2007) highlights the importance of historical events in Kuwait, described in Table 2.1 below. His account shows that the Al-Sabah, Al-Khalifa and Al-Jalahima families participated in government from 1650 until 1765. However, in 1766 the Al-Sabah family became sole governors of Kuwait, and attempts to become independent from the Ottoman Empire [1] began in 1899 when Mubarak the Great signed the Memorandum with Great Britain.

[1] The land of Kuwait before the country was established under the Ottoman Empire.

Significant political participation by merchant families took place in 1938 (see Section 2.4), the same year that oil was first struck, as a reason of merchant families fearing losing their political influence over the governor, which may be explained by the fact that oil provided a source of government revenue (see Section 2.3).

Table 2.1: Timeline of historical events

Years	Events
1613	Migrant fishing village established at Kuwait
1650	Drought forces Bedouin families, later known as the Bani Utub, to migrate from Najd in Central Arabia; the Al-Sabah family is among the immigrants.
1672-1680	Sheikh Barrak bin Ghuraif of the Bani Khalid tribe builds a small fort at Kuwait.
1710	The Bani Utub, including the Al-Sabah family, settles in Kuwait.
1756	Sabah Bin Jaber elected Sheikh of Kuwait, founds the Al-Sabah dynasty and rules until 1762; Kuwait is a vassal state to the Ottoman Empire before the establishment of the country, as the land of Kuwait was under the geographic area of the Ottoman Empire.
1762	Abdullah 1st becomes sheikh and rules until 1814.
1766	Al-Khlifah and Al-Jalahima family begin to depart Kuwait, leaving Al-Sabah family in control.
1775	Kuwait makes first contact with the British Empire through the British East India Company.
1783	Kuwait's fleet defeats the Bani Kaab in a naval battle, fending off invasion.
1793-1797	Series of unsuccessful Wahabbi invasions of Kuwait
1814	Jaber 1st becomes sheikh and rules until 1859.
1859	Sabah 2nd becomes sheikh and rules until 1866.
1866	Abdullah 2nd becomes sheikh and rules until 1982.
1892	Mohamed becomes sheikh and rules until 1896.
1896	Mubarak (Mubarak the Great) assassinates his brother, becomes sheikh and rules until 1915.
1897	The Ottoman Empire recognises Mubarak the Great as the provincial sub-governor of Kuwait.
1899	January 23: Memorandum between Mubarak the Great and Great Britain recognises Kuwait's sovereignty.
1913	Anglo-Ottoman convention for independence of Kuwait from Ottoman Empire and become under Great Britain sovereignty.
1914	Small desalinisation plant is built.
1914-1918	First World War: Great Britain recognises Kuwait's independence from the Ottoman Empire in 1914.
1915	Jaber 2nd becomes sheikh and rules until 1917.
1916	The Great Arab Revolt against the Ottoman Empire
1917	Salem becomes sheikh and rules until 1921.
1920	Brotherhood invasion and battle of Jahra (Red Fort)
1921	Ahmed Al-Jaber becomes sheikh and rules until 1950.
1922	Uqair Protocol; Border Zone is established with Saudi Arabia.
1934	Kuwait Oil Company receives oil concession from governor (Sheikh), begins exploration.
1936	First exploratory oil well is drilled in Kuwait.
1938	a) Parliament movement headed by merchant families advocates popular political representation in Kuwait's government. b) First oil is struck in Burgan field in Kuwait.
1939-1945	Second World War; prevents development of Kuwaiti oil field
1946	Kuwait's Petroleum Industry begins pumping oil and sells it overseas.
1950	a) Abdullah Al-Salem (Abdullah 3rd) becomes sheikh and rules until 1965. b) A massive modern desalinisation plant is built to provide fresh water.
1960	Kuwait National Petroleum Company (KNPC) is founded; Kuwait is a founding member nation of OPEC.
1961	Kuwait Fund for Arab Economics Development (KFAED) is set up.
1962	**November 11:** Kuwait's first constitution is ratified by Emir Abdullah 3rd .
1963	**January 23:** popular election of Kuwait's first National Assembly **January 29:** first National Assembly convenes. **May 14:** Kuwait joins the United Nations (UN).

Source: Casey (2007)
Notes: this table shows the historical events of Kuwait since its establishment

2.3 Kuwait's Economic Situation

This section presents Kuwait's economy covering two distinct phases, before and after the discovery of crude oil which has transformed the country's economic activity. The development of business and the appearance of joint stock companies are also discussed, together with an account of financial crises and examples of manipulation.

2.3.1 Pre-discovery of crude oil

The livelihood of the Kuwaiti population in the pre-crude oil phase was based on agriculture and trade, and on other pursuits such as grazing, fishing and diving and life was harsh and the state budget depended mainly on tax contributions from merchant families (Al-Qenae, 1968).

Merchant families at that time, were almost 20 families (Al-Qenae, 1968), represented the only source of tax payers and sought to expand their business in the country. The increase in their wealth was due to: its strategic geographical position as an intermediary in commerce between Indian and Arab countries - for instance, shipments of merchandise from India and Saudi Arabia passed through Kuwait *en route* to Iraq and Syria. Further, there was an on-going war between Iran and Iraq that provided benefits to Kuwait through its role in linking the Far East and India by transferring merchandise from Iraq through its own ports to Europe. These two factors explain the volume of business activity which enhanced the wealth of merchant families, increasing the level of their tax contributions and in turn expanding their influence over the government (Al-Qenae et al., 2002; Al-Temimi, 2006).

Since the official recognition of Kuwait as a state in 1756, businesses in pearl diving and the carriage of goods and people grew (Al-Shamari, 1985). Pearling was regarded as the most important commercial activity, because the majority of Kuwaitis (62 % of the Kuwaiti citizens plus the merchant families) were involved (the total estimated population of Kuwait in 1807 around 15000) (Al-Temimi, 2006). Pearling involved three parties - ship-owner, the financier of the trip (both of whom were members of merchant families), and the divers. However, the profits of such trips were distributed among the three parties un-equally: the total number of merchant fleets in 1800 comprised 461 ships, their divers numbered around 9,200, yet the divers received only a basic wage, most of the revenue from trading going to the merchants (Al-Temimi, 2006). Growth in the businesses of merchant families, especially in the pearl industry, led to merchant domination of the country's economy in general and control of the pearling boats and trades in particular. The government levied a tax on the pearl industry due to the overflow of returns derived from this commerce in 1800's (Al-Shamari, 1985). The pearl industry in Kuwait at that time was making excessive profits for merchant families, which explains the wealth that empowered them (Ismael, 1993). However, the pearl industry in Kuwait diminished after the discovery of cultured pearls in Japan in 1859 as the business becomes unprofitable and cultured pearls becomes cheaper than the natural one, followed by the discovery of crude oil in 1938 that changed the business type of merchants to offer services.

Trade in contraband merchandise that bought in cheaper prices than market prices and sell them in market price, such as rice and tea from India, also created fortunes for the merchants during the pre-oil era. Business and trade were monitored in India by the British governor and taxes were enforced over merchandise. However, to avoid the tax levied on all exported

merchandise, merchants shipped goods before adding taxes and sold this as contraband merchandise in Arab countries at lower prices (Al-Temimi, 2006).

As a result of their economic wealth and dominance, merchant families were favoured by the Kuwaiti royal family. Before the discovery of oil, their primary role was to support the country's economy. The significance of this role can be illustrated by the efforts made by Mubarek the Great, Prince of Kuwait, to placate representatives of a dominant merchant family after disagreement with them led to their migration to Bahrain. The prince persuaded them to return to Kuwait in order to avoid the negative impact of their migration on the country's economy since the size of their business represented a major tax contribution (Al-temimi, 2006).

The situation remained largely unchanged until the discovery of oil in 1938, apart from the establishment of a joint-stock company in 1923 by the governor of Kuwait, Sheikh Ahmed Al-Jaber Al-Sabah, who granted a licence to the Transportation by Motors Corporation to be formed as a joint-stock corporation (Al-Shamari, 1985).

Since its discovery in 1938, the extraction of crude oil has become the backbone of the Kuwaiti economy as it finances a large proportion of the state's budget and its development plans and is an important source of national income and gross national product (Kuwait Voice, 2009: Electronic Journalistic Article). This is further discussed in the following section.

2.3.2 Post-discovery of crude oil

Oil was discovered in Kuwait in late 1938, but the Second World War caused the first commercial shipment launch to be postponed until 1946 (Al-Shamari, 1985). Since 1946, the dependence of the country's budget has shifted from taxation to oil revenue (Al-Qenae, 1968).

As in the pre-oil era, Kuwait's geography has supported merchant families in their efforts to maximise their wealth since the discovery of crude oil. Casey (2007) acknowledges that the geography of a country can enhance its wealth and political influence; in the case of Kuwait, in holding 10% of the global total reserves of crude oil, the country has particularly benefited from its geographical location in building its wealth and in exerting political influence on the international community as Casey (2007) notes:

> The geography of Kuwait ... covered by a bed of clay, silt, gravel, and sand ..., this sediment ... sits on top of a large dome that consists of limestone ... this massive rocks caps the reservoir of petroleum that provides Kuwait with its wealth and political influence.
>
> (p.5)

Geological factors such as the location of the onshore oil fields close to the Persian Gulf, the flow of oil toward the sea and the ease of drilling in the area have helped Kuwait to produce relatively cheap oil compared with the rest of the world. The central geographical location of Kuwait in the Persian Gulf, situated between the developed economies in the West and the growing economies of East Asia, has reduced transport costs and increased the significance of the Kuwaiti oil market (Haji and Al-Salman, 1995; Adelman, 1995).

These geographical features, combined with the huge amount of crude oil that was discovered, had a positive effect on the country's budget. As discussed earlier, the tax levied on the pearl merchants was the main source of income before the discovery of crude oil; since 1948, the production and profit post-oil discovery have represented a high contribution to the Gross Domestic Product (GDP) of the Kuwaiti economy reached up to 95% in 2004 and 2009. However, the percentage of oil contribution to GDP has differed at various times according to fluctuations in oil prices: it was at its highest in 1980 (62.2 per cent) and lowest in 1998 (30.5 per cent). This was because, following the oil embargo in 1973 when the disturbance of oil supplies by the Arabs caused prices to rise significantly, there was an oil boom from 1974 for six years, and by the end of 1980 the price had reached US$36 per barrel. From 1981, oil prices started to decline when the world demand for oil fell, reaching a very low level (less than US$10 per barrel) by 1998. Hence, the fluctuations in oil prices have had a significant influence on the Kuwait economy (Metwally, 1993; Al-Yousif, 1997; Stevens, 1997).

Table 2.2: total Kuwait's revenue of crude oil sales

	2007	**2008**	**2009**	**2010**	**2011**
Kuwait's revenue from crude oil sales in (m $)	*62,498*	*87,446*	*53,974*	*67,036*	*103,490*

Sources: OPEC annual statistic bulletin 2012
Note: this table shows the annual revenue in Million $ of Kuwait oil sales.

Despite the instability of crude oil prices, economic activity has focused almost entirely on the petroleum industry (more than 60 per cent of GDP) and the country controls approximately 10 per cent of the world's known oil reserves (100 million barrels of petrol and 1.5 trillion cubic meters of natural gas) and 22 per cent of the total reserves of the GCC countries (Casey, 2007; Gulf Cooperation Council, Economic Bulletin). But the Kuwaiti government has not

diversified the country’s income. Because of the dependence on crude oil sales to finance the country’s budget and projects, the economy has been transferred from a productive economy to a rentier economy depends on the return from oil sales, observable through an increase in local consumption that has led to growth in individual wealth and the entrenchment of the bureaucracy (Ismael, 1993; Al-Zumai, 2007).

In contrast with the pre-oil era, when the wealth of merchant families was derived from productive activity, after oil had been discovered their affluence was obtained from government expenses. With an abundance of crude oil sales, merchants were tempted to maximise their own interests as a result of a monopoly exploitation concession to the Kuwait Oil Company granted by the governor, Ahmed Al-Jaber Al-Sabah, in 1934. Al-Temimi (2006) states that the company was a joint-venture corporation owned by the Gulf Oil Corporation, an American corporation, and the Anglo-Persian Oil Company, which was a British corporation. Other foreign corporations were also granted oil exploitation concessions in different areas of Kuwait a decade later (Al-Shamari, 1985). Moreover, the governor allowed the British Bank for the Middle East to open a branch in Kuwait in 1942 which aimed to exploit revenue derived from the sale of crude oil, that was deposited in this bank (Ismael, 1993). This aroused feelings of jealousy among the merchant families, so in 1952 they established the National Bank of Kuwait (NBK) to share the benefits of crude oil sales with the British Bank for the Middle East from the oil revenue that had been deposited in the bank. As a result, the merchant families ceased their productive activity and changed to providing services (Al-Temimi, 2006).

The introduction of oil in Kuwait strengthened the position of existing merchant families as governments sought to enlarge local economies, and family businesses were well placed to gain government contracts (Peterson, 2001).

Merchant families not only established the NBK, but followed this by setting up the Kuwait National Cinema Company (KNCC) in 1954, the Kuwait Airways Company (KAC) in 1956, and the Kuwait Oil Tanker Company (KOTC) in 1957. Trading in company shares occurred in small brokerage companies, each of which was treated as an independent market with its own prices and supply and demand for shares, largely traded in ten Kuwaiti Dinars for a single share. The processes of establishing joint-stock companies continued as government contracts grew. The growth of joint-stock companies led the government to interfere to monitor and limit the number of establishing joint companies, with the issuance of the Companies' Code 15 in 1960 (Al-Shamari, 1985; Al-Qenae et al., 2002). After this there was a scarcity of investment opportunities that resulted in an increase in share prices over their book value, which in turn led to inflation. Fearing a sharp decline in share prices and a potential financial crisis, the government again intervened in 1976 by buying shares and consequently becoming owner of most of these companies. The total amount of government expenditure in the market was 500 million Kuwaiti Dinars, to control a bubble in company share prices, which were then divided into single dinars instead of ten dinars. The government transferred these joint-stock companies to state-owned companies such as the Kuwait Airways Company and the Kuwait Oil Tanker Company and created a fortune for the founders (Al-Qenae et al., 2002; Aljoman, 2011: Journal Article in newspaper). In 1977, the government established the Kuwait Stock Exchange (KSE) to organise the trading process.

2.3.2.1 Establishment of the Kuwait Stock Exchange and related economic events

The KSE was first established in 1977 as an attempt to organise the share trading processes of existing companies. However, both the high demand for shares and the desire to maximise short term profits led merchants to establish a new market outside the influence of government monitoring and to set up new joint-stock companies in other GCC countries to avoid obeying the regulations and away from the eyes of the government's monitoring bodies (Aljoman, 2011: Journal Article in newspaper). These companies became a parallel market to the KSE, known as the Al-Manakh market. The number of these companies reached 24 in 1981. During the third quarter of 1981, share prices rose dramatically in both the KSE and Al-Manakh markets: the KSE was eighth in size by market capital and for several weeks in 1981 the volume of trading in both Kuwaiti markets overtook that of the London Stock Exchange. The majority of transactions in the Al-Manakh market were paid by post-dated cheques, which led to the creation of futures contracts. As a result of the immense profits that were gained through the Al-Manakh market, 208 billion shares were traded, compared with 255 million in the KSE. However, the vast number of post-dated cheques resulted in a failure to settle at the due date, which in turn led to a collapse in share prices and in the market in August, 1982. The total unsettled post-dated cheques numbered 28,815, with a combined value of 26.7 billion Kuwaiti Dinars, four times the country's GDP for the same period (Al-Qenae et al., 2002; Aljoman, 2011: Journal Article in newspaper). The government stepped in by spending 2 billion Kuwaiti Dinars in buying shares, and then again had to support the market in 1986 by forgiving investors' debts at banks. Furthermore, the government transferred the ownership of listed companies to state-owned companies in 1986 (Aljoman, 2012: Journal Article in newspaper). From 1987 to 1990, listed companies, such as the National Investment Company, Agility and

Zain, were transferred to state ownership. Thus, the government dominated listed companies and the country's economic activity (Aljoman, 2011: Journal Article in newspaper).

After the Iraqi invasion in 1991, the KSE was reopened and four years later the government sold most of its ownership in companies. A group of merchant families and individual investors bought the shares, financed by the banks, which led to the over-pricing of shares again in 1996. In 1997 the Central Bank intervened to impose new regulations on banks by organising the process of lending money for investments which led to a sharp drop, of about 40 per cent, in share prices (Aljoman, 2011: Journal Article in newspaper).

The privatisation process occurred in 1995, and today Kuwaiti listed companies, are characterised of major shareholders either family or government or both (Aljoman, 2012: Journal Article in newspaper).

The major shareholders represent government investment divisions (the Kuwait Investment Authority and the Public Institute for Social Security) or merchant families as shown in Table 2.3. Not all merchant families are listed in table 2.3, however, these families are the most influential families in the KSE. The Al-Khurafi family is a major shareholder in 25 listed and unlisted companies, eight of which are in turn major shareholders in a further 38 listed companies in the KSE (Aljoman, 2011: Journal Article in newspaper). The National Investment Company (NIC) is also dominated by the Al-Kurafi family, featuring a pyramid ownership structure with 119 listed and unlisted companies (Aljoman, 2012: Journal Article in newspaper). The NIC is now managed by Jassim Al-Khurafi; he has been the speaker of parliament since 2003.

The Al-Sultan merchant family is a major shareholder in 9 listed and unlisted companies which in turn control a further five listed companies in the KSE (Aljoman, 2011: Journal Article in newspaper). The Al-Shayea family, through their unlisted family-owned companies, also own three listed companies in the KSE (Aljoman, 2011: Journal Article in newspaper). Similarly, the Al-Sabah family has invested in ten listed companies in the KSE through its own unlisted companies; one of those listed companies (the Securities Group company) holds another 12 influential ownerships in listed companies (Aljoman, 2011: Journal Article in newspaper). In addition, the Haider family is a major shareholder in eight listed companies which in turn holds a majority of shares in twenty listed companies (Aljoman, 2011: Journal Article in newspaper).

Table 2.3 Merchant families ownership in Kuwait

Family	Number of companies that have Pyramid ownership	Number of listed and unlisted companies major shareholders in
Al-Khurafi	8	182
Al-Sultan	9	14
Al-Shayea	1	4
Salem Al-Sabah	1	23
Hamad Al-Sabah	-	164
Haider	8	28

Note: these are examples of some merchant ownership in listed and unlisted companies

Merchant families have pyramid ownership structures and control many listed companies. At the same time they have political power through their representation in parliament. These examples illustrate the prevalence of pyramid ownership structures in the KSE. For instance, Hamad Al-Sabah are owners of 164 listed and unlisted companies, while the Al-Khrafi family

have 182 listed and unlisted companies, Pyramid ownership is defined as a structure in which an apex shareholder, usually a very wealthy family, owns and controls a company, which may or may not be listed; this company holds and controls blocks in hundreds of listed and private companies, thus placing large proportions of the economy of the whole country under the control of a single family. These are the structures that permit tiny elites to control the greater parts of the corporate sectors of many countries (Morck et al., 2004; Morck and Steier, 2005). They also have greatly augmented political influence relative to their actual wealth, and control the development of public policies, including investors' protection and enforcement, and institutions such as capital markets (Barca, 1995). This is achieved through their ability to pay to lobby politicians from their shareholders' investments in order to obtain their own benefits (Morck et al., 2004).

Evidence of the extent of merchant power and control can be seen in the new listed companies at the KSE in 2003. The new listed companies in 2003 were known as paper companies, the reason behind calling these companies paper companies refer to their type of operation, as they had no operational activities or assets. The only assets that these companies own are the number of shares issued to trade. Merchants use rumour and manipulative transaction through their listed and unlisted companies in order to raise their paper's companies share prices and attract investors such as the case of Al-Daar Investment, Agility, Global Investment House, and the International group of Investment (Aljoman, 2011: Journal Article in newspaper). They fabricated a high demand on the paper companies by using rumours that those listed papers' companies expected to have future projects and contracts that would generate high profit. The result was an inflated share price resulting in losses of capital of more than 60 billion Kuwaiti Dinars by the middle of 2008; the only actions taken against these companies

from the monitoring bodies (KSE) was a delisting all of these companies, whereas the boards have not been charged (Aljoman, 2011: Journal Article in newspaper). Merchants also speculated in the market by taking loans from banks despite the Central Bank law restricting giving loans for speculation; banks ignore this and continue to fund merchant families. In the second half of 2008 the global financial crisis occurred, and local banks in Kuwait became more conservative, by restricting loans. The diminished market led to a scarcity of liquidity and the capital market value dropped to less than 30 billion Kuwaiti Dinars by the beginning of 2009, a 50% drop compared with 2008 (Aljoman, 2011: Journal Article in newspaper). A minority group of investors claimed that the merchant families were responsible for establishing paper companies (Aljoman, 2011: Journal Article in newspaper). However, the KSE did not take any action and the courts did not support investor protection.

The above examples show that the merchant families have power and influence. Minorities' interests are not protected since the only action taken was delisting the listed papers' companies.

A further example of manipulation of the KSE by merchant families is the corruption of Midan Company, which was established in 1992 and listed in 2008. The main core of its business was based on opening and managing a dental clinic (Aljoman, 2012: Journal Article in newspaper). The company's share price rose sharply by 214% during the nine months from March, 2011, to January, 2012. The share price increased from 0.580 to 1.820 Kuwaiti Dinars, leading to a rise in the market capitalisation of the company to 273 million Kuwaiti Dinars, despite losses of around fifty per cent of total assets; furthermore, there was no disclosure of future projects or new operational profits. A dramatic increase in the company share price occurred on 15

December, 2011, its value rising by 87% from 0.790 to 1.480 Kuwaiti Dinars with one single buy order of 2500 shares. This reflected positively on the company's share price, which increased from 118.5 million to 222 million Kuwaiti Dinars. This occurred despite the book value falling 63 per cent from 0.133 million in December, 2009, to 0.049 million Kuwaiti Dinars in September, 2011; the KSE ignored these events (Aljoman, 2012: Journal Article in newspaper).

All of the above examples show that the merchant families are powerful and influential, and this power refers to their control over a number of listed and unlisted companies (pyramid ownership) that maintains their political influence over the decision makers in the country, as they have not yet been charged over their manipulative transactions.

The next section further discusses the significance of political factors and the effect of the economic power of merchant families on the political situation in Kuwait. A comparison is also made of the political role of merchant families and the governor during pre-oil and post-oil eras.

2.4 Political Situation

Peterson (2001) states that in the Gulf countries the ruling and merchant families, represent the top elites, and exercise both political and economic power. The political role of merchant families is subsidiary but important as they have strengthened their position through alliances with the ruling families. In the pre-oil era, merchant families controlled finance, especially in Kuwait, Saudi Arabia, Oman and Dubai, which in turn strengthened their position and influence over the rulers. Throughout the oil era, the merchant families have tended to support

the ruling families because of their shared mutual interests. In this way, merchant families have gained security, protection and legitimacy while the ruling families have gained prosperity (Peterson, 2001; Al-Haj, 1996). The next section further explains the political role of merchant families in pre- and post-crude oil eras, as well as the 4 assemblies that were established (1785, 1921, 1938, 1962) and will further explain the role of merchant families in those assemblies.

2.4.1 Pre-discovery of crude oil

After the establishment of Kuwait in 1710, the political structure, including administrative and judicial systems, was under the control of three families: Al-Jalahima, representing the management of maritime affairs; Al-Khalifah, which managed trade; and Al-Sabah, which supervised the welfare and judicial systems in the country (Al-Rumi, 2005). Consequently, the government that emerged was based on the principle of participation, and since then there has been no single dominant authority, democratic systems have been firmly established. However, the principles of participation did not continue as, in 1758, Sabah Al-Sabah (the first) became the governor of the country and the country came under a single dominant authority, Al-Sabah family (Al-Sabah, 2010: Journal Article in newspaper).

The economic power of merchant families before the discovery of crude oil was reflected in their tax contributions, which were the main source of the country's revenue. In turn, the merchants exerted pressure on Prince Mubarak in 1785 to agree to their participation in political issues by choosing members of their families as representatives in a newly established parliament, claiming it was necessary to share decision-making since they provided the

country with its funds. Fearful of a budget deficit if the merchant families ceased to pay taxes, the governor approved this request, and as a result the first parliament in Kuwait, in 1785, was comprised of a majority of merchant families. Despite parliament having no authority, and its duties being restricted to holding consultations with the governor, it was seen as a way of stabilising the Kuwaiti government (Al-Qenae et al., 2002). Hence, the economic power of merchant families enabled them to exercise political influence over the governor (Sheikh Abdullah Al-Sabah).

Due to the 1785 assembly having no authority over their members, the members of the assembly failed to attend the session when they realised that they had neither power nor permission to contribute to the decision making and the parliament was dissolved after 6 months as the members were not attending. The merchant families kept raising their claim to the governor of Kuwait at that time, Sheikh Ahmed Al-Jaber Al-Sabah, and since to have real political participation in managing the country’s affairs. The result of this continued lobbying was that a second assembly was established in 1921. The second assembly again lacked a due process of elections since the governor appointed the members of the assembly; Sheikh Ahmed Al-Jaber Al-Sabah appointed 12 members, all from merchant families. The assembly became famous as the assembly of merchant families, as all of the members were from merchant families (Yousef, 2010: Journal Article in newspaper; Al-Qenae, 1968). Al-Rumaihi (1994: Academic Forum) asserts that it was the role of Kuwaiti merchant families and their involvement in politics that led to the emergence of parliament and democracy in Kuwait. However, this consultative parliament in 1921 did not continue for more than three months as the members failed to participate in the decision-making process or manage the country’s affairs efficiently because of their diverse business interests.

However, the post-crude oil era saw changes to the government's financial dependency on the influence of the merchant families, and the country's budget became more dependent on the revenue from oil sales.

2.4.2 Post-discovery of crude oil

The early stages of crude oil exploration, which began in 1936, resulted in the merchant families becoming concerned that the government may achieve financial independence. They therefore continued to exercise pressure by requesting an extension of their authority over the state's decision-making process, especially in so far as any legislative role would maintain their fortune. The 1921 assembly was the first step toward political participation, but the merchant families recognised that, since the governor appointed his own members, their involvement was not in fact sought (Yousef, 2010: Journal Article in newspaper).

Pressure on the governor, Sheikh Ahmad Al-Jaber Al-Sabah, led to the establishment in 1938 of a third Consultative Council as the first elected legislative assembly. The voting was restricted to just Kuwaiti men, with 14 members, headed by Sheikh Abdullah Al-Salem Al-Sabah (a cousin of the governor), appointed by the governor Sheikh Ahmad Al-Jaber Al-Sabah. Although short-lived, it was an attempt to create a real democratic institution compared with other previous assemblies in 1785 and 1921 (Yousef, 2010: Journal Article in newspaper).

Since the first commercial shipment of crude oil in 1946, the country shifted from being funded by taxation to oil revenue, and the role of merchant families diminished (Al-Qenae,

1968). However, the merchant families changed their business model and in 1959 set up the board of the Kuwait Chamber of Commerce and Industry (KCCI), which they dominated. Their underlying aim was to combine their financial power to allow them to intervene in political issues. Moreover, they established a newspaper, known as Al-Qabas, in an attempt to persuade readers to adopt their views (Al-Temimi, 2006). The National Library had already been established by the merchant families in 1923 to raise awareness of the political situation in order to influence public concern and to convince ordinary citizens of the necessity of participation in the country's politics (Al-Mdairies, 1999).

Merchants consolidated their economic power through the KCCI and extended influence over the general public by using the media, in efforts to persuade the governor, Sheikh Abdullah Al-Salem Al-Sabah, to write a constitution for all Kuwaiti citizens. This would enable them to participate in legislation by constituting a parliament in which all members were elected by the citizens. The first elections to the Constituent Assembly took place on 19 June, 1961, marking the beginning of a modern parliamentary democracy. The parliament was responsible for the constitution of the country. The new constitution was introduced in 1962, granting a participatory role for the members of the Constituent Assembly in the enactment of codes and legislation. On 1 November, 1962, the draft constitution was approved by the then governor, Sheikh Abdullah Al-Salem Al-Sabah. Parliament then resigned after the constitution was approved as the duty of the constitution assembly was just to set and approve the constitution of the country. The governor, according to the country's constitution called for a new election in 1963. The constitution came into force on 29 January, 1963, when the first National Assembly was convened (Al-Qenae et al., 2002; Al-Qenae, 1968).

The National Assembly's financial responsibilities include the approval of the state budget and the final accounts. It also supervises executive power, by submitting questions, initiating discussions and setting up commissions of inquiry. Such supervision can lead to a vote of no-confidence against a minister and result in his resignation. A vote of no-confidence against the prime minister is not allowed, but the Assembly has the right to decide not to cooperate with the prime minister. In such a case, the issue is taken to the Governor (Sheikh), who may either relieve the prime minister of his office and appoint a new cabinet, or dissolve the Assembly and hold fresh elections (Kuwait Voice, 2009: Electronic Journalistic Article).

The National Assembly has the right to set up standing committees as well as *ad-hoc* committees from among its members, which include those for Petitions and Complaints, Interior Affairs and Defence, Financial and Economic Affairs, Legislative and Legal Affairs, Affairs of Education, Culture and Guidance, Health, Social Affairs and Labour, Foreign Affairs, Public Utilities, Protection of Public Funds and the Defence of Human Rights. Committee members' elections now depend on connections and party influence with the government, which is itself represented by members of parliament who vote for election to committees (Yousef, 2010: Journal Article in newspaper).

The early creation of councils in Kuwait (and Bahrain) initiated the political role of merchant families. Peterson (2001) reports that the merchant families in Kuwait have long been heavily represented in the National Assembly, and Jasim Al-Khurafi, scion of perhaps Kuwait's wealthiest family, serves as Speaker. Merchant families chose to become involved because of the prestige of membership which advances their interests. Merchant families, through their presence in the parliament, tend to back the government against liberals, tribalists and

Islamists. They back the government and support the status quo because they have the most to lose from political or economic turmoil in terms of wealth and position; many of them have prospered financially and raised themselves socially from their close association with the ruling family (Peterson, 2001).

Merchants support the government as a result of the competition they face from an emerging middle class who seek a larger share of the spoils and increased participation in politics. The general citizenry are opposed to this because of issues of corruption and inequalities in the distribution of wealth (Peterson, 2001).

As a result of this opposition, parliament has been dissolved seven times in 1976, 1986, 1999, 2006, 2008, 2011 and 2012 and parliamentary life disabled in 1976 and 1986. The dissolution of parliament was related to scandals that occurred in the Al-Manakh. For example, parliament questioned the minister of finance, Jassem Al-Khurafi in the end of the year 1985 to obtain information and data about government expenditure in settling the crises, and the names of those involved; however, the minister refused to cooperate and the governor, Sheikh Jaber Ahmad Al-Sabah, dissolved parliament (Al-Temimi, 2006).

Thus the merchant families in both the pre- and post-oil eras have played a significant role in the political situation of the country. The economic power of those families gave them political influence over the governors of Kuwait. Before the discovery of crude oil, merchants represented a majority in parliament, and in the post-crude oil era they again raised their voice and their economic dominance led to the establishment of the National Assembly and a written constitution between the royal family and the citizens of Kuwait. The relationship between

governors and merchant families continued to reflect their desire to protect their own interests: the dissolution of parliament in 1986 following the Al-Manakh crisis is evidence of government intervention to compensate merchant families and protect their manipulative practices.

Moreover, merchant families have engaged in manipulative practices in the KSE; laws have not been introduced to protect against manipulative groups; and there has been little legal protection for the interests of the minorities, who have lost money invested in listed companies through manipulative transactions and market rumours (Aljoman, 2011: Journal Articlle in newspaper). It is therefore now important to discuss the legal situation and the role of law in Kuwait and to examines the development of legislative systems both pre- and post-crude oil discovery.

2.5 Kuwait's Legal System

This section first describes the legal system of the pre-oil era, and then examines the differences introduced after the discovery of crude oil. It also illustrates the relationship between the legal system and the merchant families.

2.5.1 Pre-discovery of crude oil

The legal system in the pre-crude oil era was founded on the Islamic legal system (Sharia law). Citizens involved in a dispute usually met in either the governors' council or the merchant councils (Al-Shemari, 2008). However, the judiciary reformed its organisation and began to assemble in a single location. For example, in 1920 commercial disputes were resolved through the commercial committee, the members of which were appointed by the governor;

resolutions were based on the decisions of previous similar cases. In 1928, a specific court building was established by the governor of Kuwait, Sheikh Mubarek the Great, who appointed Sheikh Abdulla Al-Sabah as director of the courts. The building comprised two sections, the first for diverse affairs that are concerned with disputes between pearl divers and merchant families and the second for the registration of real estate (Al-Shemari, 2008). Such relatively uncomplicated business ventures did not give rise to issues that required formal regulations in order to administer Kuwaiti commerce. The disputes that arose out of commercial activities were resolved by a specialist panel which based its resolutions on Sharia law, traditions and commercial customs. This situation continued until the discovery of crude oil and establishment of joint-stock companies during the 1950's.

2.5.2 Post-discovery of crude oil

A significant number of corporations formed in Kuwait during the 1950's which led to a surplus of income derived from oil sales by the middle of the decade (Redhwan, 1998), and it became necessary to regulate corporate activities. To address this need, the first Companies Law was enacted in 1960 (Kuwait Companies Act Article: 15/1960). Shortly afterwards, in June, 1961, a treaty was signed by Kuwait and the British Empire to terminate its protection, which gave the state of Kuwait full independence. This was followed by the replacement of the country's currency that was previously approved, which was the Indian Rupee, with a new currency called Kuwaiti Dinars, in 1961, which became the only currency accepted in dealing. However, the penalties imposed on offending companies remained in Indian Rupees as the 1960 Company Law pre-dated the replacement of currency in 1961, indicating that no amendments had been made to legislation since Companies Law were enacted (Al-Melhem, 2009).

In 1962, the governor, Sheikh Abdulla Al-Sabah, introduced a new constitution in Kuwait and called for the elections of the first National Assembly, seeking to involve citizens in the establishment of the constitution, which also set the country's regulatory and legal system, a combination of French civil law and Islamic and Egyptian law, the reason for applying the Egyptian French based civil law is because that Egypt first applied the French civil law as well as Sharia law, hence Kuwait in 1961 had quoted the Egyptian law (Al-Shemari, 2008). The constitution guarantees the independence of the judiciary and defines its organisation and functions. It incorporates the main legal codes, which include the civil, commercial and criminal codes and the Code of Criminal Procedure (Al-Shemari, 2008).

The judicial system has three levels. The first level is the Court of First Instance, which hears civil, commercial and personal claims, and supports penal actions. The Appellate Courts are at the next level, where appeals against sentences from the Court of First Instance are heard. Located at the top of the judicial system is the Court of Cassation, which was established in 1990 to consider the judgements issued by the Appellate Courts to monitor their conformity with the law. The provisions of the Cassation Court cannot be challenged. The Judicial Board consists of the Presidents and Vice-Presidents of the Supreme Court and the Appeal Courts, together with the Attorney General, the President of the High Court and the Under Secretary to the Minister of Justice (Al-Shemari, 2008).

Another court, the State Security Court, founded in 1969, considers issues relating to both external and internal state security. The Constitutional Court, set up in 1973, is empowered to interpret the constitutionality of legislation with the authority to review electoral challenges.

This court is composed of five members selected by the Judicial Council and elected by secret ballot, and a reserve member. The law requires that the judges of the Constitutional Court are Kuwaiti citizens (Al-Shemari, 2008).

The next section analyses Companies Law and compares it to corporate governance code to establish whether the civil law adopted by Kuwait meets international practice.

2.5.2.1 The Companies Law of 1960 and corporate governance practices

This section considers the practices of corporate governance in relation to companies' ownership structures, the independence of directors, the structure of the board and board committees, and attempts at transparency and disclosure, and compares these with the provisions of the current Companies Law.

Before that, it is useful to outline the influences over corporate disclosure and legislation for companies in Kuwait. The merchant families, after the discovery of crude oil, specifically in the 1950s, established shareholding companies. The government, in 1960, found that the number of shareholding companies, the disorganised trading of their shares and the lack of legislation that governed these companies made it necessary to issue an Act to oversee the process of establishing and monitoring these companies (Al-Melhem, 2009). The result was the issuance of the Companies' Act (Article 15) in 1960, which requires annual financial statements to be submitted to the MOCI together with an audited balance sheet and profit and loss account statement, however, there was no stipulation in the legislation about which accounting standards were to be followed, and unlike Saudi Arabia, Kuwait did not have any accounting standards of its own (Abdallah, 2001). Then in 1992 MOCI made compliance with

International Accounting Standards mandatory for listed companies (Abdallah, 2001). The MOCI now requires that all listed companies produce financial statements in accordance with International Financial Reporting Standards (IFRS).

Companies also report to the MOCI on a monthly basis about the monthly transactions volume of a company's securities traded, and the highest and lowest prices of the company's stock, for all KSE listed companies (MOCI, 2000). The Kuwaiti Association of Accountants and Auditors (KAAA) is the only local professional body of accounting in Kuwait and membership of the association requires an individual to hold at least a Diploma in accounting (Abdallah, 2001). The KAAA was established in Feb 1973 (kwaaa.org) but only recently joined the International Federation of Accountants (IFAC) in June 2011 (ifac.org). A total of 2087 members are registered with the KAAA according to the last financial report of the KAAA in 2012 (kwaaa.org).

An external auditor has to be appointed by the board to check that the financial statements show a true and fair view. The external auditor has to be registered with the MOCI, hold at least a Bachelor of Accounting, and have at least 5 years audit experience (MOCI, 2000).

Borsuly (2007) has criticised the companies' Act 1960 (Article 15) for being outdated. For example, insider trading penalties are just 10-200 Kuwaiti Dinar (£25-£450) which is very low compared with the penalties for insider trading in other international markets.

Another criticism of companies Act is, according to the 1960 Companies Law, ownership structure is less about company structure than about protection for Kuwaiti investors and merchant families from foreign investors. It is stipulated in Article 5 (Section VI) of Law No: 15/1960 that at least 51% of the capital of every corporation incorporated in Kuwait must be owned by Kuwaitis:

> The amount of the capital and each partner's contribution, provided the percentage of the Kuwaiti partners' holdings in partnerships that are formed after the operation hereof, shall not be less than 51 (fifty-one) per cent of the capital.
>
> Kuwait Companies Law No: 15/1960, Article 5, Section VI, (official translation)

In other words, if a foreigner wishes to set up a company in Kuwait, that investor cannot own more than 49% of the company`s capital. The rest of the capital has to be from a Kuwaiti contributor. A similar restriction was imposed on the foreigners' equity ownership in joint-stock corporations by Article 68 of Law No. 15/1960, which states:

> Every joint stock company, which is incorporated in Kuwait, shall be of Kuwaiti nationality; all partners shall be Kuwaiti and the company's head office shall be in Kuwait. However, as an exceptional measure, a number of persons who are not Kuwaiti nationals may be partners in a joint stock company (but not banking and insurance companies) if it is necessary to invest foreign capital or exploit foreign expertise, provided that the capital holdings of Kuwaitis shall not be less than 51 (fifty-one) per cent and provided also a license to that effect is obtained from the government department concerned.
>
> Kuwait Companies Law No: 15/1960, Article (68), (official translation)

The Companies Law therefore protects merchant families from foreign competitors and gives them the power to dominate listed and unlisted companies under the 51% ownership rule.

Kuwait has adopted a unitary board of directors as set out in Article 146 of the Companies Law (Kuwait Companies Law No: 15/1960, Article 146) but the board should include the owners who have been elected or one of their representatives. Boards of directors in Kuwait enjoy wide powers in relation to the conduct of the company`s affairs, and the Annual General Meeting (AGM) has no right to challenge board decisions, unless the AGM restricts board

authority by ordinary resolution (Al-Melhem, 2009). Furthermore, the board of directors is elected at the AGM in a secret ballot. The minimum number of directors, stipulated in Article 138 of the Companies Law, is three directors, but the law allows the determination of the maximum number of the directors to be provided for in the company's memorandum of association.

Because the Kuwait Companies Law is silent about independent directors, the legislature has not imposed any obligation on companies to appoint independent directors to their boards. Indeed, Article 145 of the Law permits the board of directors to be composed solely of executive directors; this Article can therefore be viewed as undermining international practice of corporate governance (OECD, 2004; the UK combined code 2012; ICGN), in Kuwait due to the absence of independent directors, since controlling shareholders usually appoint representatives who act mainly on their behalf and not of all stakeholders.

The separation of the roles of chairman and chief executive officer (CEO) as recommended by several corporate governance codes enhances the independence of the board of directors and minimises the potential for conflicts of interest (Mallin, 2004). For instance, the OECD's Corporate Governance Principles (2004) state that:

> Separation of the two positions may be regarded as good practice, as it can help to achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management.
>
> (OECD Corporate Governance Principles, 2004, p.63)

Moreover, the UK Combined Code (2006) has also recognises the separation of the two roles:

> There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.
>
> (UK Combined Code, 2006, p. 4)

The Kuwait Companies Law has no provisions for splitting the role of chairman and CEO, which, it could be argued, hinders good corporate governance practice in Kuwait.

Another issue concerns board committees, which support board decisions and should raise transparency. These committees include the audit committee, the remuneration committee, and the nomination and corporate governance committee (Rowland, 2002; Charkham and Ploix, 2005). The creation of such committees in Kuwait is weak, as the Companies Law does not recognise them although some companies have taken that step - but the efficiency and impartiality of these committees can only be achieved if all members are independent directors (Al-Anjeri, 2009: Journal Article in newspaper, member of Parliament).

In addition, the Companies Law fails to enforce disclosure, with specific regard to related party transactions: in Kuwait, the Law does not require the board of directors to disclose any details of these. Further, the non-disclosure of related party transactions may encourage the directors to abuse their power at the expense of the company and its shareholders. Indeed, in comparison with other GCC countries, Kuwait is poor as the law in other GCC countries provides for other procedures that the directors are obliged to follow in order to validate their transactions with the company. For example, the United Arab Emirates Companies Law stipulates that directors who are involved in transactions with their companies must disclose

their interests to the board of directors for their approval; in addition, such directors have no right to vote on their transactions (United Arab Emirates Federal Companies Law No: 8/1984). Furthermore, the Saudi Companies Law requires directors who have an interest in transactions with their companies to disclose this interest, and also specifies that the chairman of the board of directors should present the interested director's disclosure to the shareholders at the next General Meeting; moreover, the interested director is prevented from voting on the transaction (Saudi Royal Decree No: 6/1965; Provision 18 of the Corporate Governance Regulations in the Kingdom of Saudi Arabia issued by the Board of Capital Market Authority Pursuant to Resolution No. 1/212/2006).

The origin of laws (civil law) adopted in Kuwait since independence may influence corporate governance in general and, more specifically, the Companies Law; the Law was issued in 1960 and, as previously mentioned, penalties remain in Indian Rupees and no update has been made; concentrated ownership is encouraged by protecting merchants and major owners from foreign competitors, board membership is restricted to owners and their representatives; independent directors are not mentioned; CEO duality is common with Kuwaiti listed companies (separation of chair position from CEO is rare); board committees are ignored. Hence, this thesis will examine the level to which the legal system influences the development of Kuwaiti's act and corporate governance code.

Thus merchant families may play a major part in the judicial system and the codes and articles of the Companies Law has reinforced their control over listed companies. The following section attempts to resolve this issue by considering the impact of culture on the activation of laws and codes.

2.6 Kuwaiti Culture

Culture is influenced by past events, and has been defined as "the systems of knowledge shared by a relatively large group of people" (Gudykunst and Kim, 1992). In Kuwait, merchant families were socially well connected in the community during the pre-crude oil era through their close relationship with governors (Sheikhs). This close relationship was the result of their contributions to the country's budget, and their governors appointment to judiciary and legislative roles. Further, their level of education was higher, achieved as a result of their travels across countries, gaining knowledge and the ability to speak different languages encouraged a close relationship with the governors. They also contributed to the country's education system in raising the level of education of citizens with the establishment of the first school in 1911, and launched newspapers and magazines. They founded the National Library in 1923, using this and other locations for their political symposium. This gave credence to the idea that merchants were more educated than other citizens, which raised their social status (Al-Mdairies, 1999).

After the discovery of crude oil, their level of education served the merchant families as they were the best choice as representatives in the fledgling governments after Kuwaiti independence and the establishment of the National Assembly. The first government was formed in January, 1962, and included fourteen ministers, three of whom represented the merchants and 11 from the royal family. Later appointments strengthened the prominence of these families in the community and their ties to the ruling families (Peterson, 2001).

Appointment was not restricted to the ministry or parliament - one of the merchant families was hired by the governor, Sheikh Ahmad Al-Sabah, in 1945 to manage his own investments.

The same person was appointed to the council that supervised development plans in areas such as health, education, council and food supply (Al-Habib, 2012: Journal Article in newspaper). This close relationship has continued to grow since the discovery of crude oil up to the present day, as a result of the contribution of merchant families to building and developing the country. It has become one of the main cultural features of the post-crude oil era, characterised by the governors' payback to the merchants, including the offer of protection to their businesses. The social status of the merchant families has thus increased in the community and has placed them above the law. This social status may have an influence in activating codes and laws against them, which the thesis will examine (Al-Naibari, 2011: member of Parliament, journal article in newspaper; Hussain, 2013: Journal Article in newspaper). It is also a cultural norm of Kuwaiti society that merchant families rely on personal networks or higher authorities for the successful completion of a business transaction in order to protect their interests (Al-Shahed, 2012: Article in newspaper). In summary, the social power that has been achieved by merchant families is a cultural feature. They have raised the level of education and finance, established personal networks and connections with decision-makers.

Furthermore, corruption, which encourages the expansion of both government and private sectors, is another mark of Kuwaiti culture (Al-Anjeri, 2009: member of parliament, Article Journal in newspaper). The CPI index for classifying corruption ranked Kuwait a corrupt country with a score of 4.3 (on a scale of 0-10, with 0 indicating a high level of corruption). This score dropped to 4.1 in 2009, and recovered in 2010 to 4.5, followed by 4.6 in 2011 (CPI, 2011; CPI, 2012). However, the recovery period did not continue into 2012, when the country's classification fell to 12th lowest with a score of 3.8; as the result of a media announcement that 13 MPs were receiving bribes from the merchants and the prime minister

to vote with the government, which was facing questioning from opposition parties (Al-Adsani, 2013: member of parliament, Article Journal in newspaper).

Existing forms of corruption in Kuwait can be explained by the violation of law and regulations, reflected in the misuse of power and influence as well as in the prevailing practices of favouritism, nepotism, bribery, embezzlement of public funds, profiteering and the illegal acquisition of privileges and special benefits. Corruption has become the dominant influence on decision-making in Kuwait (Al-Tarrah, 2012: Journal Article in newspaper).

One of the factors that has encouraged the increase in power of those who engage in corruptive practices is the lack of integrity and transparency inherent in the launch and establishment of government tenders: detailed specifications may suggest the potential of a specific company, but without offering the opportunity for real competition; moreover, those with influence grant licenses or are involved in the commercial exploitation of state territory under the guise of exchange of interests or political benefits, or use bribery (Al-Rashid, 2009: Journal Article in newspaper).

Corruptive practice is further exemplified by the assignment of government positions on the basis of favouritism, nepotism, kinship and political allegiance; the absence of the principle of equality and equal opportunities means that any notion of efficiency is neglected (Al-Rashid, 2009: Journal Article in newspaper). The complexity of administrative procedures and the slow completion of transactions have also encouraged bribery and law-breaking. In addition, the pursuit of political interests has led to attempts to influence judicial decisions and to the purchase of loyalties and alliances between those in the position of leadership and those

involved in corruption (Al-Rashid, 2009: Journal Article in newspaper). Overall, the cultural context of Kuwait shows that social and personal relationships are valued in the country, specifically between merchant families and the government. Table 2.4 shows the newspaper in Kuwait and their ownership.

Table 2.4 Kuwaiti Newspaper ownership

Title of Kuwaiti newspapers	Owned by
Alqabas	A group of 6 merchant families the majority of these families are in the parliament
Alshahed	Royal family
Alwatan	Royal family
Alaan	Opposition in parliament
Altaleea	a weekly newspaper owned liberal association

Note: this table shows the ownership of Kuwaiti newspaper and political orientation

2.7 Summary

Clearly merchants are well connected with the royal family and decision-makers and may consider themselves to be above the law and therefore not accountable. They have achieved economic power which has brought them an increased political role and great influence. Their presence in both the council and in the National Assembly has extended their connections with decision-makers and monitoring bodies. However, a feature of Kuwaiti culture is corruption which has had a negative impact on the country's classification in international organisations such as the CPI. Further, legislative and regulatory systems, represented in Companies' Act (Article 15), issued in 1960, needs amending. The National Assembly is responsible for these amendments, but the merchant families may want to maintain their control over companies which may make this difficult. This thesis therefore will explore the role of political, legal, and cultural factors and whether these factor helping merchant families oppose any amendment for

the current Act or issue a new Kuwaiti code of corporate governance. The next chapter gives an overview of the factors that influence the development of corporate governance.

Chapter 3
Literature review

3.1 Introduction

The emergence and development of corporate governance occurred as a result of a series of corporate failures (Imhoff, 2003; Kirkpatrick, 2009). However, the level of development and effectiveness of corporate governance has been influenced by a number of different factors, which have contributed to the development of a code in many countries such as the UK and USA, and may have prevented the issuance of a code in other countries, such as Kuwait (Berglof, 1997; Beck and Levine, 2008; Hope, 2003). Hence, section 3.2 provides a brief introduction to the definition and history of corporate governance. In section 3.3, the development of corporate governance codes will be documented, using the case of the UK as an example as this was the first country to issue a code (The Cadbury report, 1992), followed by a discussion of corporate governance in the USA such as Enron failure and how it impacted on the development and review of the existing UK corporate governance and the OECD guidelines on corporate governance, followed by a discussion of the OECD principles of corporate governance. The UK and US countries were included to trace how political, legal, and cultural factors influence the development of both countries governance practices. Also, the development of corporate governance code in France, Egypt, and Germany are documented as those countries are similar to Kuwait in their legal system to trace how legal, political, and cultural factors influence in the development and effectiveness on governance practices, followed by a general discussion of corporate governance in developing and MENA countries.

Also, GCC countries such as Saudi Arabia, Bahrain, Oman and UAE are included to show how legal, political, and cultural factors influence on the effectiveness of their codes, the GCC countries are included as they are relevant to Kuwait cultural and political context.

After briefly introducing the history and development of corporate governance in the first two sections, the following sections illustrate the influence of legal, political, and cultural factors on the development of corporate governance. Hence, section 3.4 illustrates the impact of the legal and regulatory system on the development of corporate governance, illustrating the features of two different legal systems (civil and common law) and their impact on the level of investors' protection and ownership structure. The legal system applied in different developing countries, including Kuwait, is also discussed.

Section 3.5 demonstrates the impact of political factors on the development of corporate governance; examples from different countries are given in this section to illustrate how political factors can affect the issuance or development of a corporate governance code, such as the relationship between powerful merchant families and politicians. The impact of cultural factors is discussed in section 3.6, to assess how culture can impact on the issuance and development of a corporate governance code.

3.2 Historical background of corporate governance

Before discussing the development of corporate governance in different countries, it will be useful to introduce the concept of corporate governance. Shleifer and Vishny (1997) define corporate governance from the perspective of finance, focusing on the protection of outside investors from expropriation by insiders. They suggest that corporate governance:

> "Deals with the ways by which suppliers of finance to corporations assure themselves of getting a return on their investment" (p. 737).

Based on Shleifer and Vishny's (1997) definition of corporate governance, the expropriation by insiders to maximize their self-interest has often been accompanied by corporate failure and

scandals and a weak corporate governance system (Brown et al, 2011, Mallin, 2007). The history of corporate governance dates back to the start of business (Vinten, 2003) and, like other historical processes, is path dependent (Morck et al., 2004); events such as corporate failure affects what happens next, such as the development of corporate governance codes and laws.

Although there is often a conservative bias that impedes institutional change, when a crisis occurs, the jolt makes change possible (Morck and Steier, 2005). Table 3.1 illustrates cases of corporate failure and scandals resulting from poor corporate governance and also shows the dates when a corporate governance code was issued in each country. For example, Demirag (2005) states that corporate failures and scandals in the USA (Enron, World Com and Tyco), UK (the collapse of the Maxwell publishing group), Germany (Holtzman, Berliner Bank, and HIH), Korea (the widespread banking distress in 1997), Australia (Ansett Airlines and One Tel), France (Credit Lyonnais and Vivendi), and Switzerland (Swissair) brought changes to the governance systems in those countries. Also, in GCC countries, almost all those countries' stock market crashes, such as in Saudi Arabia in 2006, Qatar (2008), the UAE (Feb 2007), Oman (1998), and Bahrain (2007) were caused as a result of the manipulation, speculation and violation by major shareholders (Alfreedi et al., 2012; Ceil, 2012; Kippreport, 2012).

These corporate failures that caused the stock markets to crash led to external pressures from media and society being placed on the governments and regulatory bodies to take policy initiatives of a legal or regulatory kind to force institutional change within the organisational field, through coercive mechanisms such as issuing corporate governance codes (Demirag, 2005; Alfreedi, et al., 2012; Ceil, 2012; Abumustafa, 2007).

History shows that the issuance of corporate governance codes has been associated with corporate failure and scandals or stock market crashes in the case of GCC countries as a result of companies' fraud. The following sections (3.4-3.6) illustrate the factors that have influenced the issuance and development of corporate governance but, before discussing these, the next section illustrates the development of corporate governance in the UK and USA; and globally by the OECD as these have been influential on a global scale (Solomon, 2011).

Table 3.1: Corporate failures attributed to poor corporate governance

	Companies	Date of collapse	Country	Code issued
Panel A: corporate collapse				
	Maxwell, Poly Peck, BCCI, Marconi	1991-1992	UK	1992
	Credit Lyonnais	1995	France	1995
	Babcok, Hotzman, Berliner Bank	1998	Germany	1998
	Banking Industry (Asian Crisis)	1997	South Korea	1999
	HIH, Ansett Airlines, One Tell	2001	Australia	2002
	Swiss Air	2001	Switzerland	2002
	Enron, World.Com, Tyco	2001-2002	USA	2002
Panel B: GCC markets' collapse				
	Stock market crash	1998	Oman	2002
	Stock market crash	2006	Saudi Arabia	2006
	Stock market crash	2007	UAE	2007
	Stock market crash	2007	Bahrain	2010
	Stock market crash	2008	Qatar	2008

Sources: Commonwealth of Australia 2010
Source: ecgi
OECD, 2004
Note: the table shows in both panel companies' fraud and failure, panel B shows that in GCC countries most of companies have failed as a result of fraud that leads to stock exchange crashes.

3.3 Development of corporate governance

Aguilera and Cuervo-Cazurra (2004) relate the development of corporate governance across countries to institutional pressures such as the strength of the stock market in a country (Endogenous forces) which influences the adoption of codes. For instance, a developed stock market is likely to encourage the implementation of codes of governance in order to increase the efficiency of the country's corporate governance system, and economic integration of the world economy or the presence of foreign institutional investors (exogenous forces). A country such as Kuwait has a weak stock market and few foreign institutional investors and hence may have less developed governance.

In this section, the development of corporate governance in the UK, USA, and OECD are illustrated as they have been important on the global stage. For example, the OECD principles of corporate governance, issued in 1999, built on the UK's Cadbury report (1992) and the UK's Combined codes that was issued in 1998, and the OECD's revised code in 2004 reflected both the US Sarbanes-Oxley Act (SOX) and the UK Combined codes (Turnbull, 2005; Jones and Pollitt, 2004).

Corporate governance started in the UK and was originally driven by the corporate failures and scandals associated with some larger companies (Mallin, 2007). The first well-documented historical event was the South Sea Bubble of 1720 (Iskander et al., 1999), which placed external political pressure on the government and regulatory bodies to prevent further disasters (House of Commons, 2011). Since then the laws and regulations governing UK business have continually changed to protect stakeholders suffering from corporate collapses (Dragomir, 2008).

From a US perspective, the economic prosperity of the 1920s ended with the Wall Street crash of 1929, which revealed manipulation of the market, internal trafficking, mismanagement and the reckless violation of the rights of shareholders and led to a long recession between 1929 and 1933 (Klein, 2001). As a consequence of these problems, the Securities Act 1933, as well as the Securities and Exchange Act 1934, were introduced by the US government (Clarke, 2004), regulating the governance of companies.

In 1978, the US business roundtable issued a report entitled “The role and composition of the board of directors of the large publicly owned corporations”, aimed at improving the governance capacity of US corporations, whereas the other issuance refers to the Hong Kong stock exchange, when they issued their first draft of the “code of best practice, Listing rules” in 1989, followed by the Irish Association of Investment Managers’ drafting of the “statement of best practice on the role and responsibility of directors of publicly listed companies”, in 1991 (Aguilera and Cuervo-Cazurra, 2004).

The term ‘corporate governance’ first originated in the UK, with the issue of the Cadbury Report in 1992. Jones and Pollitt (2004) state that the quality of this report’s conclusions and the implementation of its recommendations are reflected in the fact that it is now internationally recognised as the starting point of the development of corporate governance.

The Cadbury Report (1992) resulted from a number of high profile corporate failures that led to a growing lack of confidence in corporate activities (West, 2010), which attracted the attention of the UK government (Dulewicz, 2004), and a range of significant changes were made to British corporate governance by the findings of different committees with the aim of

restoring investor confidence in the system (Arcot and Brun, 2006). The UK's approach thus involved the creation of committees to deal with specific corporate governance issues, starting with the Cadbury Report in 1992, and all being consolidated in the Combined Code on Corporate Governance (last revised 2012).

Since the establishement of Cadbury code by the Cadbury Committee in 1992, UK listed companies at that time were enacted, external pressure exerted by many stakeholders including shareholders, the professional bodies, and the media led 93% of the UK listed companies had comply with the code in 1996 (Dyck and Zingales, 2002).

The Cadbury Report covers three aspects of corporate governance, namely, the board of directors, the shareholders (accountability of boards to shareholders, institutional shareholders, shareholder communications, and shareholder influence) and accounting and auditing. First, it states that the most important corporate governance mechanism, which required constant monitoring and assessment, was the board of directors. Secondly, the level of corporate transparency was also shown to play an important role for shareholders and other stakeholders. Finally, good corporate governance also encompassed good financial accounting and auditing (Jones and Pollitt, 2003; Solomon, 2011; Rani and Mishra, 2008).

The Cadbury Code was a voluntary code, but was indirectly enforced through the UK Stock Exchange, which requires all UK listed companies to state whether or not they complied with the code and to give reasons for any areas of non-compliance as an obligation of their listing (Arcot et al., 2010; Maier, 2005; The Cadbury Report, 1992).

Another development in UK corporate governance was the 1995 Greenbury Report, in response to calls for the government to reform the structure of boards and directors'

remuneration, linking pay to the performance of individual directors[2] (Greenbury report, 1995; Carter et al., 2007). The main recommendation was the creation of board remuneration committees and the disclosure of directors' remuneration in corporate annual reports (Hegazy and Hegazy, 2010), strengthening accountability and enhancing the performance of the directors (Mallin, 2007). The Greenbury Report was implemented by UK listed companies as a result of external pressure raised by the media and public concern about the high remuneration packages paid to CEOs and executives, exercised by institutional investors and as a listing requirement.

The recommendations of the UK's Cadbury and Greenbury codes were reviewed in 1998 by the Hampel Committee (Short, 1999), and the UK Combined Code was published in the same year, consisting of 18 principles and 48 code provisions related to the Cadbury, Greenbury and Hampel recommendations (Hampel report, 1998; Keasey et al., 2005). This was followed by the Turnbull Report published in 1999, providing guidance on the implementation of internal control requirements (Turnbull report, 1999; Anomah and Agyabeng, 2013).

The OECD first issued its principles of corporate governance in 1999, based upon experiences from national initiatives member countries such as the UK Cadbury report 1992, these principles were aimed to be reference points and international benchmarks for corporate governance for other member and non-members countries (OECD, 1999).

Corporate governance also started to develop in the USA in 2001, with the bankruptcies of Enron, WorldCom, Tyco, Aldephia Communication and Global Crossing served as catalysts

[2] In 2002, the UK Remuneration Report Regulation was issued to force companies to publish in their annual report: a detailed report of their directors' remuneration, a graph of the company's total shareholder return over five years, and the names of the consultants of the remuneration committee, due to the shareholders' calls for increased disclosure (Rampling, 2012).

for change (Holmstrom & Kaplan, 2003). The corporate crisis in the USA reflected the necessity to reform US corporate governance and increase regulation, as stakeholders no longer had confidence in companies (Clarke, 2004).

US Congress, in 2002, responded to these corporate governance failures by enacting the Sarbanes-Oxley Act (2002), which is considered 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, to gain the political support of both Republicans and Democrats. It was intended to highlight and strengthen criminal penalties for top management who falsified financial statements and engaged in other types of unethical behaviour. Sarbanes-Oxley Act (2002) required chief executive officers to carefully consider and sign-off audited company reports, and strengthened the powers of audit committees and the regulatory oversight of audit firms.
The collapse of Enron 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 a special focus on the effectiveness of non-executive directors (Avison and Cowton, 2012). In the same year, the Smith Report (2003) reviewed the audit committee’s role and effectiveness (Ghafran and O'Sullivan, 2013). Also, in 2003, the UK revised its 1998 Combined Code, to include several of the key recommendations of Turnbull, Higgs, and Smith reports, and consisted of two parts: companies; and institutional shareholders (Solomon, 2007; Doucouliagos et al., 2012). The impact of Enron on the UK’s corporate governance code was evident in the Turnbull guidance,

issued in 1999 to review how companies were managing risk and internal control, the result was revising the first issued guidance in 2005 (Abbas, and Iqbal, 2012).

The OECD, in turn, revised its principles in 2003, to take into consideration the developments that had occurred since 1999. The revised principles took note of development and experience of the member and non-member countries in the organisation, such as the UK and USA's development of their corporate governance codes (OECD, 2004).

In April 2004, the OECD published its revised principles, which include six areas of corporate governance. First, was "*... to ensure the basis for an effective Corporate Governance framework: a good corporate governance framework should clearly show the responsibilities of board members and executive management in the company management and to avoid conflicts of interest*" (OECD, 2004. P. 17). Second, was *"... the rights of shareholders: a good framework of corporate governance should seek to defend shareholders' interests and help them to exercise their rights* (OECD, 2004. P. 18). Third, was *"... the equitable treatment of shareholders: a good framework should ensure that all types of shareholder are protected and treated equally, including minority interests and foreign shareholders* (OECD, 2004. P. 20). Fourth, was *"... the role of stakeholders in corporate governance: a good framework of corporate governance should extend the company's responsibilities to all stakeholders, established by law* (OECD, 2004. P. 21). Fifth, was disclosure and transparency: *"... a good framework of corporate governance should ensure the accuracy and timeliness of a company's reports, as well as that all significant matters regarding the company operations are clearly disclosed, such as the financial status, performance, ownership, corporate social responsibility and corporate governance* (OECD, 2004. P. 22). Finally, was *"... the responsibilities of the board: a good framework of corporate governance should strategically*

guide the company towards the attainment of its targets and ensure growth through the effective monitoring and evaluation of the management by the board (OECD, 2004. P. 24). Moreover, the board is accountable to the company, as a whole, as well as to its shareholders (OECD, 2004).

The development of the corporate governance code continued in the UK as, in 2006, the Combined Code was revised to allow the chair to serve on the remuneration committee and engage in proxy voting (Tricker, 2012). A further revision was made to the Code in 2008 to allow the chair to serve on the audit committee (Mallin, 2011). Also, in the same year, the Smith Report (2008) was revised (Avison and Cowton, 2012) and in 2010, the UK Corporate Governance Code was issued, that incorporated the role of institutional investors, followed by a revision of the code in 2012 (Mallin and Ow-Yong, 2013).

Not just the UK and US have developed their corporate governance codes, Germany has also faced strong institutional pressure to change its corporate governance system, with normative isomorphic pressure from the EU in order to harmonise the capital market of European countries (exogenous forces) (Jackson and Moerke, 2005), and coercive pressure through political factors (endogenous forces) (Aguilera and Jackson, 2010) that will be discussed later in section 3.5.1. for example, the German corporate governance code first issued in Feb 2002, and amended in July 2002, was updated in 2013 (Government Commission of the German corporate governance code, 2014) as a result of coercive pressure exercised by foreign institutional investors to give more focus to shareholders (Jackson and Moerke, 2005).

Referring to four of the six GCC countries (KSA, Oman, Bahrain, and UAE), the development of corporate governance codes, as mentioned earlier in chapter 2, related to market crashes in those countries and external pressure from stakeholders for companies to be regulated and for

the boards of listed companies to apply corporate governance codes. In Bahrain, a corporate governance code was issued in 2010 and became mandatory for listed companies in January 2011 as a result of market crash and, also the coercive pressure of international foreign institutional investors over regulators to enhance business practices (Amba, 2014).

The Egyptian corporate governance code was issued in 2005 as a voluntary code for listed companies after the problem of non-performing loans for Egyptian banks in the late 1990's due to manipulation and fraud by major shareholders (Sorour, 2009).

In summary, a number of developments have occurred over the past ten years regarding corporate governance around the world (Pickett, 2007). These developments create different practices between countries. However, numerous scholars consider some practices to be important and to have become a features of good corporate governance practices, such as the role and composition of the board of directors, board committees, auditing and information disclosure, as well as the selection and remuneration of the CEO (OECD, 1999; Aguilera et al., 2000; Low, 2002; Bahgat and Bolton, 2008; Aguilera and Cuervo-Cazurra, 2004). These recommended international practices are further discussed in the following sections.

3.3.1 Board membership and independent board members

Since the first appearance of a corporate governance code (the UK Cadbury code, 1992) until the last revised OECD principles of corporate governance (2004) and the UK corporate governance code (2012), all these codes insist on the existence of independent board members on the companies' board as a good governance practice (OECD, 2004; Cadbury report, 1992; the UK corporate governance code, 2012). The UK corporate governance code (2012) insists that the board should include independent board members, so that no individual or small group of individuals can dominate the board's decision making.

In order to clarify the intended meaning of independent board members, it is useful to determine the definition of independent members. The meaning of independent is defined by Spira (1999) as:

> *"...freedom from any company connection or relationship which might interfere with the exercise of independent judgment"*
>
> p. 263

Another clarification of the meaning of independent board members was introduced by the OECD (2004) as:

> *"... board members to be independent of dominant shareholders, independence extending to not being their representative or having close business ties with them."*
>
> p.64

The contribution of assigning a sufficient number of independent members to the boards is to minimise the control and power of the major owners and increase transparency (Aguilera, 2005). The OECD principles of corporate governance (2004) and the UK corporate governance code (2012) note that, the more independent members on the board, the greater the reliability and transparency of the board.

Another contribution of assigning independent board members is clarified by the OECD Principles of Corporate Governance (2004), which state that:

> *"Independent board members can contribute significantly to the decision-making of the board. They can bring an objective view to the evaluation of the performance of the board and management. In addition, they can play an important role in areas where the interests of management, the company and its shareholders may diverge such as executive remuneration, succession planning, changes of corporate control, take-over defenses, large acquisitions and the audit function."*
>
> (p. 64).

Further, independent board members appointed to the board is viewed as a vital component of the system of accountability to shareholders, contribute to the greater protection of shareholders' interests from the major shareholders or the management of the company, better monitoring, and a lower level of earnings management (Page and Spira, 2005; Xie et al, 2003).

After showing the UK corporate governance practices as a developed country and the OECD principles of corporate governance as normative international governance code of their requirement of board membership and independent board members, other governance requirements will be documented that relevant to Kuwait legal system such as France, Egypt and Germany. Also the GCC countries codes' requirements are also discussed here as they relevant to Kuwait cultural and political context.

For examples, the amended corporate governance code of listed corporations in France (2013) also required listed coroporations to appoint a sufficient number of independent board directors:

> *"The independent directors should account for half the members of the Board in widely held corporations without controlling shareholders. In controlled companies7, independent directors should account for at least a third".*
>
> (p.7)

Also, the German code of corporate governance (2013) insists on assigning independent board members to be included in the supervisory board; however, the number of independent members is not mentioned in the German codes:

> *"The Supervisory Board shall include what it considers to be an adequate number of independent members."*
>
> (p.11)

The revised Omani corporate governance code (2014) together with the Saudi corporate governance code of listed companies (2006) requires non-executive independent board members to be included on the board and to be not less than a third of the total number of board members (CMA Saudi Arabia, 2006; CMA Oman, 2014). The UAE corporate governance code (2009) is similar to the requirements of the Saudi and Omani corporate governance codes requiring a sufficient number of non-executive independent members to be on boards; however, the UAE code requires that non-executive independent board members on board committees should be qualified with experience and specialisation to be effective members (UAE corporate governance code, 2009). The Egyptian code of corporate governance (2005) also requires a majority of non-executive board members with an appropriate mix of skills, technical or analytical experience (EFSA, 2014).

In this thesis, the interviewees will be asked about the composition of board membership and whether Kuwaiti listed companies have assigned a sufficient number of independent members to the board and if not, the main reasons behind the absence of this practice. Hence, the first recommended practice is the existence of independent board members. The following recommended practice is the existence of board committees.

3.3.2 Board committees

Another recommended mechanism for improving corporate governance practices is the establishment of board committees, namely audit, remuneration, and nomination committees, whereby the boards can delegate specific tasks to these committees that include a sufficient number of independent members (Spira and Bender, 2004).

The amended corporate governance code of listed corporations in France (2013) mandates establishing audit, nomination, and compensation committees and other recommended specialised committees as determined by the corporation's board (corporate governance code of listed corporations, 2013).

Also, the UK's corporate governance code (2012) and the OECD principles of corporate governance (2004) emphasise the importance of auditing, nominating, and remunerating the committees' existence, and the process of establishing and selecting the members of those committees in companies:

> "When committees of the board are established, their mandate, composition and working procedures should be well defined and disclosed by the board."
>
> OECD, 2004 p.25

The Saudi corporate governance code (2006) mandates appointing audit, nominations and compensation committees and other recommended specialised committees and that the majority of committee members should be non-executive. The audit committee should appoint at least one non-executive member who is specialised in accounting and auditing (CMA, 2006). The Omani corporate governance code (2014) also insists on appointing two main committees: an audit and risk management committee where members should all be non-executive and the majority of them independent; and a nomination and compensation committee where at least 3 members are non-executive members (CMA Oman, 2014). The UAE corporate governance code (2009) also requires an audit committee and a nomination and compensation committee and all members should be non-executive and the majority independent members. Each committee should be headed by an independent board member (UAE corporate governance code, 2009).

The Egyptian code of corporate governance (2005) also requires boards to constitute internal audit and financial remuneration committees, and the code recommends that non-executive board members participate in those committees and be chairmen (EFSA, 2014).

3.3.2.1 Audit committee

The UK Cadbury report (1992) was the initiator of the audit committee and its establishment process. The report aimed to protect the audit role by insisting on assigning a sufficient number of independent board members to the committee to maintain an independent view and improve the standard and the quality of financial information (Page and Spira, 2005).

Further, the Smith report (2003) emphasised the important role that the audit committee plays in protecting the interests of the shareholders. The Report explains the role of the committee as follows:

> "While all directors have a duty to act in the interests of the company, the audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control."
>
> (p. 3).

Xie et al. (2003) strongly recommended that the audit committee members should be independent board members with financial expertise. Further, Spira (1999) clarifies that the independent members on the audit committee must be free from any obligation to the interests of the major shareholders or the company's management. The reason behind demanding an independent audit committee is referred to the view that states that without independence an audit has no value and is meaningless, since the company's managers assume that they are able to behave dishonestly. Also, the existence of independent members on the audit committee raises the objective and value of financial reports, as independent members can give a neutral

view of the company’s activities and financial position, that can be relied upon since those independent members are free from pressure from the management and major shareholders of the company (Spira, 1999; Page and Spira, 2005).

The amended corporate governance code of listed corporations in France (2013) requires that committee members should be competent in the area of finance and accounting, that at least two-thirds of the members should be individuals, and that the committee should not include executive directors. Besides, the code also specifies their duties in terms of reviewing the accounts, the relationship between the audit committee and the statutory auditors, the monitoring of rules securing the statutory auditors’ independence and objectivity, and the operation (corporate governance code of listed corporations, 2013).

3.3.2.2 Remuneration committee

The existence of a remuneration committee aims to limit excessive executives’ packages, including pension rights and compensation payments, The remuneration committee can be seen as an administrative device that ensures an acceptable degree of integrity in the setting of executive remuneration (Main et al., 2008). As a response to concerns about directors’ remuneration, the Greenbury Report (1995) stated that:

> “To avoid potential conflicts of interest, boards of directors should set up remuneration committees of independent directors to determine on their behalf, and on behalf of the shareholders, within agreed terms of reference the company's policy on executive remuneration and specific remuneration packages for each of the executive directors, including pension rights and any compensation payments.”
>
> (p. 14)

The OECD principles of corporate governance (2004) further added the requirements of board committees' membership by stating that:

> *"It is considered good practice in an increasing number of countries that remuneration policy and employment contracts for board members and key executives be handled by a special committee of the board comprising either wholly or a majority of independent directors. There are also calls for a remuneration committee that excludes executives that serve on each others' remuneration committees, which could lead to conflicts of interest."*
>
> (p.61)

The UK Combined Code (2006) also recommended that companies should establish a remuneration committee consisting of at least three or, in the case of smaller companies, two independent non-executive directors. The Code stated that:

> *"The remuneration committee should consult the chairman and/or chief executive about their proposals relating to the remuneration of other executive directors. The remuneration committee should also be responsible for appointing any consultants in respect of executive director remuneration."*
>
> (p. 12)

The amended French corporate governance code of listed corporations (2013) requires a committee containing a majority of independent directors and should not include executive directors. It also advises the inclusion of an employee director on the committee (corporate governance code of listed corporations, 2013, Article 16.1 and 18.1).

3.3.2.3 Nomination committee

Another recommended committee that the UK combined Code (2006) mentioned is the nomination committee, as the code reports that:

> *"There should be a nomination committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors."*
>
> (p. 7)

The board delegates the selection of nominated directors for the company to this committee. Hence, the main responsibilities for this committee are identifying directors to nominate and evaluating them on an annual basis. The UK corporate governance code (2012) states that the nomination committee should lead the process of the board appointments and make recommendations to the board. The aim behind establishing a nomination committee is to limit conflicts of interest by identifying directors, who should not have a direct or future business interest or be appointed by the major shareholders to act in their interests (Zattoni and Cuomo, 2008).

The amended French corporate governance code of listed corporations (2013) requires the same number of independent committee members to be appointed and the code authorises the chairman to be a member of the committee provided that his/her position is separated from the CEO position (corporate governance code of listed corporations, 2013, Article, 17.1).

3.3.3 Separation of chairman from CEO position

One of the recommended practices in the corporate governance code is the separation between the chair and CEO position by splitting the role of planning monitoring and accountability of board members from the role of running and fulfilling the boards' plan that is the main role of companies' executives in order to avoid the influence of board members with close ties to the CEO (Huse, 2005), since CEO duality fosters power and leadership that weakens the board's independence from the management and their monitoring role. CEO duality also effectively

controls the information available to the other board members, and it is hard to evaluate the CEO's performance (Sundaramurthy and Lewis, 2003; Cornett et al., 2008; Heracleous, 2001).

The term 'corporate governance' first appeared in the Cadbury report of 1992 until the UK Combined Code (2012), which recommended that there should be a clear division of responsibilities at the head of the company to ensure a balance of power and authority, such that no individual has unfettered powers of decision (Cadbury Report, 1992). The aim behind the separation of the CEO from the chair position is to reduce the dominance of the board over the company's management, as CEO duality has a negative relationship with the degree of board control, and to protect the shareholders' rights (Van den Berghe and Levrau, 2004; Boyd, 1994; Williamson, 1985). The OECD Principles of Corporate Governance (2004) recognise this and state that:

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

The UK Combined Code (2012) also recommends the separation of the role of CEO and chairman:

> *"There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision."*
>
> (p. 4)

The French corporate governance code (2013) gives the option for board members either to separate the chair from the CEO position or to aggregate their duties (corporate governance code of listed corporations, 2013, Article, 3.1).

The Omani corporate governance code (2014), together with the Saudi corporate governance code of listed companies (2006) and UAE corporate governance code (2009) all require listed companies to separate the chair from the CEO position (CMA Saudi Arabia, 2006; CMA Oman, 2014; UAE corporate governance code, 2009). The Egyptian code of corporate governance (2005) states that it is preferred that the chairperson and managing director are not held by the same person (EFSA, 2014).

In Kuwait, approximately 90% of listed companies' major shareholders run companies (Badraan, 2010), and hence, this thesis will explore further how far CEO duality is dominant in the organisational field of listed companies in Kuwait by asking interviewees and respondents about the companies for which they work or in which they invest.

3.3.4 Disclosure and Transparency

Disclosure is one of the important practices that the UK Combined Code (2012) and the OECD principles of corporate governance (2004) insist on, as well as being transparent towards the stakeholders. The OCED (2004) stated that:

> *"The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company."*
>
> *(p.21)*

The OECD further states that disclosure should include: a) " ... *material information: about the financial and operating results of the company, company objectives, major share ownership and voting rights, remuneration policy for members of the board and key executives and the selection process and whether they are regarded as independent of the board, related party*

transactions, foreseeable risk factors, issues regarding employees and other stakeholders, governance structure and policies (OECD, 2004. P.50-54); b) "*... information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure"* (OECD, 2004. P. 54); c) *An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects* (OECD, 2004. P. 54); d) *external auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit* (OECD, 2004. P. 56); e) *the channels for disseminating information should provide for equal, timely and cost-efficient access to relevant information by users* (OECD, 2004. P. 56); and f) *the corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies and others, that is relevant to the decisions by investors, free from material conflicts of interest that might compromise the integrity of their analysis or advice* (OECD, 2004. P.56).

The Cadbury Report (1992) since it was issued was concerned about the level of disclosing information such as disclosing directors' remuneration. Information about the relevant interests of the directors should be disclosed in the directors' report and non-compliance in the financial statement. Independent board members and the payment of audit firms for non-audit work should also be disclosed, as well as the accounting standards that apply and whether it is applicable to the accounting standards (Cadbury report, 1992). Donnelly and Mulcahy (2008) found that, the more independent members there are on the board, the greater the level of voluntary disclosure.

The French corporate governance code (2013) grants authority to the board of directors to define the company's financial disclosure policy. Also, the code gives the option for the board of directors to choose either a unitary board or a two-tier board, and the board should disclose which option it has chosen (corporate governance code of listed corporations, 2013).

These recommended practices will be examined in this thesis to identify whether they exist and, if not, the thesis will explore the main reason why such good governance practices are not applied in the organisational field of Kuwaiti listed companies.

Even though corporate governance codes exist in 5 of the 6 GCC countries, the effectiveness and enforcement of these codes is still weak. For example in Saudi Arabia, Al-Twaijry et al. (2003) find the coercive role of government to enforce the independency of internal audit from executives and board members is very weak. Moreover, Hussain and Mallin (2002) found that the effectiveness of the nomination and appointment process in Bahrain is poor. Also Al-Ajmi (2009) states that networks and relationships between companies and audit firms in Bahraini listed companies is too close giving audit firms non-audit services. Also in Egypt coercive pressure from regulators is weak as a result of large powerful blockholders who are immune to corporate governance codes (Samaha et al., 2012)

A distinctive aspect of the organisational field of corporate governance (that includes corporate governance codes in different countries and also the OECD principles of corporate governance) is that of comparing Anglo-Saxon countries (the UK and USA) codes and the level of development and effectiveness with other countries; legal and political factors are a key aspect of this (Licht, 2004). Holm and Zaman (2012) state that the role of law and

regulation in the UK has raised the legitimacy and effectiveness of corporate governance, with its response in requiring institutional change as a result of the corporate failures and scandals, whether national (Maxwell) or global (Enron) as the failure of Enron has affected the development of the UK Combined code and the OECD principles of corporate governance. In the USA, besides the legal system, political factors also play a significant role in changing the organisational field of corporate governance in the USA by issuing a new act, the Sarbanes-Oxley Act just, as senators and governors were aiming to be re-elected for another period since the scandals occurred just before the elections (Romano, 2005; Prentice and Spence, 2006).
The OECD also has faced political pressure from its members to be active in taking policy initiatives and introducing principles of corporate governance after corporate failures (OECD, 2004).

Further, cultural factors include the lobbying and pressure of both individual and institutional shareholders on regulators and legislators that have been important in the development of corporate governance (Financial Reporting Council, 2012; Romano, 2005; Prentice and Spence, 2006). Thus, legal, political and cultural factors have played a significant role in the process of institutional change inside each country's national organisational field of listed companies, which will be examined later in the thesis, to see if these factors are a reason for the absence of a Kuwaiti code of corporate governance (Lu and Batten, 2001).

Aguilera and Jackson (2010) examine corporate governance practices and cross-country diversity from different economic, political, legal, and cultural perspectives, as each offers a unique lens through which to explain corporate governance systems and practices. For instance, they contribute corporate governance differences between Germany and the US to

legal, cultural, and political factors, where the concentration of power in Germany is in the hand of banks whereas the power in the US is in the hands of shareholders. From a political aspect, workers in Germany, through trade unions, play a significant role in corporate governance but not in the US. Cultural and social norms in a society also shape corporate governance where, for instance, US executives have a shareholder focus whereas German executives emphasise the importance of serving society and balancing the interests of employee shareholders and other stakeholders.

The following sections illustrate the impact of legal, political, and cultural factors on the development and effectiveness of corporate governance codes.

3.4 Legal and regulatory system influences on corporate governance development

The previous section shows that Anglo-Saxon countries were in the advance of corporate governance development and hence, it will be useful to discuss a countries' legal system and whether legal factors have had a direct impact on the development of corporate governance.

There is evidence of a strong relationship between the legal system of a country and the level of effectiveness and enforcement of corporate governance (Klapper and Love, 2004; Daily et al., 2003; Shleifer and Vishny, 1997). Daniel et al. (2012) state that the response to the corporate failures and scandals in the UK and USA provides evidence of the importance of the legal structure in the level of protection provided for investors. La Porta et al. (1998, 1999b, 2000) identify two different legal systems – the Anglo-Saxon common law and the continental civil law legal systems – and attribute the superiority of the Anglo-Saxon countries' corporate governance (the UK and USA) over other countries to their legal and regulatory systems which

assists them in being proactive and responding rapidly to corporate failures and scandals, as discussed next.

3.4.1 Common law origins

Common law is dominant in Anglo-Saxon countries (Aguilera and Cuervo-Cazurra, 2004), such as the UK and USA (La Porta et al., 1999a, 2000, 2002), which is also an 'outsider' system (Rosser, 2003). The characteristic of the outsider common law model is that it relies significantly on: equity finance; dispersed ownership; the strong legal protection of shareholders; strict bankruptcy regulations and the courts; a lesser role for creditors, employees and other stakeholders in the company management; robust requirements regarding disclosure; and considerable freedom to merge with or acquire other organisations (Zattoni and Cuomo, 2008; Rosser, 2003).

Aguilera and Cuervo-Cazurra (2004) state that corporate governance codes are more likely to be issued and developed in countries with a common law legal tradition, since the common law system offers stronger legal protection for minority shareholders, facilitates the enforceability of codes of good governance, and the fact that the ownership structure in these countries is dispersed. History shows that crises such as the Maxwell failure led the UK to respond quickly and issue the Cadbury Code of corporate governance, which continues to develop. Simlarly, in the USA, the Enron crisis in 2002 encouraged the US government to act quickly and issue the Sarbanes-Oxley Act.

Thus, economic integration in the world economy, government liberalization, and the presence of foreign institutional investors are critical forces influencing the adoption of institutionalised practices. Countries with effective corporate governance systems become attractive locations

for domestic companies to prosper and invest, and also for foreign investors, and thus promote economic growth. For example, despite the voluntary nature of the Cadbury Report, British quoted firms to a large extent comply with the Code's recommendations in terms of dual leadership (functional separation of the CEO and chairman of the board) to attract foreign institutional investors. However, reinventing the legal system is not easily accomplished and does not respond quickly to the process of change because the legal system is deeply embedded in the institutional legacies of a given country (Aguilera and Cuervo-Cazurra, 2004).

Also, Gourevitch and Shinn (2005) refer to the superiority of the common law system in the USA and UK based on the integrity of their legislators and regulators. Moreover, the existence of diffuse ownership in common law countries encourages a high demand for enforcement and effective legal systems and codes in order to protect minorities (Pagano and Volpin, 2001). Hence, the development and effectiveness of the UK and USA's corporate governance is related to their legal system. The next section discusses civil law and its impact on the development and effectiveness of corporate governance.

3.4.2 The origin of civil law

Civil law's origins relate to the Roman colonies and France, Japan, and Germany (La Porta et al., 1999a, 2000, 2002), and is widely used around the world (Aguilera and Cuervo-Cazurra, 2004). Another classification of civil law countries is the 'insider' model (Rosser, 2003), with a high reliance on: bank finance; concentrated ownership; the weak legal protection of minority shareholders; a central role for stakeholders in the ownership and management of

companies; weak disclosure; and limited freedom to merge or acquire other companies (Djankov et al., 2008; Rosser, 2003).

The criticism of civil law countries is that they usually issue codes and recommendations that extend to non-listed companies or adopt codes later and have fewer codes (Aguilera et al., 2011). The civil law tradition uses statutes and comprehensive codes as a primary means of ordering legal material, whereas the common law tradition is based on judicial precedents about specific issues (Aguilera and Cuervo-Cazurra, 2004); moreover, civil law recommendations are more ambiguous and lenient, to show that codes exist but that the process of improving governance practices are unimportant (Zattoni and Cuomo, 2008). Also, the civil law system is ineffective in protecting shareholders and their voting rights (Mallin, 2004).

Mitton (2002) states that the legal protection of minority shareholders and the ability to facilitate the issuance and development of codes to protect them is a key element of corporate governance and Aguilera and Cuervo-Cazurra (2004) criticise the civil law system as codes of corporate governance are less likely to be issued, especially since the ownership structure is concentrated in these countries (Rajan and Zingales, 2003).

Common law countries are more likely than civil law ones to issue recommendations on the separation between the Chair and the CEO, establish an audit committee, set out board directorships, recommend the evaluation of board performance, and have strict codes of anti-self-dealing by insiders. Codes issued by civil law countries tend to cover principles related to shareholders' rights, employees' roles and conflicts of interest (Zattoni and Cuomo, 2008; Djankov et al., 2006, 2008; Hopt, 2013). Gourevitch and Shinn (2005) state that, in civil law

countries, controlling families exert enormous influence and where, typically, single families control public companies, the issuance of governance codes is hindered (Pagano and Volpin, 2001).

Hence, the above comparison of the two different legal systems (common and civil law) shows that civil law legal systems are weaker on the issuance and development of corporate governance codes (Lopez et al., 1998, Lu and Batten, 2001). The next section discusses the legal system in MENA and developing countries, especially in Kuwait.

3.4.3 Legal systems in MENA and developing countries

The legal system in the GCC countries vary. Three GCC countries (Bahrain, Saudi Arabia and the UAE) follow English common law and three follow French civil law (Kuwait, Qatar and Oman) (La Porta et al., 1999b). All of the GCC countries apply Sharia law as well as common or civil law (Angell, 2006). Since Kuwait's independence in 1961, the Kuwaiti government has operated an Egyptian French-based civil law system. The Egyptian legal system is based on the civil law system and Sharia law, while Kuwait, since independence, depends on Egyptian expertise to establish the country's legislation and legal system (Huneidi, 1986). According to the findings of La Porta et al. (1998, 1999b, 2000, 2002), Kuwait demonstrates weak investor protection and has ownership concentration; further, similar to other countries with civil law origins, it has issued fewer codes and laws, and has more ambiguous, lenient laws compared with common law countries (Shleifer and Vishny, 1997). Moreover, since Kuwait applies civil law, it follows the 'insider' model which, as previously stated, means having: concentrated ownership; weak legal protection of minority shareholders; a central role

for shareholders in companies' ownership and management; weak disclosure; and limited freedom to merge or acquire[3] (Rosser, 2003).

Other examples of Middle Eastern and North African (MENA) countries, include Lebanon, which shows that the weak civil law legal system needs to be reformed, together with the introduction of a new judicial and legislative system in order to achieve effective corporate governance in the country (Saidi, 2004). In Tunisia, that also applies a civil law system, the ownership structure affects the quality of corporate governance, with the intervention of merchant families in preventing any attempt to improve the quality of the regulation and law (Elmehdi, 2007).

La Porta et al. (1998) examined the ownership structure in the majority of East Asian countries, and found too that, in civil law countries, there was a strong negative correlation between the concentration of ownership and the quality of corporate governance and the legal protection of investors. They concluded:

> *"... data on ownership concentration thus supports the idea that legal systems matter for corporate governance and that firms may have to adapt to the limitations of legal systems that they operate in."*
>
> (La Porta et al., 1998, pp. 1116 7)

Yoshikawa and Rasheed (2009) show the convergence between corporate governance practices in common law countries such as the US versus practices in countries that apply civil law which are less effective. For example, many European countries have laws in place that allow unequal voting rights (as opposed to the one-share, one-vote), that are specifically designed to protect family control. Thus, any convergence towards the US model in these countries, for example, towards one-share, one-vote dilutes the control that these groups currently enjoy.

[3] These features will be compared later with the respondents' views outlined in Chapter 6.

Hence, both the legal system and the ownership structure (concentrated ownership) are key determinants of corporate governance (Mitton, 2002; Shleifer and Vishny, 1997).

3.4.4 Concentrated ownership structure

Callaghan (2009) illustrates that the ownership concentration of listed companies is far lower in the UK than in Germany or France, where concentrated ownership is common; cross-shareholdings are far less prevalent in UK, and gives an indication of the legal system's influence on ownership structure. La Porta et al., (1998) also confirm that civil law countries are characterized by concentrated ownership.

Before discussing the impact of concentrated ownership, it is useful to define the different types of ownership structures. These can vary, from being highly concentrated in civil law countries to being very diversified, usually in common law countries (Singam, 2003). Concentrated ownership is usually represented by five different types of ownership: family owned; state owned; institutionally owned; part of a group of companies; or a combination of these (La Porta et al., 1999a).

La Porta et al. (2002), in their study of 539 firms in 27 prosperous economies found that family-controlled firms are far more numerous than firms with widely-held shares, state-controlled companies and those controlled by institutional investors. In Europe, families such as the Peugeots in France, the Quandts in Germany, and the Agnellis in Italy hold large blocks of shares and effectively control the largest firms (Barca and Becht, 2001; Faccio and Lang, 2002).

Other studies conducted in developing countries, that have civil law systems, identify family ownership structure as the most common type, often exceeding 60% of the total shares of companies in these countries. For instance, in 2002, families in Egypt owned 78% of the total shares of listed companies; in Malaysia, 20 dominant families owned 80%; family ownership reached 75% in Saudi Arabia; an average of 70% was reported in Lebanon; while, in nine East Asian companies (Japan, South Korea, Hong Kong, Malaysia, Indonesia, the Philippines, Singapore, Thailand and Taiwan), more than 67% of firms were family-controlled (Fawzy, 2003; Singam, 2003; Bin Zulkafli et al., 2003; AlTonsi, 2003; OECD, 2002; Claessens et al., 2000; La Porta et al., 1999b). Similar findings were reported by researchers who investigated other developing countries, including Tunisia, Taiwan, Indonesia, Malaysia, South Korea, India and Thailand (Elmehdi, 2007; Young et al., 2008; Ramadani and Witteloostuijn, 2010; Veliyath and Ramaswamy, 2000; Khanna and Palepu, 1999).

Block-holding, a part of family ownership, is a model of ownership structure whereby a group of individual merchant families and institutional investors own a controlling percentage of a company's total shares; this is far more common in countries such as Jordan, Kuwait and Oman. The OECD Report (2002) reveals that, in Jordan, large block-holders own 58%; in Kuwait, 56%; and, in Oman, 45%. A similar trend can be observed in Latin American countries where the prevalent ownership structure in listed companies is block-holders (Lefort, 2005).

Another family ownership structure is pyramid ownership, which enables the ultimate merchant family owners to control the assets and resources of companies with the least amount of capital. This can be defined as a structure in which an apex shareholder, usually a very wealthy family, owns and controls a company (which may or may not be listed), which holds

and controls blocks of shares in hundreds of other both listed and private companies, thus placing the economy of the whole country under the control of a single family. These are the structures that permit tiny elites to control vast parts of the corporate sectors in many countries (Morck et al., 2004; Morck and Steier, 2005).

Kuwait is characterized by both large block (group of merchant families) and pyramid shareholdings, with unusually complex corporate structures and this ownership structure may hinder any effort to issue a corporate governance code (Capital Standards, 2010).

Concentrated ownership, accompanied with civil law might bring some advantages, such as facilitating the monitoring role and minimizing the conflict between the board and management (Patibandla, 2006; Suto, 2003; La Porta et al. 2002; Morck et al., 2000). For example in Malaysia the major shareholders are usually well represented both on the board and executive management, which proves an advantage in mitigating conflict between the managers and owners (Suto, 2003); or by having institutional investors as major shareholders who can serve as the company's guarantor for its creditors (Patibandla, 2006; Morck et al., 2000).

However, some researchers have criticised concentrated ownership structures; for instance, Hussain and Mallin (2002) state that a company owned by a family or even a government lacks any incentive to comply with corporate governance practices, a view that is supported by Singam (2003). The relationship between concentrated ownership and compliance with corporate governance will be illustrated further in the next section.

3.4.4.1 Concentrated ownership in civil law systems

Under concentrated ownership controlling shareholders or families have the incentive and power to extract private benefits in the form of excessive compensation, related-party transactions, or special dividends, often at the expense of the companies as well as other shareholders' interests (Fama and Jensen, 1983; Shleifer and Vishny, 1997; Faccio et al., 2001). This is particularly relevant in the corporate governance setting of developing and MENA countries, where the founding families and/or controlling shareholders tend to maximise their private benefits by having a direct or indirect influence on a firm's process of governance (Haque et al., 2011). Hence, concentrated ownership, common in civil law countries, has a direct impact on the issuance, development, and effectiveness of a corporate governance code, since such a code might contradict their self-interests (Filatotchev et al., 2013; Osipova, 2003).

Singam (2003) confirms that self-interest is associated with concentrated ownership and suggests that the problem that arises with concentrated ownership in civil law countries is the potential for the expropriation of the minority shareholders' rights by the controlling shareholders, since they are likely to act in their own interests, which may not coincide with the best interests of other investors in the firm, the employees, managers or other stakeholders, so this concentrated ownership structure is one of the main disadvantages of the civil law system (Singam, 2003; Shleifer and Vishny, 1997). For example, controlling shareholders may only be concerned with a firm's performance from the standpoint of their own personal interests, at the expense of other stakeholders (Kim 2006). La Porta et al. (1999b) observe that:

> *"These firms are run not by professional managers without equity ownership who are unaccountable to shareholders, but by controlling shareholders. These controlling shareholders are ideally placed to monitor the management, and in fact the top management is usually part of the controlling family, but at the same time they have the power to expropriate the minority shareholders as well as the interest in so doing."*
>
> *p.511*

Although family ownership structure can provide effective monitoring and control, at the same time, it can be disadvantageous when there are disagreements among family members and between the generations, creating internal obstacles (Klein et al., 2005). Agency problems are also likely to occur in this type of structure, since the managers may tend to act in favour of the family and ignore other stakeholders (Morck and Yeung, 2003).

This self-interest associated with concentrated ownership in civil law countries may hinder the issuance, quality, and effectiveness of corporate governance. For example, in developing economies that apply the civil law system, the majority of the corporate sector is controlled by a mixture of the state and wealthy families so, in order to protect their self-interest, the latter make strong attempts to obstruct the issuance of corporate governance codes (Oman et al., 2003; Fawzy, 2003). Their resistance harms the development of the legal and regulatory system and explains why corporate governance has been ignored for so long is these countries (Morck and Steier, 2005).

Corporate governance principles call for separating the ownership from the management in order to ease control over companies (La Porta et al., 1999a). Claessens et al. (2000) examined the ownership structure of 2,980 publicly trading companies in nine East Asian countries, and found that the separation of management from ownership control is rare and that more than two-thirds of firms are controlled by a single family shareholder, which might lead to the

expropriation of the minority shareholders' rights. These findings indicate that the merchant families may oppose any code that diminishes their control over these companies' management, such as corporate governance principles that call for a separation of the role of the Chair and CEO (Cadbury, 1992).

Also, in some civil law developing countries, such as Thailand, Korea and Indonesia, the merchant families who control listed companies encourage corporate bribery and corruption towards the politicians and government to hinder the development of any regulations, since the current legal and regulatory system maintains their control and protects their interests (Morck et al., 2004; Khan, 2003).

Also, since civil law countries are characterised by concentrated, family ownership who dominate board membership, without any outside independent members, in order to maintain their control. The OECD Principles and Combined Code in the UK note that the more independent directors are represented on the board, the greater its reliability, transparency and level of voluntary disclosure (Donnelly and Mulcahy, 2008). Moreover, evidence provided by Bliss and Gul (2012) confirms that independent directors on boards are prepared to pay more for a higher quality audit in order to protect their reputation and avoid legal liability. Further confirmation of this is made by Beasley (1996), who found that, the greater the number of independent board members, the lower the levels of financial statement fraud.

An example of board structure practices where the board comprises a majority of owner families is in India and Taiwan where the family have the authority and power to select the CEO, and independent directors are not represented (Veliyath and Ramaswamy, 2000; Young

et al., 2008; Tsai et al., 2006), despite the OECD's insistence that a sufficient number of independent directors should be assigned to boards in order to minimise the control of the major owners and increase transparency (OECD, 2004).

Also, in Tunisia, where family ownership is strongly represented, none of the boards contain independent board members (El-Mehdi, 2007; Hawkamah, 2008). In Malaysia, the dominant family-owned structure has negatively impacted on the corporate governance practices, and the market authority has recommended that boards should include independent members (Haniffa and Cooke, 2002; Pistor et al., 2003).

From the GCC perspective, although the Bahraini corporate governance code and listed companies' practices show that boards have independent directors, the selection process of them is not totally independent, since independent members are selected by the major shareholders or boards rather than by nomination committees, which do not exist (Hussain and Mallin, 2002). Overall, in MENA countries, even though codes may exist, their effectiveness and enforcement are weak (Hawkamah, 2008).

All of the above examples indicate that, under concentrated ownership, specifically family ownership, which is the characteristic of civil law countries, the families oppose having independent board members, since this will minimise their control and impact negatively on their self-interests.

Also, as a result of boards being comprised of the major shareholders, with no independent members as the majority of civil law developing and MENA countries, such as Egypt, Indonesia, Malaysia, South Korea, Nigeria and Thailand, the CEOs are usually selected by the dominant family owners (Prevost et al., 2002), and the same person is often both Chair and CEO in many of the developing countries (Ramadani and Witteloostuijn, 2010; Elsayed, 2010; Okike, 2007).

Hussain and Mallin (2002) reveal that there is a sectoral bias as in the majority of listed companies in the service sector in Bahrain listed companies, the CEO is selected and appointed by the Chair whereas in 76% of listed companies in other sectors, the board selects and appoints the CEO. Moreover, 57% of CEOs in all listed companies report directly to the Chair, while 29% report to the whole board. Despite the separation of the roles of Chair and CEO, the dominant major shareholders, represented by families, have the power to select the latter.

In Tunisia, where most Tunisian companies are family-owned, the position of Chair is always held by the oldest person in the family and the Chair, rather than the CEO, has the real power to manage the company, unless the Chair also holds the CEO position (El Mehdi, 2007). Badraan (2010) notes that, in Kuwait, approximately 90% of the major shareholders of listed companies control companies' boards and consequently have power over the selection of the CEO; furthermore, CEO duality is prevalent. In civil law countries, the lack of separation between the Chair and CEO relates to the concentrated ownership (Kula, 2005), due to the major shareholders' preference to control and protect their self-interests (Braun and Sharma, 2007).

Despite that fact that some civil law countries require the separation between the Chair and CEO positions, board committees such as a nomination committee in the majority of developing and MENA countries do not exist. The Cadbury Code and Combined Codes emphasise the necessity for board committees, such as nomination committees, and the existence of independent members (Mallin, 2004). But nomination processes are subject to the preferences of large shareholders (family ownership) and the selection of nominees typically depends upon their close relationship with the controlling shareholders, regardless of their experience or qualifications (MENA-OECD Working Group on Corporate Governance, 2005).

Practices in civil law systems within MENA and developing countries demonstrate that, while the majority of listed companies have audit committees, only a very small percentage of these are composed of a majority of independent directors in accordance with corporate governance practice (IFC and Hawkamah, 2008). The audits committees' role is to assist the board of directors to oversee and ensure the adequate functioning of internal control mechanisms, as well as monitoring financial risk (Abdullah, 2004).

According to the above discussion of the influence of legal factors on the development and effectiveness of corporate governance, it becomes clear that in civil law countries, especially MENA and developing countries, the legal factor has a direct impact on the development and effectiveness of their code. Aguilera and Cuervo-Cazurra (2009) found, in their empirical study, that a common legal system of a country and the higher level of stock market development encourages the implementation of corporate governance codes. Specifically, these codes strengthen boards of directors' monitoring over the corporate management.

With regard to Kuwait, there is no reference in the literature to the board structure and composition, or board committees in the country. This thesis therefore contributes to our knowledge by examining board structure and board committees in Kuwaiti listed companies and the presence of independent board members, as well as exploring the impact of the legal system as applied in Kuwait on the process of corporate governance development in this thesis. It is assumed that, since the country applies a civil law system, the practices will be similar to those in other civil law MENA and developing countries. However, the legal system of a country is not the only factor affecting the development of a corporate governance code, as explained above, and Roe (2003) and Gourevitch (2003) note that political factors also have an impact on this area. Although Germany applies civil law, the political factor of strong labour unions and the social democratic party in parliament that promotes the protection of stakeholders and workers has resulted in a strong governance system (Matoussi and Jardak, 2010).

3.5 The Impact of Political Factors on Corporate Governance

The previous section illustrates how the legal system can influence the issuance, development, and enforcement of corporate governance; this section illustrates the influence of political factors. The legal rules are derived from politics and culture, and all these factors contributed to produce the governance structure in different countries (Matoussi and Jardak, 2012).

Yoshikawa and Rasheed (2009) show that political factors influence corporate governance as the degree of local embeddedness in terms of organisational practices and politics appears to hinder corporate governance practices.

Roe (2003) states that the political system that determines the law also shapes the corporate governance system. People choose corporate governance practices that hurt them the least, and use politics to express their preferences (Licht, 2001; Stulz and Williamson, 2003).

Political parties and lobby groups in different countries have a different orientation with regard to regulations, such as corporate governance codes. Some groups support and want to enforce a code in all companies while others resist the issuance and development of a code. For example, in countries with varied political economies, such as France, Italy, Germany and the USA, the centre-left has supported corporate governance reforms while the right has consistently resisted them (Cioffi and Hopner, 2006). Callaghan (2009) explains that that parties' defense of their positions varies from one country to another, depending on their constituencies and their core constituencies' interests. Cioffi (2006) notes that the resistance to pro-shareholder reforms by the more conservative Republicans in the USA and the Conservatives in Germany is because it threatens their established interests, power and position, and also endangers the alliance between corporate elites and more conservative political parties. In both countries, the Conservative party is the defender of corporate family owners and the primary political proponents of reform in both the USA and Germany are the Democrats.

Evidence that politicians attempt to appease their voter constituencies in order to maintain their power is illustrated by the Curley Effect in Boston's politics, when the mayor, James Michael Curley, used inflammatory rhetoric to drive the merchants and well-educated Anglo-Saxon voters out of Boston, to cement his political future for a fourth term as Mayor of Boston (Morck et al., 2004).

Thus party interests - typified by the Conservatives in the USA, Germany, Italy and France - influences the level of support for corporate governance reform. If the constituencies of ruling politicians represent the controlling merchant families and the corporate elite, politicians may resist corporate governance reforms to defend inside corporate interests at the expense of those of external stakeholders.

Hence, not only may legal factors influence the development of corporate governance codes, but political factors may also play a significant role in the process of corporate governance development. Indeed, Roe (2003) challenges La Porta et al., arguing that polity explains the differences between ownership structure and corporate governance models around the world. Polity includes political institutions, and the political orientations of governments, coalitions, ideologies and interest groups that not only define the laws but also determine how they actually operate. The channels of political mechanisms that affect corporate governance and ownership are extended by Gourevitch (2003, 2005) to either: (i) interest group preferences and cross-class coalitions between owners, managers and workers; or (ii) political institutions, such as electoral law, federalism, legislative, executive relations and party systems. Polity in Kuwait includes the parliament and the government, and this thesis will examine the political role of the parliament and the government in the absence of a Kuwaiti corporate governance code and whether the merchant families influence parliament and the government's political role. This question will be explored later in chapters 6 and 7.

The next section, explores how political institutions and the political orientations of governments may impact the development and effectiveness of corporate governance.

3.5.1 Political institutions

Political institutions, usually parliaments and political parties, consist of members of parliament who seek votes and hence can be lobbied by various constituent (Matoussi and Jardak, 2012). Roe (2003) confirms that, in the USA, politicians seek happy worker-voters and hence pass laws to keep the voters happy. Aguilera and Jackson (2010) state that political institutions play a critical role in determining the winners among different coalitions irrespective of whether the coalition is between employees and politicians (the case of Germany) or the coalition is between managers and politicians (the case of USA).

However, in countries characterised by concentrated family ownership, the power of these families can be extended to politicians in parliament (Morck et al., 2004; Haque et al., 2011; Morck and Steier, 2005; Gourevitch and Shinn, 2005).
In Kuwait, from the first attempt to constitute a parliament, merchant families have lobbied politicians, as exemplified by the 1938 parliament that was called the merchant parliament as MP candidates were only allowed to be from merchant families (Al-Otaibi, 2010). This thesis therefore, explores whether the representation and power of merchant families in parliament creates an obstacle to change with regard to the issuance of a Kuwaiti corporate governance code.

A close relationship between politicians and merchant families can affect the quality of the law (Singh and Zammit, 2006). For instance, in Bangladesh, large family groups exert influence over both the government and politicians, as family members are also politicians, and become well-connected with the politicians, impacting on the quality of corporate governance (Haque et al., 2011). Indeed, the merchant families in more than half the sample of Haque et al's.

(2011) sample had either become politicians or had developed strong personal and business relationships with political leaders, confirming that crony capitalism encourages corruption between major shareholders and politicians to maximise their own interests (Uddin, 2005; Uddin and Hopper, 2003; Sobhan, 2002; CPD, 2000; Haque et al., 2011). Politics that produce regulations and shape corporate governance structure comes of coalitions (Matoussi and Jardak, 2012).

Bruner et al. (2002) state that developing countries generally suffer from a corrupt political environment with widespread corruption between merchants and the politicians or government resulting weak corporate governance. Corruption is defined as '*the misuse of entrusted power for private gain*' (Transparency International), and includes activities such as bribery, fraud, extortion and favouritism (Luo, 2007). Legal codes are meaningless when the politicians, the government and the judiciary of a country are all corrupt (Morck et al., 2004). Corruption and bribery hinder the quality of corporate governance, and the close connection between the merchant families and politicians in developing countries exacerbates this problem (Wu, 2005; Charles & David, 2002). For example, despite the wealth of the Arab nations, corruption rate is high due to the co-operation between those in power, the government and affluent merchant families with each party seeking to maximise its own interests (Khanem, 2011).

Therefore, the overlap between merchant families and politicians makes change difficult, and the status quo is therefore maintained (Morck and Steier, 2005). Politicians influence the law and the legal system but when politicians begin rent-seeking, the quality of the law (specifically corporate governance) will be affected by the relationship between the politicians and their interest groups. Mueller (2002) suggests that rent-seeking politicians are more likely

to vote for legislation that benefits an interest group if they have received contributions from that particular group. He further states that interest groups in corporatist countries are formally part of the political decision process, as in Australia, where some union leaders are also MPs (Mueller, 2005).

Transparency and accountability are needed to limit the rent-seeking opportunities of politicians and merchant families which arise from their mutual self-interest (Rosser, 1999). This connection between the merchant families and politicians leads to the pursuit of mutual self-interest at the expense of the stakeholders, making reform almost impossible (Khanna and Palepu, 2000).

Indeed, such rent-seeking has not been limited to developing countries. In the USA, throughout the 19th century, politicians were exploited by the controlling merchant families who were incorporating new companies, and required special acts of state legislature to be tailor-made to suit their needs. This raised concerns about favouritism and political corruption among politicians and the merchant families, as these families in turn, supported these politicians' parties financially (Millon, 1988).

Further evidence of the relationship between merchant families and politicians is provided by Gourevitch (2003), who identifies the power of the merchant families to resist regulatory change, specifically by lobbying politicians (Gourevitch, 2003). Similar evidence is provided by Pagano and Volpin (2001), who assert that, by attempting to influence politicians, families benefit from the existing regulatory regimes and can veto any reforms.

In Kuwait, the merchant families interfere in parliament and the political system in order to gain contracts from government and maximise their self-interest thus hindering the development of regulations that may threaten their interests (Alshahed newspaper, 2012). This interference has led to increased corruption and bribery in the country, and the Corruption Perceptions Index (CPI) shows that Kuwait's position fell to 66 in 2012 compared with 54 the previous year, (Alshahed Newspaper, 2013; CPI, 2011; CPI, 2012). Perhaps one of the most famous cases of corruption was that reported in 2011, when 13 Kuwaiti MPs accepted bribes of 120 million Kuwaiti Dinar from merchants and prime minister in return for political support (AlQabas Newspaper, 2011, AlKuwaitiah Newspaper, 2012).

This thesis therefore, explores whether the merchant families and their representatives in parliament are using bribery and corruption to hinder the issuance of a Kuwaiti corporate governance code and whether the merchant families in Kuwait lobby MPs who are rent-seeking to veto the issuance of a Kuwaiti code of corporate governance.

Faccio (2006) reports that directors or dominant shareholders are entering politics and that politicians are joining boards, especially companies that operate in highly corrupt countries. Political connections give firms preferential access to government subsidies, financing by government-owned enterprises and banks, and tax breaks, together with exemption from burdensome regulations. Faccio notes that firms representing 7.76% of the world's market capitalisation are run by relatives of their country's political leaders. As merchants families are well-represented in the Kuwaiti parliament, this thesis also explores whether these members of merchant families enter parliament and serve their own self-interests.

Another example of merchant families' alliances with the government such a situation is evident in Mauritius where, after decolonisation, the formation of a broad-based coalition of business, government and political leaders took place (Brautigam and Diolle, 2009). The business class, dominated by ethnic minorities, believed that the election of a socialist government with a Hindu majority posed a grave threat to their interests; thus, the ethnic minority merchant families contributed to the Hindu party in the parliament and government, which then protected these merchant families' interests (Brautigam and Diolle, 2009).
Thus, in Kuwait the merchant families may form alliances with both the politicians and government specially, since the speaker of parliament, Jassem AlKhrafi, belongs to one of the most influential merchant families in the country (Kuwait times, 2013).

3.5.2 Pyramid ownership and political power

The controlling merchant families in their pyramid ownership structures augment their political influence relative to their actual wealth, and control the development of both public policy, including the level of protection and enforcement, and institutions, such as the capital markets (Barca, 1995; Morck et al., 2004). For example, the business empire of the Suhartos (Indonesia) provides an example of pyramid family ownership. The family was believed to control 417 listed and unlisted companies through a number of business groups, led by their offspring, other relatives and business partners, many of whom also held government office and were also politicians. Their empire included the position of President of Indonesia and their relatives became more powerful once Suharto became president (Claessens et al., 1999). Another example is in the Philippines when Imelda Marcos the wife of the Ferdinand Marcos the president, stated that her relatives owned practically every business in the Philippines, from electricity, telecommunications, airlines, banking, beer, tobacco, newspapers, television

stations, shipping, oil, mining, hotels and beach resorts, to coconut milling, small farms, real estate and insurance. Such domination of the country's business was linked to their political power (Faccio, 2006; Caron et al., 2012).

In Italy, two members of the Agnelli family, which controls the largest Italian industrial group, serve as MPs, while Silvio Berlusconi, who controls another of Italy's largest pyramidal groups, has also served as Prime Minister several times. Cioffi and Hopner (2006) add that the ruling Italian Christian Democrat party dominates the political and economic system and accepts contributions from merchant families to support it, and the government protects their interests. In France, Francois Pinault, the controlling shareholder of Pinault-Printemps-Redoute, Grand Bazar de Lyon, Rexel and Zodiac, was reputedly a close friend of the former French President, Jacques Chirac (Morck et al., 2004).

These examples show that pyramid ownership becomes connected to political influence more so than other ownership structure types. Examples of the control exerted by merchant families demonstrate how they influence politics, become MPs, head political lobbies, and became presidents/prime ministers. This thesis, therefore, examines the influence of merchant families who control the pyramid ownership structure over the politicians in parliament in general and specifically over the issuance of a Kuwaiti code of corporate governance.

However, a number of disagreements and debates have arisen about how political theories apply to different cases. One critical factor concerns the identity and power bases of blockholders, which may differ substantially. For instance, Italy is characterised by a center-left coalition promoting legal reform, but this reform has had little influence on patterns of

blockholding at the firm-level due to the absence of complementary factors, such as foreign institutional investors, who would reinforce shifts in power away from existing corporate insiders. Moreover, Switzerland underwent major corporate governance reform due to the changing preferences of the blockholders themselves to attract foreign institutional investors (Aguilera and Jackson, 2010).

Besides the merchant families' influence over the political institutions, the government's political orientation also plays a role in the development and effectiveness of a corporate governance code, and is covered in the next section by examining how the government blocks corporate governance reform.

3.5.3 The impact of government practices on the development and effectiveness of corporate governance

In Kuwait, the political system is different from other democratic political systems as the prime minister and other government members are appointed by Kuwait's governor (Kuwait's constitution, 1962) and members of the parliament are elected every four years by Kuwaiti citizens. Both elected MPs and appointed government members are members of parliament. This section explores the self and mutual interests between the government and merchant families' party.

The government's practices have a direct influence on the issuance and development of corporate governance, assuming that governments seeking political support from parties or groups of merchants always hinder the issuance and development of corporate governance codes in their country, since this might hinder their mutual and self-interest (Gugler and Boie, 2008). During 1982, the government introduced the Debt Difficulties Act to support and

protect 300 members of the merchant families after the financial crisis of the Al-Manakh market crash, instead of enforcing the existing Act over their illegal practices (Al-Shahed newspaper, 2013). Examples are given below of how different governments in different countries oppose the calls for corporate governance.

The regulative role of the government can play an important role in penalizing manipulative companies' board, and at the same time if those companies' boards are well connected with the government they will benefit from the government protecting them from accusations. For example, during the Asian crisis of 1997, the Korean and Japanese governments legislated corporate governance codes and used cash injections in to failing companies and became their major shareholders. The governments' policies were to support the merchant owned companies but did not issue stricter codes to enhance control over these companies (Yermo, 2008).

Another government practice, through their state ownership, can play another important role by exercising pressure over company's management to apply corporate governance or; they can protect and enhance the manipulative practices of companies to get political support. This is the case of Malaysia since Bliss and Gul (2012) state that, during Mahathir's leadership, his government used the state-owned company Petroliam Nasional Bhd (Petronas) for his own purposes by using cash injections from Petronas to invest in politically connected (PCON) entities, such as Bank Bumiputra, which was in debt. Petronas was also used to save both Malaysian Airlines (MAS) and the national carmaker, Proton, from bankruptcy. Petronas together with the shipping company, Konsortium Perkapalan Bhd (KPB), were controlled by Mahathir's son (Goyal and Park, 2002; Bassett et al., 2007). Mahathir's government

established relationships with the PCON companies for its own agenda and gain the contribution and votes of the merchant families. The merchant families benefited from winning profitable contracts or subsidies (North, 1990; Olson, 1993). All PCON companies were related to merchant owner companies, and the government sought their political support in order to continue leading the country (Kim et al., 2009; Lee, 2009).

The above examples show how governments can impact corporate governance. The Fascist regime in Italy also served the interests of the merchant families by launching a massive bailout of failing industrial firms and banks in Italy, and transferred them to state-ownership to become a giant holding group and dominated the Italian economy for the rest of the century (Pagano and Volpin, 2001). When the issuance of an Italian corporate governance code occurred in 1998, it was meaningless, because of the high level of state ownership, weak securities regulation and shareholder rights, and close and often corrupt relations between the corporate elites and senior government members (Cioffi and Hopner, 2006; Morck and Steier, 2005).

Aguilera and Jackson (2010) refer to the nature of political agency and to the role of the state by illustrating how polity elites are much more proactive in supporting pro-shareholder reforms in France and South Korea, but much more cautious in Japan and Germany.

In Kuwait, the government through its role of, regulative and ownership, does not show any movement to apply a corporate governance code, either voluntary through their ownership in listed companies, or compulsory through their regulative role, and this will be further examined later in the empirical chapters.

In Kuwait, the government has not debated the issuance of a corporate governance code, so this thesis explores the possible reasons why this is so. Also, state-owned enterprises are not regulated but suffer interference from politicians. For example, in the recent cases of the Kuwait Petroleum Company (KPC) and Kuwait Airways Company (KAC), both companies signed contracts with third parties which they then cancelled. In the case of KPC, the company signed a joint contract with Dow Corporation for $10 billion but politicians pressed the government to cancel the contract on the grounds that the deal was corrupt. The government cancelled the contract and a penalty was paid to the Dow Corporation of $2.2 billion. The politicians accused KPC's executive management of accepting bribes to sign the contract (Alanba Newspaper, 2013).

The second case relates to KAC where an MP pressed the government to sign the aircrafts' leasing contract with his company, that had a price higher than that quoted price by other companies, but the member threatened the minister of transportation if he signed any other leasing contract (Kuwait News, 2013). These government practices contradict international practices of corporate governance, and promote a bad role model to other companies that are then mimicked by using state owned enterprises to promote the politicians and merchant families' mutual interests, which the issuance of a code of corporate governance might diminish.

The development and effectiveness of a corporate governance code in Germany refers to the political factor whereby political parties push for a high quality, effective code in spite of the country's legal system being classified as civil law (Matoussi and Jardak, 2012). Hence

Germany practices an example of how political factors can impact corporate governance. In Kuwait the role of politics may also impact corporate governance.

Hence, political factors have an influence on corporate governance development and effectiveness. To date no literature discusses the impact of political factors on the absence of a corporate governance code in Kuwait. This thesis therefore explores this and examines the influence of politicians, political parties, government practices, merchant families' practices, and their mutual interests in preventing the establishment of a corporate governance code.

Not only do legal and political factors influence corporate governance but cultural factors are also important as the determinants of all laws and regulatory systems (Morck et al, 2004). The following section therefore illustrates the influence of cultural factors on legal systems the quality of law, ownership structure, and the levels to which corporate governance has been adopted and developed.

3.6 Cultural factors on the development of corporate governance

Blair (1995) states that corporate governance consists of:

> "*the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, and how that control is exercised*"
> (p. 3).

Blair's inclusion of cultural factors as a component of corporate governance motivated Licht (2001) and Licht et al. (2002, 2005) to examine the impact of culture on corporate governance and ownership structure. They found that the system of beliefs and values that determines the

behaviour and actions of individuals within a society can explain the differences in the level of investor protection and corporate governance. Attempts to change the law on the books and simply incorporate investor rights are insufficient to guarantee improvements in corporate governance. Ethnicity, customs, beliefs, shared values and religion all have a significant influence on the effectiveness of corporate governance systems and can impede change and legal reform (Licht, 2001). The dominance by merchant families of the government, the legal and regulatory systems and other organisations reflects the social values of a country, as in the case of India, where minorities have few rights and laws cannot be activated against powerful families since those merchant families have a social value in Indian society (Licht et al., 2005).

In Eastern Europe the cultural environment is a potential impediment to change. After the failure of the communist regimes in 1989-1993, a comparative analysis of Western and Eastern Europe shows that the former communist countries of the East have a strongly-authorised embedded culture and hierarchy. These values are compatible with a low perception of legality. Efforts to achieve social change through legal reform thus face serious challenges because other factors play an important role: existing cultural values that institutionalised embedded block changes and generate path dependence; adapting and adjusting cultural values to favour legal reform occurs only slowly in response to changed life circumstances (Matoussi and Jardak, 2012).

This thesis explores the dominant culture in the organisational field of Kuwaiti listed companies regarding the level to which the merchant families control and dominate listed companies' boards and executive management and whether the dominant culture impedes institutional change. Also, the dominant culture in Kuwait is that the merchant families are

above the law, as evidenced by the government failing to pursue accusations against two members from merchant families due to their social status (Alzaid, 2013).

The diversity of culture between different countries influences how people behave, especially in multicultural societies, when each ethnic group maintains its own identity (Sendut, 1991). This is best exemplified by the behaviour of Swiss companies located in either German- or French-speaking Switzerland. Germany and France, are its closest neighbours, and are two important economies in Continental Europe, sharing the same legal system but enjoying distinct cultural features, which are reflected in the two Swiss regions. The federal law defines corporate law in Switzerland, so any differences in corporate governance may therefore be explained by cultural influences (Gantenbein and Volonte, 2012). Although Swiss corporate governance is close to the Anglo-Saxon model, the ownership structure has a high concentration of single families or block-holders, unlike the Anglo-Saxon model that is based on dispersed ownership. Furthermore, both German and French culture has influenced ownership and board structures: the Swiss German boards are more likely to be two-tiered, as in Germany, where the board of directors is separated from the management board and contains no executive directors (Gantenbein and Volonte, 2012). In contrast, half of the Swiss French boards include the CEO, showing that firms in the French-speaking part of Switzerland are significantly more likely to have a single-tier board structure, and that the composition of the board differs as a consequence of the language barriers; there is a greater representation of directors with French citizenship and of directors who have graduated from a Swiss French university on the corporate boards in the Swiss French region. Similarly, German directors are more prevalent on the Swiss German boards (Gantenbein and Volonte, 2012).

A diversity of cultural values and beliefs is also evident in the different cultures of the USA and France, where hierarchy and authority are perceived differently: American culture resists hierarchy and centralised authority, whereas in France, these are accepted (Pagano and Volpin, 2001; Bebchuk and Roe, 1999).

Hence, the dominant culture of Kuwait may resist the change to adopting a new culture by changing the current Act and replacing it with a new Kuwaiti code of corporate governance, since the dominant culture is based on the merchant families running listed companies.

Matoussi and Jardak (2012) also demonstrate that the US has the highest number of cases of shareholders' claims in court against listed companies' boards and executive management, followed by South Pacific; MENA countries represent the lowest number of cases. They suggest that MENA countries do not rely on litigation and instead make use of other mechanisms of governance (customs and traditions gained from their culture) rather than those in the West.

It was mentioned earlier in chapter 2 that, although a group of merchant families were accused of engaging in illegal, manipulative transactions, the law and regulations were not activated against them. This may relate to the customs and traditions that represent the country's culture, which will be examined later in the empirical chapters.

Morck and Steier (2005) identify cultural influences in their observation that Canada was a notably corrupt country until a few generations ago. It had been colonised by the French, who at that time saw Jean Baptiste Colbert as the father of French mercantilism, whose policies

encouraged corruption and abuse. Hence, colonisation can transfer a corrupt culture and impact on the quality of the law issued in a colonised country.

In Kuwait, corruption and bribery have been part of the community culture since parliament was first established, which created mutual interests between the government and the political parties in parliament, specifically the merchant group, and continues to be part of the community's culture (Al-Moqatei, 2013).

The impact of culture can also be seen in the aftermath of the Asian crisis when, in 1997, the Korean government reformed the equity markets and the market-based economy. However, these reforms did not meet with success due to the cultural beliefs and values of Korean society, as the collectivist beliefs of Korean people, with concentrated hierarchies, made it impossible to establish a free market economy. Policymakers therefore need to recognise the role of culture and understand that fundamental national cultural beliefs can be a key to the success or failure of policy implementation (North, 1994; Miles, 2010).

In Kuwait, after the Al-Manakh crisis of 1986, the government stressed the need for listing requirements to limit the numbers of listed companies; however, these new regulations proved ineffective since, of the 84 new companies listed on the KSE between 2002-2006, the majority did not have an operation (called papered companies as they are companies that have no operations and in some companies have no location) (Alsaied, 2008). This shows that, although regulations and requirements exist, they are not obeyed by the merchant families, since they are powerful and cannot be prosecuted as they are above the law.

Abdumavlonov (2011) states that the Russian government tried to enhance corporate governance by adopting the Anglo-Saxon (outsider) model, but the cultural obstacles presented by a communist society hindered its development and activation. As a result, the regulations existing within the Soviet Union led to illegal transactions which persist to the present day. The distrust which has arisen as a result of the lawlessness and harsh political environments of past centuries is a feature of Russian culture: the secret police and citizen informants of the communist government have caused a high level of suspicion of individuals outside the family or close relationships (Abdumavlonov, 2011). Another cultural norm of Russian society is their reliance on personal networks of trusted friends or high authorities for the successful completion of business. These cultural features and social norms of the Russian people, therefore, make it impossible to implement an outsider system of corporate governance: a culture of lawlessness, distrust and problem-solving through personal networks is unreceptive to the concepts of transparency, proper auditing, fiduciary duties and the protection of minority shareholders (Abdumavlonov, 2011).

This thesis will examine whether close personal and social relationships in actor networks between the merchant families and the government and regulators exist and are a cultural factor that hinders the issuance of a Kuwaiti code of corporate governance.

Thus, cultural factors can play a major role in hindering the development and effectiveness of a corporate governance code. India tried to develop its corporate governance code by applying the Anglo-Saxon model; however, the dominant culture resisted the activation of the code and built codes that are commensurate with the requirements of their own culture, such as retaining concentrated ownership and protecting the merchant families' interests; hence, the cultural

factors in India have a significant influence on its system of corporate governance and have led to a divergence from the Anglo-Saxon model (Bhattacharyya, 2012).

On the contrary, France that has a civil law system, saw the business culture change between 1985 and 1991 as companies were privatised and widened their businesses internationally. These companies funded their operations by loans from international banks and financial institutions which resulted in an improvement in their governance. Therefore, the culture change in business and normative international influences has impacted corporate governance in France (Keasey et al., 2005).

This thesis will therefore explore cultural factors and their impact on the absence of corporate governance in Kuwait, and the role of the government in preventing the issuance of a corporate governance code.

3.7 Summary

Enriques and Volpin (2007) refer to the corporate governance reform in Germany and France to three main factors: cultural; legal; and political. The cultural factor is represented by business becoming more globalised and attracting foreign institutional investors. The political factor has come from the pressure from the EU to establish a common regulatory framework for European financial markets and companies. The legal factor has resulted from corporate scandals that increased public demand for the existing governance framework to be updated.

Similarly, in Egypt weak coercive pressure from regulators due to cultural political and legal factors has led to non-compliance with the corporate governance code whereby blockholder's preferences prevail (Samaha, 2012).

Hence, political, legal, and cultural factors have a significant influence on shaping isomorphic tendencies toward constituting governance practices in different countries, also they play significant role in the process of issuance of governance code and the level of the effeteness.

Chapter two explored the political, legal and cultural factors of Kuwait, including the economic situation, and detailed the role of the merchant families in two eras: pre and post crude oil discovery. The present chapter detailed three influential factors over the development and effectiveness of corporate governance; namely, legal, political, and cultural factors, and whether merchant families exert an influence. This thesis will explore the extent to which Kuwait's current legal and regulatory system influences the issuance of a Kuwaiti corporate governance and, whether the characteristics of the civil legal system, that encourage a concentrated ownership structure and represent the merchant families, makes them immune from the issuance of corporate governance in Kuwait.

The thesis will also explore the influence of political factors through parliament, that is responsible for issuing legislation and, hence, whether the existence of merchant family members in parliament influences corporate governance. Also, the role of the Kuwaiti government will be explored to illustrate whether the government's practices share mutual interests with the merchant families and make them immune to the issuance of corporate governance code. Also, the thesis explores the culture and examines whether this also influences corporate governance. Hence, this thesis explores the extent to which each of these

factors influences the absence of a corporate governance code in Kuwait, and specifically the role of the merchant families through their legal, political, and cultural influence. Also this thesis will explore whether the legal, political, and cultural factors helping merchant families to influence on corporate governance practices inside the organisational field of Kuwaiti listed companies. Besides, the thesis will explore whether there is one community of practices that established by merchant families or there is many. Institutional theory is concerned with processes of isomorphism, the construction of legitimacy, and explaining similarities among organisations within an institutional field (Aguilera and Jackson, 2010). Thus this theory is helpful in examining whether there is a similarity in corporate governance practices within the organisational field of Kuwaiti listed companies and what isomorphic pressures have been exercised that have established one or several community of practice and which pressures are preventing the issuance of corporate governance code in Kuwait. Also, in order to answer the research question of why there is no corporate governance code in Kuwait, and the factors influencing corporate governance practices in Kuwaiti listed companies, a NIS theoretical framework can be used to answer the how and why in the institutional environment of Kuwait (Aguilera and Cuervo-Cazurra, 2009).

Chapter 4

Theoretical framework

4.1 Introduction

This chapter examines the organisational field of listed companies in Kuwait, with the aim of exploring whether there is community of practice within the organisational field of Kuwaiti listed companies and understanding the community of practice in this area (Davis and Marquis, 2005), which will highlight the dominant organisational logics (Thornton and Ocasio, 2008), which is highly dependent on the network of actors. The term 'the network of actors' in this thesis refers to the merchant families association with the government, whereby the merchant families' power is acquired through their political, cultural, social influence, as explained in chapter 3.

Also, several communities of practice may exist within the organisational field of listed companies, such as in Kuwait, where no changes have been made to the Companies Act (Article 15) since 1960, where there may be institutional factors that: (i) impede any isomorphism occurring from normative international practice; (ii) where state owned corporate governance practices are mimicked by other companies; and (iii) where the 1960 Act (Article 15) has any coercive influence.

Chapter four is structured as follows. Section 4.2 discusses institutional theory and the organisational field; section 4.3 illustrates the organisational logics within the field and the concept of competing logics that might create change. Section 4.4 discusses the notion of the community of practice and the network of actors within the field. The last section, 4.5, provides a conclusion to the chapter.

4.2 Institutional theory

Before introducing NIS theory, the reason for not choosing other possible theories, such as agency or Actor Network theory, is explained. First, agency theory is a result of problems that occur between agents and principals as "*the relationship between the principals, such as shareholders, and the agents, such as the company executives and managers*" (Abdullah and Valentine, 2009, p.90). The theory is based on the assumption of the separation between ownership and control, which usually occurs in developed markets that are characterised by dispersed ownership and active capital markets (Bhimani, 2008). Kuwait however is characterised by concentrated ownership, by both the merchant families and the government, and the capital market is undeveloped. Thus in Kuwait the shareholders are also entrenched board members, with no separation between managers and shareholders. Hence, agency theory is not suitable to a country such as Kuwait and will not be helpful in understanding the reason *why* there is no Kuwaiti corporate governance code.

Another theory that could have been applied in this thesis is Actor Network Theory (ANT) but, as this research uses interviews and a questionnaire survey that concerns the perceptions of stakeholders rather than examining the actors themselves, and the interaction between the individual actors, ANT is also not a suitable theory to have been used as it would have involved examining practice at the individual micro level rather than a more holistic understanding of why there is no corporate governance code (Rowley, 1997).

New Institutional Sociology (NIS) theory is concerned with institutions at more "macro" level of the organisational field (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). In

the initial stage, different organisations may show a diversity of approach, form, and logic, causing a fragmented, heterogeneous environment; once a field becomes more established, however, there is an inexorable push towards homogenization (DiMaggio and Powell, 1983). Hence, David and Marquis (2005) state that the analysis of the organisational field provides a better understanding of the processes of both change and persistence within institutional theory, and which community of practices becomes dominant, representing the dominant logic of the most prominent actors within the field.

A field, according to DiMaggio and Powell (1983), is a recognized area of social or economic activity in which the actors establish relationships among themselves, reconfiguring their action models and social structures. Organisations are positioned in relational structures or networks that configure their actions and delimit their possibilities (DiMaggio, 1991; Scott, 1991). Further, Hoffman (1999) states that a field is formed, not around common technologies or industries, but around issues that bring together various fields, such as in this thesis, which examines the field of corporate governance in a particular situation – that of Kuwait –, encompassing all listed companies from all sectors.

An organisational field is defined as *"those organisations that in the aggregate, constitute a recognised area of institutional life: key suppliers, resources and product consumers, regulatory agencies and other organisations that produce similar services and see themselves involved in a common enterprise"* (DiMaggio and Powell, 1983: 143). The organisational field of Kuwaiti listed companies includes all listed companies from different sectors with the regulators and legislators. Scott (1995) adds to the latter definition the fact that organisations see themselves as part of the same community that partakes of a system of common meaning. In this light, as a recognised area of institutional life, organisational fields represent the totality

of the relevant actors; for example, “a community of organisations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside the field” (Scott, 1995: 56). The idea behind analysing the organisational field is that the field is inclusive of the role of the other stakeholders not just depending on the role of main actors in the field, such as the State, regulators, professional and trade associations and product consumers (DiMaggio and Powell, 1983).

Inside the organisational field, different organisations and individuals try to position themselves and bring the focus onto power, domination, and class (Everett, 2002), and the position of an organisation inside the organisational field depends on its relative power (Misoczky, 2003) and size (Swedberg, 2004).

In Kuwait, the organisational field is listed companies on the KSE, and began to appear as soon as the first company was listed in 1952. The related actor networks within this field are the merchant families as shareholders, government, regulators, legislators, executive management and other stakeholders, such as professional associations. A group of merchant families established the first listed company called the National Bank of Kuwait. The board and management were headed by the merchant families as the founders of the bank and it still continues under their control (Al-Temimi, 2006). More companies were listed in 1954, 1956 and 1957, and again the merchant families founded these and still head them and maintain their control (Al-Shamari, 1985; Al-Qenae et al., 2002).

Thus, merchant families control the board and management of the majority of listed companies and engage in networks that cross and overlap (Aljoman, 2011). All listed companies are

governed by Act (Article 15) issued in 1960, which does not conform to current international principles of corporate governance, and corporate governance in Kuwait may not have developed in the same manner as elsewhere. Hence, this thesis seeks to determine why no Kuwaiti code of corporate governance has been issued, and how the organisational practice of corporate governance in Kuwait differs or is similar to established international norms and why this is so.

In order to understand why no code of corporate governance has been issued, it will be helpful to identify the dominant logic of actors of the field and focus on the importance of the dominant logics and the resistance to change to new competing logics (Lounsbury, 2001; Thornton, 2002; Suddaby & Greenwood, 2005). The next section illustrates in greater detail the role of organisational logics.

4.3 Organisational logics

The organisational field includes different institutional structures which include organisations and individuals (Thornton and Ocasio, 1999). Institutional fields, which it is a part of the organisational field, can form as clusters and be influenced by organisations and professions through their boundary-spanning identities and interactions where institutional logics become "a socially constructed, historical pattern of practices, assumptions, values, beliefs and rules" (Thornton and Ocasio 1999:804). Scott (1987) further states that institutional logics become taken-for-granted social prescriptions that guide the behaviour of the actors in the fields, who have a shared understanding of which goals to pursue and how to pursue them (Scott, 1987,

1994). Many organisational fields may contain multiple institutional logics of different actors (Friedland & Alford, 1991; Thornton & Ocasio, 1999; Schneiberg, 2002; Seo & Creed, 2002), but often one institutional logic holds a dominant position (Dobbin, 1994; Schneiberg, 2002; Reay & Hinings, 2005).

The main actors in the organisational field of listed companies in Kuwait are the merchant families and the government, who control many of the listed companies. The other stakeholders in the field are the professional bodies, legislators, regulators, and trade associations. The history of Kuwait, as explained in chapter 2, shows that the merchant families in Kuwait have socially and culturally positioned themselves politically through their economic power to become more powerful and exert control over the government and the country. Therefore, the behaviour of the merchant families may be designed to maintain their control over listed companies, and hence oppose any changes to the Companies' Act (Article 15), to avoid threatening their power and control. Indeed, Lepoutre and Valente (2012) state that the actors inside an organisational field will oppose any changes being made to the dominant logic if the process of change would threaten their control and cause losses to themselves. Liguori and Steccolini (2012) also confirm that larger organisations are less motivated to change, as they prefer to maintain their authority within their organisational field. However, there might be competing logics among other groups, such as minority investors, in the organisational field of listed companies in Kuwait, who might support a change to the dominant logic that favours the merchant families.

Helms et al. (2012) state that one of the barriers to changing the dominant organisational logic is logic pluralism where the logics of different groups of actors, such as the government,

organisations, consumers, non-government organisations, and academics each carry a different logic and that the move to a new dominant logic takes time. The organisational field of listed companies in Kuwait has many actors, such as the government, regulators, legislators, parliament, executive management of listed companies, merchant families, and minority investors. The question that arises is whether these organisations and individuals all share the same dominant logic or whether there is a pluralism of logics and, which of these prevents change.

The organisational logic consists of both symbolic and material carriers. Symbolic carriers include the embedded norms, rules, and belief systems and the material carriers include the routines, relationship systems, and artifacts that materialize and reproduce them (Lepoutre and Valente, 2012) or are "a set of material practices and symbolic constructions which constitutes its organizing principles and which is available to organisations and individual to elaborate" (Friedland and Alford, 1991: 248). Material carriers refer to material artifacts, routines, the governance and reward systems, and relationship systems surrounding actors in an organisational field (Lepoutre and Valente, 2012). Organisations and individuals inside the organisational field conform to the institutional logics through the two main symbolic and material carriers.

The symbolic carriers of corporate governance in Kuwait are the Companies' Act 1960 (Article 15), as well as the merchant families' belief systems who control listed companies and have power. The material carriers are represented by the dominant merchant families' practices, relationships and networks that allow them to achieve their interests.

Hence, this thesis examines whether the dominant symbolic and material carriers of merchant families who control listed companies in the organisational field prevent change.

Hyvonen et al. (2012) show in their study that the change process over the dominant logic can best be achieved via exogenous jolts or from endogenous sources. They relate exogenous jolts to introducing new active agencies in the organisational field, whereby a new actor may challenge the existing organisational logic and introduce new competing logics. In Kuwait, a new agency, the Capital Market authority (CMA), was established in 2010, and this may work towards establishing a new dominant logic and introducing a Kuwaiti corporate governance code, but as yet this has not yet happened.

A second factor that can assist the process of changing the dominant logic is endogenous, and refers to institutional entrepreneurship. Maguire et al. (2004) define institutional entrepreneurship as the "activities of actors who have interest in particular institutional arrangements, and who leverage resources to create new institutions or to transform existing ones" (p. 657). According to Sharma et al. (2010), institutional entrepreneurs may be both exogenous to the organisation (consultants) or come from within it (managers). However Fligstein (1997) states that endogenous change is rare since the powerful actors in the organisational field oppose change, as the current dominant logic in the organisational field protects their power and control. Liguori and Steccolini (2012) emphasise that intra-organisational factors, such as represented by powerful CEOs, also may prevent the implementation of change, since they might lose their control. Thus, internal management and

executives will be examined in this thesis to see whether they impede any change in corporate governance practices.

Schneiberg and Lounsbury (2008) summarise that, in heavily institutionalized fields, all actors may share the same values and institutional logics, whereas fields with competing logics will be less institutionalised and more prone to change. Thus, this thesis will examine the extent to which corporate governance has become institutionalised in to one logic.

Hyvonen et al. (2012) also suggest that there may be coalitions between entrepreneurs forming networks between them that can compete with and change the dominant logic by forcing a normative isomorphism within the organisational field. Such networks consist of actors who are connected by a set of ties, be they persons, teams, organisations, or concepts (Borgatti and Foster, 2003). The merchant families within the organisational field of listed companies of Kuwait arguably have built up networks and have become the actors in this network, connected with each other by a set of ties, from controlling listed companies to protecting their power. This power is derived from the political, cultural, and social factors in the country, and the power of the merchant families allows them to create and impose their own practices in order to be dominant within the organisational field. One network of actor practices forming a normative isomorphism is CEO duality, whereby the same person is CEO and Chair, and most listed companies follow this institutional logic, as the Companies' Act (Article 15) does not prevent CEO duality. Hence, the concept of institutional entrepreneurs might be rare or not-existent, as the boards of listed companies have a monopoly over the selection of executive

management and, in most cases, these constitute the same people from their merchant family network. This thesis will again examine whether this is indeed the case.

The next section discusses how these logics within the organisational field form different communities of practices, and specifically questions whether the organisational field in Kuwait may have one or several communities of practice.

4.4 Community of practice

Van Baalen et al. (2005) state that a community of practice is a relatively cohesive group of people who know each other well and work together directly. These groups may be either organisations or individuals that share the same practices, goals, vision, and logics (Greenwood and Hinings, 1996). Each group's logic represents a community of practice, with the same fundamental beliefs, norms, and values regarding how cultural, social and political systems should work (Ingram and Simons, 2000). Wenger (1998, 2004) states that the fundamental characteristics of a community are: the domain (the area of knowledge that brings the community together); the community (the group of people for whom the domain is relevant); and the practice (the body of knowledge and method which the members share and develop together). Therefore, the term 'community of practice' refers to the process whereby shared socio-cultural practices emerge among people who share a common goal, vision, and identity, regardless of their geographical location (Lave and Wenger, 1991). The difference in logics inside the organisational field leads to several communities of practice, as each

community's shared logics represent different practices from the others (Greenwood and Hinings, 1996).

Referring to chapter 2, the ownership of Kuwaiti listed companies has a block-holding and pyramid ownership structure, and CEO duality identified by Badraan (2010) is dominant in the field as an effort by the merchant families to impose their control over listed companies. Therefore, the characteristic of a community in Kuwait is the issue of power and control (domain). Merchant families share the value of power and control over listed companies and hence comprise one community, and it may resist change to corporate governance since this would threaten their power and control (practice).

Hence, the thesis explores whether there is just one community of practice with a common knowledge who resist the issuance of a corporate governance code in Kuwait, and whether the practices are shared within their merchant family community. For example, organisations inside the same community may display a homogenization in their practices; for example, listed companies in Kuwait may share homogeneity of practice such as CEO duality. The domain inside the community may result in isomorphic tendencies to other listed companies and as DiMaggio and Powel (1991) note, isomorphism is:

> *"The concept that best captures the process of homogenisation"*
> *(DiMaggio and Powell, 1991: 66).*

4.5 Isomorphism

Burton (2000) states that isomorphic tendencies can help us to explain the rapid spread of uniform governance structures that have occurred in recent years. Such isomorphism can be

typified as “competitive” and “institutional”. Competitive isomorphism assumes a system of rationality that emphasizes market competition, and is relevant for organisational fields in which free, open competition exists. The institutional view of isomorphism is that organisations compete not only for resources and customers, but also for political power, institutional legitimacy, and social as well as economic fitness, leading, in some situations, to irrational practices (Carruthers, 1995).

This thesis is concerned with isomorphism that derives from the institutional pressure that steers organisations in a specific direction towards accepting or rejecting changes in their dominant practices and codes (Lounsbury, 2007; DiMaggio and Powell, 1983; Scott, 2001). These pressures are exerted by a variety of sources, such as the government, professional associations, and competitors (Oliver, 1991), which can take the form of coercive, normative, and mimetic forces (DiMaggio and Powell, 1983). Coercive isomorphism results from external pressures such as that exerted by the government in Kuwait, such as the Companies’ Act (Article 15) 1960, to which all listed companies should comply. Normative forces derive from professional communities whose members conform to particular norms and standards as a community of practice, and mimetic isomorphism arises from the pressure to imitate other successful organisations and their practices (DiMaggio &Powell, 1991).

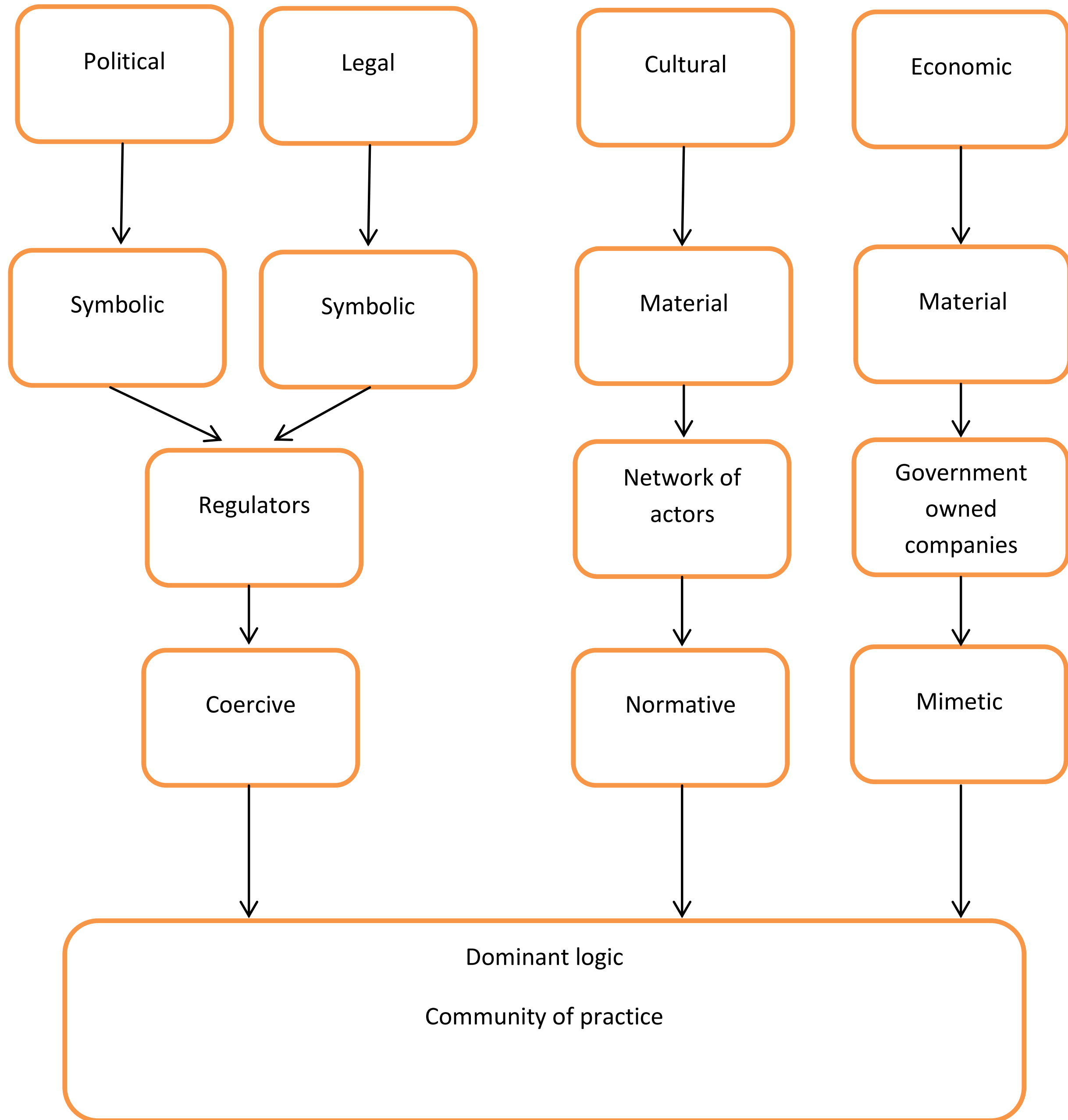
Souitaris and Zerbinati (2012) state that it is not just isomorphic tendencies that cause homogenisation between organisations but also that each organisation’s priorities lead to an alignment with a specific community of practice. If the organisation prioritises its major shareholders (endo-isomorphism), the major shareholders will coerce organisations to follow their practices, whereas if the organisation’s priorities are driven externally, such as by other organisations within the field (exo-isomorphism), mimetic or normative isomorphism will

occur (Souitaris and Zerbinati, 2012). According to the organisational field of Kuwaiti listed companies, it is assumed that endo-isomorphism is dominant, since the majority of listed companies are dominated by the major shareholders; hence, the merchant families might coerce executive management to follow their practices.

The role of the Kuwaiti government as an actor and coercive force inside the organisational field may be weak as no changes have been made to the Companies Act (Article 15) and no corporate governance code has been issued, and hence governmental coercive isomorphism may be missing as mentioned earlier in chapter 2, some illegal practices in Kuwaiti listed companies by the major shareholders and regulators had no consequences. The power of the controlling merchant families may be observed through their practices exerting a coercive isomorphism over executives inside the community of Kuwaiti listed companies, since no other groups prevent them from or coerce them into changing their practices. Moreover, the merchant families may have coercive influence on the government not to issue or develop a code. Their organisational logic may then result in a mimetic isomorphism, whereby non merchant family owned listed companies follow the practices of the merchant family and government owned ones.

However, there might be some listed companies inside the organisational field that reject the existing community of practice and voluntarily apply international principles of corporate governance. These, if they exist, will represent a different community of practice and as Lepoutre and Valente (2012) note the reason for this may be that decision makers in these listed companies may notice a potential opportunity to differentiate themselves from the rest, and adopt corporate governance principles, whereas the listed companies that are controlled by the merchant families recognize that corporate governance will threaten their interests (Thomas et al., 1993)

Diagram 4.1 Theoretical diagram of the thesis



Notes: This diagram explains the theoretical framework of the organisational field of Kuwaiti listed companies

The diagram shows the factors that influence corporate governance practices of Kuwaiti listed companies and the coercive, normative, and mimetic pressures show that Kuwaiti listed companies have a single community of practice.

Therefore, in order to examine why there is no Kuwaiti code of corporate governance, this research will explore corporate governance in Kuwait and determine whether there is a dominant organisational logics inside the field and whether the merchant family network of actors resist any changes or whether there are competing logics within the field that could bring about change. The thesis will explore whether there is a single community of practice represented by one network of actors, the merchant families, or whether there are several communities of practices within the organisational field. Moreover, this thesis explores whether the merchant families' practices and logics are the main reason for preventing the issuance of corporate governance in Kuwait or whether there are other factors involved.

4.6 Summary

This chapter discusses the organisational field and logics of corporate governance in Kuwait and explains how institutional theory can provide an understanding of the factors that influence current practices and the process of change. Within the organisational field, different groups might display different communities of practice related to their knowledge, goals, and vision.

The thesis will examine the extent of whether the merchant families dominant logics and practices resist the issuing of Kuwaiti corporate governance code by their power which is acquired through their political, cultural, social influence. Also, the thesis will examine the role of the government and the reason of why they do not develop or issue a corporate governance code. To answer these questions, a qualitative method is applied in this research to get a richer, deeper perspective of participants' perceptions about the factors preventing the issuance of a Kuwaiti code of corporate governance and the influence of the merchant families. The next chapter justifies the choice of qualitative research method.

Chapter 5

Research Methodology and Methods

5.1 Introduction

This study explores the factors that prevent the issuance of a Kuwaiti corporate governance code and the influence of merchant families on both current companies' practices and the prevention of the issue of such a code.

To achieve this aim, this chapter discusses the research methodology and the methods adopted to conduct the empirical work for this study. The chapter discusses the main alternative methodological frameworks in the literature, and justifies the selection of the research paradigm, methodology and methods that are adopted in this study (Hoepfl, 1997).

5.2 Assumption of the research philosophy and methodology

Initially, it is beneficial to explain what research means. Research is a systematic investigation process that involves establishing certain facts to find out the reality of something by using a scientific method (Fellows and Liu, 2009). Collis and Hussey (2009) pointed out that, although research is an important element in and central to business and academic activities, there is no agreement in the literature about how it should be defined as research means different things to different people. Saunders et al. (2009) define research as:

> "Something that people undertake in order to find out things in a systematic way thereby increasing their knowledge about the phenomenon under study".
>
> (p.5)

However, the process of conducting any research depends upon the research philosophy which is used to inform the understanding of a specific area (Saunders *et al.*, 2007) and the research paradigm incorporating assumptions about how they will learn and what they will learn during the enquiry adopted by the researcher (Creswell, 2003). The research process is affected by the researcher's previous assumptions and beliefs (Hoque and Hopper, 1994), and the research process is influenced by the researcher's thoughts about the nature of social science and the development of knowledge.

Blumberg et al. (2005) discuss the importance of thinking about what research is in a pragmatic way, to support the research strategy and methods that the researcher selects as part of that strategy (Blumberg *et al.*, 2005). Saunders et al. (2007) also discuss the premise that each paradigm contains important differences, which affects the thinking about the research process.

Burrell and Morgan (1979) state that there are various philosophical assumptions which have direct implications when adopting a specific research methodology and influence the selection process of an appropriate research paradigm. These assumptions are views about the nature of reality, knowledge and human nature. These philosophical assumptions influence the research process of examining, collecting, analysing and interpreting findings (Bryman, 2012).

The reason for understanding the research's philosophical assumptions is that these can assist researchers to clarify issues related to their research design by helping them to consider what kind of evidence is required, gathered and interpreted, in addition to helping to provide answers to the research questions. This knowledge about the philosophical

assumptions can also assist researchers to recognise what is appropriate to achieve in terms of their research objectives, and also to create and/or identify a research design that may be new in their substantive field (Easterby-Smith et al., 2002).

The philosophical approaches can be categorized into two types: the first assumption is the positivist/objectivist approach, which is based on the belief or assumption that social reality and social phenomena are independent of ourselves and exist regardless of whether or not we are aware of them. Therefore, the act of investigating reality does not affect the reality. The objectivist approach (objectivism) in social sciences, meanwhile, assumes that the social world exists externally, and that its characteristics should be measured by objective scientific methods, as used in the natural sciences, such as physics and chemistry, rather than being inferred subjectively through sensation, inspiration experience or reflection. The objectivist approach also contains two main assumptions that see reality as external and objective (the ontological assumption of the objectivist approach); and sees that knowledge is only significant if it is based on the observation of this external reality (an epistemological assumption) (Collis and Hussey, 2009; Easterby-Smith et al., 2002).

The second approach is phenomenology (subjectivism), which is based on the belief or assumption that the world is socially constructed and has a subjective consciousness. It sees the social reality and social phenomena as determined by social actors' actions and perceptions (Easterby-Smith et al., 2002) and as lying within us. Therefore, the act of investigating reality affects the reality. The subjectivism approach focuses on meaning and is concerned with understanding the human behaviour involved in the social phenomenon from the participant's own frame of reference (Collis and Hussey, 2009). Easterby-Smith et

al. (2002) suggested that the subjectivism approach focuses on what social actors, both individually and collectively, are thinking and feeling about the social phenomenon under research. They pointed out that, in a subjectivist approach, researchers, for example, may try to explain why people have different thoughts or experiences rather than seek external causes and fundamental laws to explain their behaviour. Bryman and Bell (2007) illustrate that the central difference between these two research philosophies or approaches relates to the question of whether social entities can be considered objective entities with a reality that is external to the social actors or whether they should be considered as social constructions built from the perceptions and actions of the social actors.

Business research is treated as a component of social science as it deals with human beings and human organisations that cannot be predicted; hence, any social study should consider the various philosophical assumptions about the nature of social science and the nature of society (Nwokah et al., 2009).

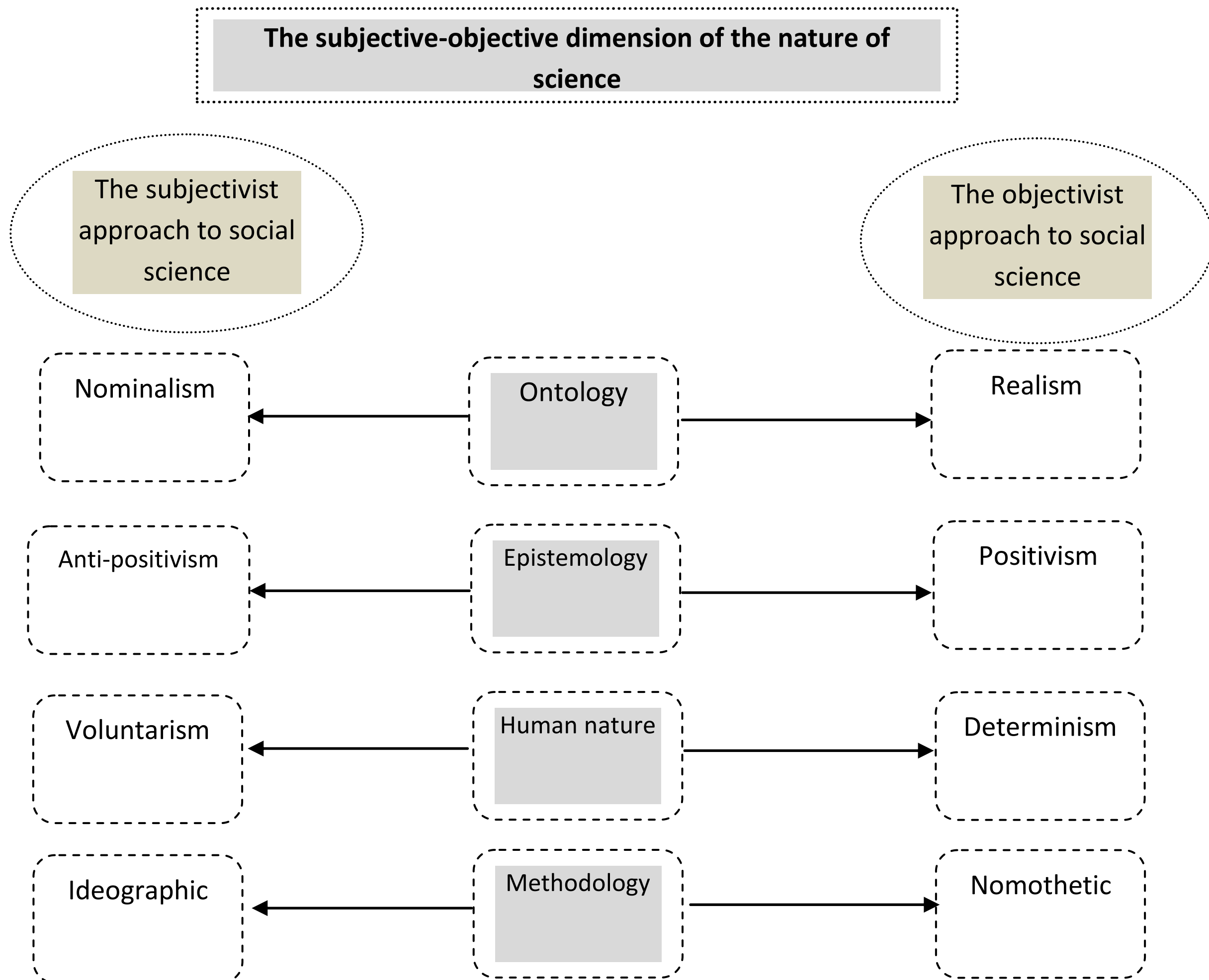
5.3 Assumptions about the nature of social science

Burrell and Morgan (1979) build on two dimensions, based on assumptions concerning the nature of social science and the nature of society respectively (Hopper and Powell, 1985). The social science dimension in turn consists of four distinct but related elements assumptions on ontology, epistemology, methodology, human nature. Ontology assumptions are made about fundamentals and assumptions about the nature of organisational phenomena, researchers make claims of what is knowledge (Creswell, 2003). The nature of knowledge is about those phenomena or how researchers know them (epistemology) (Creswell, 2003). Human nature refers to the ways of studying those phenomena (methodology); in other words, methodology

means the processes for studying knowledge (Hopper and Powell, 1985; Gioia and Pitre, 1990; Creswell, 2003). Additionally, there are different manners of thinking about research philosophy which have been recognised in the social science literature (ontology, epistemology, human nature and methodology, as illustrated in Figure 5.1), which searches for these in terms of what Burrell and Morgan illustrate as the subjective-objective dimension (Burrell and Morgan, 1979; Hopper and Powell, 1985; Crotty, 1998; Kakkuri-Knuuttila *et al.*, 2008), and epistemology, ontology and axiology (Saunders *et al.*, 2007), and ontology, epistemology and methodology (Gioia and Pitre, 1990) and ontology, epistemology, axiology, and methodology (Hussey and Hussey, 1997 ; Creswell, 2003), and ontology, epistemology and human nature (Morgan and Smircich, 1980).

Another arrangement of assumptions about paradigms is provided by Chua (1986). The first assumption regards beliefs about knowledge which involve both epistemological and methodological belief. The second assumption regards beliefs about the physical and social reality that include ontological beliefs, human intention and rationality, and societal order/conflict (Horton, 1966). The third assumption is the relationship between theory and practice. The next section will focus on the categorisation of Burrell and Morgan with contemporary additions; and will be discussed later.

Figure (5.1) A scheme for analysing assumptions about the nature of social science



Source: Burrell and Morgan (1979, p.3).
Note: this figure shows Burrell and Morgan's (1979) scheme for analysing assumptions about the nature of social science.

In short, ontology describes our view (whether claims or assumptions) about the nature of reality and asks, specifically, whether this is an objective reality that really exists, or only a subjective reality, created in our minds.

The first line (ontology) represents the researcher's assumptions about the nature of the world. Blaikie (1993) describes the definition of ontology as 'the science or study of being' and

develops this description for the social sciences to encompass 'claims about what exists, what it looks like, what units make it up and how these units interact with each other' (p.6). Crotty (1998) provided another definition of ontology as the study of the nature of reality or being, concerned with understanding "what is", the nature of existence, and the structure of reality. Burrell and Morgan (1979) considered that the ontological assumption is concerned with the basic or most important idea of the phenomena under investigation. The basic ontological question concerns the nature of reality. According to Burrell and Morgan (1979), the ontological debate describes views (whether claims or assumptions) on the nature of reality, and asks, specifically, whether this is an objective reality that really exists, or only a subjective reality, created in our minds. The subjectivists' nominalism approach views the social world as the outcome of individual consciousness, whereas the objectivist realist approach emphasises the view that reality is external and exists independently of an individual's appreciation of it.

Burrell and Morgan (1979) explain that the realism position sees facts as a concrete structure in the social world that have an existence that is independent of individual perceptions. It assumes that the social world is made up of hard, tangible and relatively fixed structures, which exist irrespective of how they are labelled or perceived. On the other hand, nominalists assume that the social world is not real and perceive reality as a projection of the human imagination (Morgan and Smircich, 1980). Burrell and Morgan (1979) explain that nominalism assumes that the social world is made up of nothing more than names, concepts and labels which are used to structure reality because reality is derived from individuals' thoughts and conscious mental processes.

Ontological assumptions have a direct impact on the epistemological approach, research methodologies, and method which, in turn, influence the type of research process and analysis (Burrell and Morgan, 1979). Therefore, once researchers have decided upon the ontological assumption for their research, a particular epistemological approach and research methodologies and methods should be followed (Collis and Houssay, 2009).

However, according to Crotty (1998, p.10), the conception that reality exists independently of any human consciousness "does not imply that meanings exist independently of consciousness". The point of attaching meanings to reality, whether from the realist or nominalist perspective, brings the issue of epistemology to the fore.

The second line shows that epistemology is coupled with ontology as it consider what constitutes reality and is concerned about 'what is knowledge and what are the sources and limits of knowledge' (Eriksson and Kovalainen, 2008). Blaikie (1993) describes epistemology as 'the theory or science of the method or grounds of knowledge'. Another definition of epistemology by Crotty (1998) is that it is "the theory of knowledge embedded in the theoretical perspective and thereby in the methodology". Hence, epistemology, according to Chia (2002), is 'how and what it is possible to know'. Epistemology is, therefore, concerned with the nature of knowledge (Burrell and Morgan, 1979) and the way of collecting, understanding and explaining human knowledge (Hopper and Powell, 1985; Crotty, 1998; Creswell, 2003). Cooper et al. (1999) explain that epistemology is a branch of philosophy which aims at: (i) understanding such concepts as belief, memory, certainty, doubt, justification, evidence and knowledge; and (ii) enquiring into the criteria for the application of such terms, particularly the criteria for identifying "the scope and limits" of human knowledge. Cooper et al. (1999) argued that:

> "Many people have the impression that epistemology is the most central area of philosophy, or even that philosophy should really be identified with epistemology. Certainly there is a popular image of philosophers as people obsessively and almost solely concerned with determining whether we really know the things we ordinarily think we do" (p.3).

Considering the epistemological assumption, Burrell and Morgan (1979) identified positivism and anti-positivism positions. Positivist researchers consider that knowledge exists independently of any consciousness and can only be based on empirical observations of social reality. They typically understand the social world through explanations based on predicted regularities and causal relationships among its elements, and use methods such as experiments (Burrell and Morgan, 1979). Alternatively, anti-positivism is based on the notion that knowledge is imposed on the object by the subject (Crotty, 1998). Anti- positivist researchers reject the view that knowledge objectively exists or is subjectively imposed, and argue that it is constructed (Crotty, 1998). They consider that the social world is mainly relativistic and that there is only one way to understand it. This way is through the personal investigation, experience and perspective of individuals who are directly involved in the activities under investigation (Hopper and Powell, 1985; Crotty, 1998). Moreover, anti-positivist researchers typically do not seek laws and underlying regularities related to social affairs, as in the physical sciences (Burrell and Morgan, 1979).

The third line of the nature of social science is the human nature assumption. The relationship between human beings and their environment is the main concern of this assumption (Burrell and Morgan, 1979). According to Burrell and Morgan (1979), the human nature debate focuses on the issues of what model of researcher is reflected in social scientific theory. This philosophical debate involves two perspectives: determinism and voluntarism.

In determinism, everything which happens must happen as it does and could not happen any other way. The determinist perspective is based on seeing human beings and their experience as the products of their environment (Burrell and Morgan, 1979).

Determinist researchers consider that they and their activities are completely determined by the situation or environment in which they are located. Furthermore, determinist researchers assume that they are detached from what they are researching and regard the focus of their research as objects. They are usually interested in investigating the interrelationship between the objects they are studying and believe that these objects existed before they studied them and will continue to exist after the study has been completed (Collis and Hussey, 2009).

The voluntarist perspective, on the other hand, is based on the notion that humans are autonomous and free-willed. This view assumes that individuals are the creators and controllers of own actions and environment (Burrell and Morgan, 1979). Based on the voluntarist perspective, researchers use their values to determine what is recognised as facts and the interpretations that are drawn from them. Furthermore, the voluntarism perspective assumes that researchers are involved with that which is being researched (Collis and Hussey, 2009).

The methodological assumption in the line of the Figure 5.1 is concerned with the research process. Collis and Hussey (2009) defined the methodology as the overall approach to the research process, starting from the theoretical underpinning to the collection and analysis of the data. Crotty (1998 p.3) described the methodology as "the strategy, plan of action, process or design lying behind the choice and use of particular methods and linking the

choice and use of methods to the desired outcomes". Methodology, therefore, is a research design that guides researchers when choosing the techniques or procedures for gathering and analyzing the data related to their research (Crotty, 1998).

Burrell and Morgan, (1979) argued that the ontological, epistemological and human nature assumptions have direct implications upon the research methodology used because these assumptions affect the methods used to investigate and obtain knowledge in the social world. They further argue that the different assumptions made by researchers are likely to draw them towards different methodologies. Collis and Hussey (2009) argue that the choice of methodology is largely determined by the choice of paradigm. They explain that selecting a particular methodology is highly dependent upon whether the positivistic (objectivism) or phenomenological (subjectivism) approach or paradigm is used, as mentioned above. A nomothetic methodology is used by positivistic (objectivist) researchers. This methodology uses protocols, techniques and procedures that derive from the natural science (Burrell and Morgan, 1979). The methodology of the objective researcher focuses on testing research hypotheses and using quantitative techniques of data analysis to test hypotheses and achieve the objective. Thus, it closely resembles an enquiry into the natural science (Chua, 1986).

In contrast, the methodology of the phenomenological (subjectivism) approach is ideographic in nature. This methodology argues that understanding the social world can only be achieved by obtaining first-hand knowledge of the subject under investigation. This means that the analysis should get inside situations and learn the complexities of the particular issues under investigation (Burrell and Morgan, 1979). Under this type of methodology,

data can be collected through using methods such as interviews, and case studies.

A distinction between ideographic and nomothetic methodologies is commonly drawn. The tendency has been to link quantitative methods with the natural sciences (positivism) and qualitative methods with the social sciences (interpretivism) (Mingers, 2001).

5.4 Assumptions about the nature of society

The nature of society may influence the research approach. The work regarding the assumptions about the nature of society that has been investigated by Burrell and Morgan that society can be viewed from two different approaches - steady and orderly or subject to radical change and conflict (Burrell and Morgan, 1979). The work has become known as the "order-conflict debate", which seeks to classify the ways in which researchers view the nature of society, Figure 5.2 illustrates these two approaches to society, as described by Burrell and Morgan (1979).

Under the order view of the society, researchers assume that social structures depend upon logical processes and human action, and is not influenced by society; this view concentrates upon explaining the nature of social order and equilibrium, emphasising stability, integration, functional co-ordination and consensus (Burrell and Morgan, 1979). By contrast, in the conflict view of society, assumes that the structure of society reflects the consequences of an individual's conflicts and the control of particular groups within society, concentrating upon problems of change, conflict, disintegration and coercion (Burrell and Morgan, 1979).

Figure 5.2 the Theories of Society: the Order-Conflict Theory

The Order View	The Conflict View
Stability	Change
Integration Functional	Conflict
Co-ordination consensus	Disintegration
	Coercion

Source: Burrell and Morgan (1979, p. 13)

Dahrendrof's order-conflict theory was criticised by Burrell and Morgan (1979) due to its oversimplification of the conceptual issues between the two positions of social structure, which might lead to different interpretations of the language used. They argued, for instance, that the term "conflict" was interpreted and treated in very different ways in the sociological literature. Burrell and Morgan (1979), thus, replaced the order-conflict schema with the terms "regulation" and "radical change". They highlighted the differences between the two positions of the model and presented the regulation-radical change model, as shown in Figure 5.3.

The regulatory standpoint is less judgmental and critical (Saunders, et al., 2007). Saunders, et al. (2007) claim that regulation seeks to explain the methods within organisational issues, which are organised, and present propositions regarding how they may be enhanced within the framework of the model in which things are done. Cooper et al. (1999) states that regulatory standpoint concentrates on the fundamentals of society and explanations, using concepts such as consensus, order, need satisfaction, integration, and equilibrium (Cooper et al., 1999).

Conversely, the radical change perspective is more judgmental and critical. In terms of management and accounting, radical change correlates to a judgment about the organisational issues which should be performed and proposes methods by which these may be carried out in order to create basic changes (Saunders, et al., 2007). Hence, the radical change dimension adopts a critical perspective on organisational life, approaching organisational problems from the perspective of overturning and seeking to act within the existing state of affairs (Cooper et al., 1999; Saunders, et al., 2007).

Figure 5.3 the Regulation-Radical Change Dimension

The sociology of regulations is concerned with:	The sociology of radical change is concerned with:
The status quo	Radical change
Social order	Structural conflict
Consensus	Modes of domination
Social integration and cohesion	Contradiction
Solidarity	Emancipation
Need satisfaction	Deprivation
Actuality	Potentiality

Source: Burrell and Morgan (1979, p. 18)

Burrell and Morgan (1979) explain that the sociology of regulation refer to researchers who are essentially concerned with providing explanations of a society that emphasises its underlying unity and cohesiveness:

> "It is a sociology which is essentially concerned with the need for regulation in human affairs; the basic questions which it asks tend to focus upon the need to understand why society is maintained as an entity. It attempts to explain why society tends to hold together rather than fall apart".
>
> (p. 17)

The sociology of radical change is concerned with finding reasons for radical change, deep-seated structural conflict, modes of domination and structural contradiction, which its theorists or researchers see as characterising modern society. Burrell and Morgan (1979) defined it as:

> "A sociology which is essentially concerned with man's emancipation from the structures which limit and stunt his potential for development. The basic questions which it asks focus upon the deprivation of man, both material and psychic".
>
> (p. 17)

5.5 Burrell and Morgan's framework of research paradigm

Before discussing Burrell and Morgan's framework, it will be helpful to define a paradigm. Paradigms refer to "a set of beliefs which drive scientific research" (Weber, 2004). Another definition is that they are a process of scientific enquiry, based on people's philosophies and assumptions about the world and the nature of knowledge (Hussey and Hussey, 1997). Various definitions of paradigms can be found in the sociology or business literature. A comprehensive definition is that:

> "it represents a world view that defines, for its holder, the nature of the 'world', the individual's place in it and the range of possible relationships to that world and its parts"
>
> (Guba and Lincoln, 1994: 107).

Paradigms consist of patterns or methods that the members of a scientific community share, and represent the diverse philosophical routes that the scientists follow according to their discipline (Kuhn, 1977). Paradigms help to clarify uncertainties and can be utilized at three distinct levels: the philosophical level (to reflect basic beliefs about the world), the social level (to offer researchers strategies for conducting their studies), and the technical level (to identify

the methods which should be adopted when performing research) (Hussey and Hussey 1997; Burrell and Morgan, 1979). In general, a paradigm is a way of thinking that reflects fundamental beliefs and assumptions about the nature of organisations (Gioia and Pitre, 1990), and is usually taken to mean a way of searching for some phenomenon (Gill and Johnson, 2002).

A research paradigm can be defined as a basic set of beliefs or assumptions that guide a researcher's thinking and research process (Hopper and Powell, 1985; Creswell, 1998). Collis and Hussey (2009) defined a "paradigm" as a way of examining social phenomena based on people's assumptions and philosophies about the world, the nature of knowledge, and how the research should be conducted. Saunders et al. (2009), meanwhile, defined it as a way of examining social phenomena in order to understand and attempt to explain them. According to Morgan (1979), the term "research paradigm" can be applied and used in three different ways to help clarify the uncertainties. First, from the philosophical aspect, it can be used to reflect basic beliefs about the world. Second, from the social aspect, it can be used to provide guidelines about how researchers should conduct their research. Third, from the technical aspect, it can be used to specify the ideal methods and techniques that should be adopted when conducting research. Thus, Burrell and Morgan (1979) emphasised that the research paradigm is a very important component of the research process for several reasons. It helps researchers to: (i) clarify the research assumptions regarding their views of the nature of science and society; (ii) provide an understanding of how other researchers approach their work; and (iii) design and plan their research based on an awareness of where they stand and map out further directions in relation to their attitudes and conceptions.

The central idea of Burrell and Morgan is that all theories of organisation are established on the philosophy and theory of science (Burrell and Morgan, 1979). Burrell and Morgan (1979) discuss the approaches mentioned above in terms of two dimensions: the assumptions concerning the nature of social science and the nature of society (Burrell and Morgan, 1979). Hopper and Powell (1985) commented on Burrell and Morgan's framework as follows:

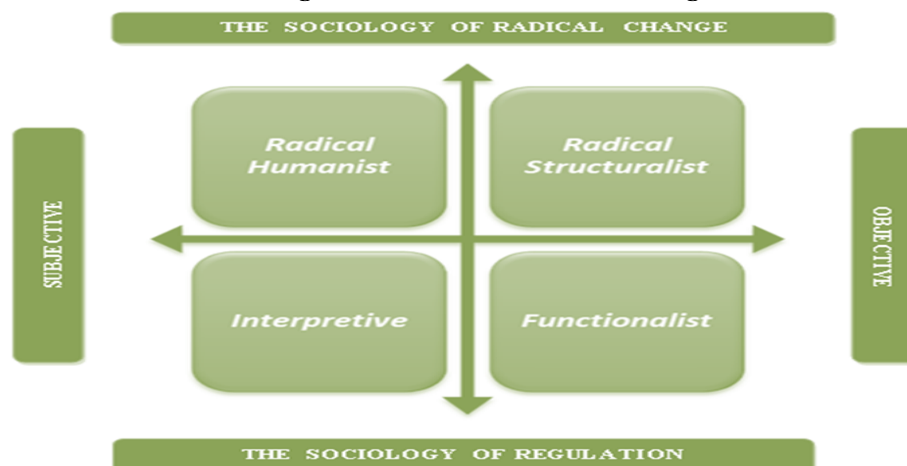
> *"First, the framework forms a map that can be used to find one's way through the wealth of research, the aims of which are sometimes confusing and the results conflicting… Secondly, a practically-oriented subject such as management accounting has often embraced theories from other areas with little concern for their philosophical underpinnings….Thirdly, commonly held views and taken-for-granted 'facts' often rest upon assumptions that are not recognized and thus not assessed… Fourthly, a map of classification of research according to its underlying assumptions may not only be useful as a way of organising previous literature, but it may also point the way towards new areas of investigation and the discovery of previously uncharted territory… Finally, in any research it is suggested that individual values, philosophical assumptions, theoretical backing, and research methods should all be related to each other and to the aims of the research"*
>
> (1985: 429-430).

Burrell and Morgan (1979) build on two dimensions, based on assumptions about the nature of social science and the nature of society. The social science dimension consists of four components: assumptions about ontology, epistemology, human nature and methodology (subjective-objective) (Burrell and Morgan, 1979; Hopper and Powell, 1985). The other main dimension classifies two dissimilar approaches to the nature of society (regulation-radical change):

> *"One is concerned with regulation, order and stability and sets out to explain why society tends to hold together, the other focuses on the fundamental divisions of interest, conflicts and unequal distributions of power that provide the potential for 'radical change"*
>
> (Hopper and Powell 1985: p. 432).

They combined the subjective-objective dimension with the regulation-radical change dimension to form a model of research paradigms in terms of how the different approaches to social science research may be classified. Their analysis provided a useful framework for examining how the ontological assumptions about the world form the epistemological concepts about the nature of knowledge, which in turn influence the research objective in terms of the interpretation of its findings (Burrell and Morgan, 1979). The result of combining the subjective-objective dimensions and the regulation-radical change dimensions lead to dividing sociology into four distinct paradigms; namely, interpretive, functionalist, radical humanist, and radical structuralist. Figure 5.4 below illustrates these four paradigms.

Figure 5.4 Burrell and Morgan's Social Research Paradigms



Source: Burrell and Morgan (1979, p. 22).

The vertical axis in Figure 5.4 illustrates assumptions about the nature of society, from regulation to radical change. The regulation perspective is concerned with describing the current practice and how an organisation's affairs are regulated, then providing suggestions for improvement that might be applied to the current situation. In contrast, the radical change perspective is concerned with critical attitudes when studying an organisation. It is concerned about the procedures that should be undertaken in an

organisation's affairs and provides suggestions with a view to making a significant change to the current situation. It is clear that the radical change stance is far more judgmental and critical, with the aim of changing the current situation, while the regulation position is more descriptive, aiming to improve the current situation (Saunders et al., 2009).

The horizontal axis in Figure 5.4, meanwhile, represents substitute views about the nature of social science, from intense subjectivism to intense objectivism. The subjectivist position affirms to social science; it tends to be nominalist, anti-positivist, voluntarist, and ideographic in nature (Burrell and Morgan, 1979; Cooper et al., 1999), while the objectivist position assumes social science to be realist, positivist, determinist and nomothetic in nature (Burrell and Morgan, 1979; Cooper et al., 1999).

Burrell and Morgan (1979) define these differences as objective-subjective and regulation-radical change dimensions (see also, Gioia and Pitre, 1990), which are combined to shape four different research paradigms: the functionalist, interpretive, radical humanist and radical structuralist (Hopper and Powell, 1985). These research paradigms are used to classify organisational research (Ryan *et al.*, 2002). Chua (1986) combines these four dimensions to form three paradigms: mainstream accounting research, interpretive research and critical accounting research. Burrell and Morgan (1979) describe these paradigms as follows:

> *"It will be clear from the diagram that each of the paradigms shares a common set of features with its neighbors on the horizontal and vertical axis in terms of one of the two dimensions but is differentiated in the other dimension. For this reason they should be viewed as contiguous but separate – contiguous because of the shared characteristics, but separate because the differentiation is of sufficient importance to warrant treatment of the paradigms as four distinct entities. The four paradigms define fundamentally different perspectives for the analysis of social phenomena. They approach this endeavor from contrasting standpoints and generate quite different concepts and analytical tools".*
>
> (1979, p. 23)

The four paradigms noted by Burrell and Morgan's framework define certain purposes, such as assisting researchers to clarify their assumptions about their perspective about the nature of social science and society, and providing a useful method for understanding other researchers' approaches. They also help researchers to understand where it is possible to go and where they actually are going (Saunders et al., 2007).

These four paradigms provide mutually exclusive views of the social world based upon different theoretical assumptions regarding the nature of science and the nature of society. There is internal consistency under each paradigm in terms of the assumptions about individuals, groups, societies, study goals and accepted forms of evidence (Burrell and Morgan, 1979). Burrell and Morgan (1979) argued that the social-scientific reality depends upon which paradigm is used. Therefore, the result views the world in a particular way from a particular paradigm, and researchers cannot operate in more than one paradigm at any given point in time, although they can operate in different paradigms sequentially over time.

In the bottom left quadrant of Figure 5.4 is the interpretive paradigm, which is located within subjectivism and the regulation of sociology, and is concerned with seeking explanations in order to understand the fundamental meaning of the social world. Burrell and Morgan (1979) stated that:

> *"The interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action"*
>
> (1979, p.28).

The interpretive paradigm shares its perspective on the regulation of sociology as the nature of society with the functionalism paradigm. On the other hand, functionalism and interpretivism have both adopted different assumptions about the nature of social science (objectivism-subjectivism). In other words, the interpretive paradigm adopts what researchers have described as the regulation approach by using a subjective dimension to analyse the social world (Burrell and Morgan, 1979). The analysis of the understanding of human action or social phenomena diverges radically from the understanding of natural phenomena motivated by the subjectivist nature of interpretive social research (Kakkuri-Knuuttila *et al.*, 2008).

Researchers who apply the interpretive paradigm aim to understand the subjective experience of individuals involved in the social world and the differences between human beings in their roles as social actors, which emphasizes the differences between studying people and studying objects. Hence, researchers working under this paradigm interpret not only their own social roles in accordance with the meanings they give to these roles, but also the social roles of others in accordance with their own set of meanings (Saunders et al., 2009). Thus, the interpretive paradigm recognises that the world could be seen as socially constructed (Lukka, 2010; Ryan et al., 2002).

Two intellectual traditions arose from the interpretative model: phenomenology and symbolic interactionism. The former refers to a philosophy that is concerned with the question of how we make sense of the world around us (Bryman, 2008), while the latter refers to:

> *"A continual process of interpreting the social world around us in that we interpret the actions of others with whom we interact and this interpretation leads to adjustment of our own meaning and actions".*
>
> (Saunders et al., 2009, p.116)

Saunders et al. (2009) explained that interpretivist researchers should adopt an empathetic stance to understand this world from their perspective because of the serious challenges that arise when entering the social world of the research subjects.

The second paradigm (shown in the bottom right-hand corner of Figure 5.4) in Burrell and Morgan's (1979) framework is functionalism, which has its roots in the regulation of sociology and functionalism approach from objectivism. It focuses on providing explanations of the status quo or social order from a realist, positivist, determinist and nomothetic standpoint. The regulation perspective is dominant under this paradigm and is committed to the use of natural science methods to verify or falsify theories and identify causal relations (Burrell and Morgan, 1979). According to Burrell and Morgan (1979), the functionalist paradigm assumes that the:

> *"social world is composed of relatively concrete empirical artefacts and relationships which can be identified, studied and measured through approaches derived from the natural sciences".*
>
> (1979, p. 26)

According to the above definition, the functionalist perspective on the social realm is that it is reality and that knowledge is tangible, so it is impossible to introduce descriptions of social change (Burrell and Morgan, 1979). According to the accounting and business perspective, functionalists see phenomena as concrete, real-world relations possessing regularities and causal relationships that are amenable to scientific explanation and prediction (Riahi-Belkaoui, 2004). The theories developed under this paradigm are assumed to be value free and are used to understand and predict behaviour (Otley and Berry, 1994).

In the top right corner of Burrell and Morgan's framework (Figure 5.4) is the radical humanist paradigm, which is located between radical change and subjectivism. Its concern with the sociology of radical change is to develop a radical humanist paradigm from the subjectivism perspective; in other words, it focuses on how people create and maintain a mode of social organisation in which they live and try to change it.

According to Burrell and Morgan (1979), humanist radical change approaches social science and shares the interpretive paradigm from a standpoint which tends to be nominalist, anti-positivist, voluntarist and ideographic in nature. Saunders et al. (2007) state that the radical change dimension assumes a critical view of organisational life. For instance, researchers adopting this paradigm would be concerned with changing the status quo to overcome the barriers facing this emancipation (such as ideology, power, psychological compulsions and social constraints). Burrell and Morgan add that:

> *"It is a brand of social theorising designed to provide a critique of the status quo. It tends to view society as anti-human and it is concerned to articulate ways in which human beings can transcend the spiritual bonds and fetters which tie them into existing social patterns and thus realise their full potential".*
>
> (1979, p. 32)

In the top right corner of Figure 5.4, the radical structuralist paradigm is located between radical change and objectivism. It promotes the sociology of radical change from an objectivist perspective, and shares the radical humanist paradigm in terms of the nature of society, unlike the radical humanist paradigm, which tries to understand social phenomena from a subjective standpoint (Saunders, et al., 2007). Also, this paradigm shares the functionalist paradigm from a standpoint which tends to be realist, positivist, determinist and nomothetic (objectivism) (Burrell and Morgan, 1979). The radical structuralist paradigm concentrates on

organisational structural relationships within the social world and analyses organisational phenomena as power relationships and patterns of conflict (Saunders et al., 2009). Structuralists focus on the fundamental conflicts which are the product of, and reflected in, the organisational structures and relationships (Hopper and Powell, 1985). This view of social science research is interested in challenging the social order and achieving fundamental change through economic and political crises.

5.6 Research paradigm and methodology

This thesis uses a new institutional sociology theoretical framework to provide a general understanding of how different types of institutional pressure (isomorphism) have prevented the issuance of a Kuwaiti code of corporate governance based on the perceptions of interviewees and questionnaire respondents and their views about the factors that are hindering this issuance. These perceptions are studied to investigate whether merchant families in Kuwait are using their political, economic, and cultural influence to hinder the issuance of a Kuwaiti code of corporate governance or whether other factors, unrelated to these families, are involved.

This research area represents the sociology of regulation in Burrell and Morgan’s (1979) four paradigm framework, and both the interpretive and functionalist paradigms are positioned under the regulation which can be used. The perceptions of the participants are based on an interpretive approach, which seeks an understanding of current governance practices within Kuwaiti listed companies and the identification of the factors that are preventing the issuance of a Kuwaiti code of corporate governance through exploring their perceptions. Therefore

since the research objective is not to implement radical change, the research paradigm employed in this study is the interpretive paradigm.

The empirical enquiry in this thesis is the reason why there is no Kuwaiti code of corporate governance, and which factors have prevented its issuance. It explores Kuwaiti listed companies' practices and their level of voluntary adoption of corporate governance, and then examines whether there are any external influences affecting the institutionalisation process of issuing a Kuwaiti code. In exploring such questions, this thesis relies on evidence obtained from the participants' opinions, thoughts and views about the empirical phenomena of this research, and their perceptions are interpreted within the nominalist stance of ontological assumptions.

This research is qualitative in nature, as it aims neither to investigate causal relationships between the elements of the social world, nor to predict what happens in the social world or seek to issue a generalisable law. This approach is following the anti-positivist stance, which is a feature of the interpretive paradigm. This research uses semi structured interview as the first method of collecting data since this research is qualitative in nature and concerned with seeking the perceptions of interviewees about why there is no corporate governance code in Kuwait and the factors that have prevented the issuance of a Kuwaiti code. Interviews are one research method to gather in depth information in order to give better understanding of the current practices to answer why and what factors prevent the issuance of a Kuwaiti corporate governance code. Also a questionnaire survey was used as a second research method in order to confirm the findings from the interviewees from a larger sample of stakeholders involved with Kuwaiti listed companies.

Also, this research, in terms of the human nature perspective, assumes that the participants are part of the business environment; they are influenced by and influence this environment by their experience and activities. This relationship with the business environment implies that they are neither completely influenced nor determined by their environment, but at the same time they are not completely autonomous and free-willed either. This research assumes that humans and organisations engage in a continual, two-way process of exchange between themselves and their environment. From the institutional point of view, this interchange relation is an essential factor underlying the system's viability, its reproductive ability or continuity, and the ability to change both the current Companies' Article 15 and the current listed companies' governance practices. It is through such interaction and relationships that we can study and understand the current practices and factors that are hindering the issuance of corporate governance code in Kuwait.

Moreover, it is assumed the respondents are likely to be influenced by their experiences and the culture of the society in which they live; hence, their perceptions can help us to understand why there is no Kuwaiti code of corporate governance. This study assumes that these experiences may influence the respondents' perceptions of the factors that are hindering the issuance of corporate governance. Consequently, this study assumes that both voluntarism and determinism will be relevant here, so a moderate position of the human nature perspective is assumed.

The different types of research methodology depend upon whether the positivistic (objectivism) paradigm or phenomenological (subjectivism) paradigm is adopted. Some of these methodologies apply to one paradigm rather than another, and some can be carried out

under either paradigm, depending upon the researcher's assumptions. Therefore, the research methodology should reflect the research philosophy assumptions of the research paradigm adopted by the researcher (Collis and Hussey, 2009).

As this study is mainly exploratory and qualitative in nature, it does not set up detailed hypotheses for subsequent testing. Its main aim is to provide a descriptive explanation and evidence of the merchant families' influence over the issuance of a Kuwaiti corporate governance code and corporate governance practices in Kuwaiti listed companies, based on the perspectives of the respondents. Accordingly, it adopts the ideographic methodology of social science, which is based upon the view that one can only understand the social world by obtaining first-hand knowledge of the subjects under investigation. The next section outlines the research methods employed in this research and justifies the choice of these for use in this study.

5.7 Research Methods

The current study employs semi-structured interviews and a questionnaire survey as the main methods for collecting empirical data about the respondents' perceptions. This section outlines these methods and justifies their choice. Semi-structured interviews were selected for this study as they are more flexible than structured ones, enabling the interviewer to include more questions about the issues highlighted by the interviewees and go on to ask the other interviewees about the same things (May, 2001). A case study could have been used in this study, however, the results from a case study cannot be generalised across all Kuwaiti listed companies to identify if a community of practice exists (Berg, 2007).

5.7.1 Semi-Structured Interviews

In this thesis, the first method used for collecting data is semi-structured interviews. An interview in general is a conversation between two or more people (the interviewer and the interviewee) where questions are asked by the interviewer to obtain in-depth information from the interviewees about the phenomenon under investigation (Powney and Watts, 1987). The use of interviews as a method for collecting data can be applied in both the positivist and phenomenological methodologies, and interviews are also as a qualitative research method. This is considered as one of the most useful methods for collecting data, since it helps to generate rich insights into the interviewees' perceptions, experiences, values, attitudes, and feelings (Smith et al., 2009; Walsham, 1993; Kvale, 2008; May, 2001). The interview method can be divided into three types; structured, semi-structured, and unstructured interviews. The types of question differ between these three types; for instance, structured interviews depend on closed questions, unstructured ones on open questions, and semi-structured ones fall in the middle of this continuum (Merriam, 2009).

Structured interviews include closed questions that are posed to each interviewee in the same way; the interviewer asks the question and then records the response based on a standardised schedule (Saunders et al., 2009 and Bryman and Bell, 2007). Saunders et al. (2009) refer to this type of interview as an "interviewer-administered questionnaire" because a predetermined standardised set of questions is used. The main disadvantage of structured interviews is that they do not allow any deviation from, or flexibility in, the questions asked (Tracy, 2012; Merriam, 2009).

The opposite of this first type is the unstructured interview, which does not require a predetermined list of questions, and gives the interviewee the opportunity to respond freely about events, behaviours, and beliefs related to the research topic (Saunders et al., 2009). In this type of interview, success in obtaining information depends on the degree of interaction between the interviewer (researcher) and the interviewee, which in turn depends on the experience of the interviewer to manage the interviewees and guide them to contribute to the research topic. The disadvantage of the unstructured interview is that it can be time consuming to conduct and analyse (Segal and Hersen, 2010; Tracy, 2012; Merriam, 2009).

The third type is the semi-structured interview, which is more flexible than the structured interview but less flexible than the unstructured one. It is the most popular qualitative research method when flexible, rich, detailed and comparable answers are sought.

Researchers who undertake semi-structured interviews usually prepare a list of predetermined questions covering a specific topic related to the research questions, to all of which the interviewee replies, freely expressing their knowledge, experience, opinions, behaviours and beliefs in relation to the developing discussion. At the same time, an element of structure is maintained, which facilitates the analysis and comparison of the interviews. The interviewees may mention issues that give rise to questions in the mind of researchers about things that are not included on the list, which enables the interviewer to discover fresh issues and gain rich information about the research topic. The flexibility and comparability of semi-structured interviews can help the interviewer to concentrate on the main objective of the interview since he/she can ensure that all of the questions are being covered (May,

2001; Bryman and Bell, 2007; Berg, 2007) while at the same time being open to fresh avenues of knowledge.

However, concerns have been raised that semi-structured interviews can be time consuming and expensive to conduct and anlyse, and there is also the issue of confidentiality especially when only a small number of interviews are conducted (Collis and Hussey, 2009).

Despite these concerns, semi-structured interviews are the best available method for collecting in-depth information about the beliefs and attitudes of the relevant individuals regarding a specific research topic, since the researcher can ensure that all of the interviews are conducted in the same way and maintain considerable thought and skill in the interview questions (May, 2001; Saunders et al., 2009; Collis and Hussey, 2009).

In this research, semi-structured interviews are employed to gather empirical evidence about the interviewees' perceptions and beliefs regarding the factors that are preventing the issuance of a Kuwaiti code of corporate governance and the level of the merchant families' influence on this. To achieve this, different types of interviewees representing different groups express their experiences, opinions, and, attitudes in response to the questions, and raise any other relevant information about the reasons why corporate governance is absent in Kuwait.

5.7.1.1 The Interview Process

This research conducted interviews to investigate a variety of different groups' views and opinions about why Kuwait has not issued a corporate governance code, whether the merchant families are preventing the voluntary application and issuance of such a code, whether

Company Article 15 (1960) covers all aspects of corporate governance, and which factors are affecting Kuwaiti listed companies from voluntarily adopting corporate governance practices.

The interview questions are mainly generated from the literature on corporate governance development in general as well as specifically in relation to the factors affecting its issuance and effectiveness in particular such as political, legal, and cultural factors. Moreover, developing and MENA countries' corporate governance development as well as the factors that affect the development of corporate governance in these countries are also discussed such as mutual interests between merchant families and governments. The interview questions cover three main topics: namely: (i) the corporate governance code; (ii) the influence of the merchant families and other factors; and (iii) current companies' practices. The interview questions are provided in both English and Arabic versions and they address the research questions, as shown in Table 5.1.

Table 5.1 The Link between the Research Questions and the Interview Questions

Research Questions	Interview Questions
1. Why is there no corporate governance code in Kuwait?	Part A: 1-5
2. Which factors affect corporate governance practices in Kuwait?	Part B: 1-9
3. Is there a single community of practice?	Part C: 1-11

Note: This table links the research questions with the interview questions.

The first part of question (A) explores whether the current Companies' Act 1960 (Article 15) is similar to corporate governance principles in other countries, which may explain why there is no corporate governance code in Kuwait. The second part of the questionnaire (B) considers external factors that may prevent the issuance of a Kuwaiti corporate governance code, developed from the literature in sections 3.4, 3.5, 3.6 that discuss how legal, political, and

cultural factors influence the development of corporate governance codes in different countries. For example, Aguilera and Cuervo-Cazurra (2004) state that corporate governance codes are more likely to be issued and developed in countries with a common law legal tradition. Also Yoshikawa and Rasheed (2009) show that political factors influence corporate governance as the degree of local embeddedness in terms of organisational practices and politics appears to hinder corporate governance practices; Roe (2003) also states that the political system that determines the law also shapes the corporate governance system, and Licht (2001) and Licht et al. (2002, 2005) argue that the system of beliefs and values that determines the behaviour and actions of individuals within a society can explain the differences in the level of investor protection and corporate governance. These findings in the literature raise questions to be asked of the interviewees as set out in section B such as: (Q2) Are there any political, economic, cultural or social factors affecting why there is no corporate governance code?, (Q4), What is the influence of the merchant families in corporate governance in Kuwait?, and (Q7), Do you think that merchant families and their networks exert their influence in CMA, Government, or in the parliament?

The last part (C) considers whether all listed companies have similar practices, and what isomorphic pressures have led to having a single community of practice. These questions are derived from section 3.3 that discusses the development of international corporate governance practices. For example, the OECD principles of corporate governance (2004) and the UK corporate governance code (2012), all require independent board members on companies' boards as a good governance practice. Q1 in part C is concerned about interviewees' perceptions of how board members should be elected, and why is it done that way and (Q3) ask whether companies have non-executive directors on the board, and if so, who appoints them, and why is it done that way?

Another recommended mechanism for improving corporate governance practice is the establishment of board committees, namely audit, remuneration, and nomination committees, whereby the boards can delegate specific tasks to these committees that include a sufficient number of independent members (Spira and Bender, 2004). In Q5 interviewees were asked whether companies should have a nomination; remuneration and audit committee; who the members of these committees are and why is that so.

Another recommended practice in international corporate governance codes is the separation between the chair and CEO position, splitting the role of monitoring and accountability of board members from the role of running the company which is the main role of company's executives in order to avoid the influence of board members with close ties to the CEO (Huse, 2005). Question 2 thus asked how the CEO should be appointed, and why boards chose to do it this way, and Q4 asked interviewees whether the chairman should be separated from the CEO, and if so why?

Disclosure is an important practice that the UK Combined Code (2012) and the OECD principles of corporate governance (2004) insist on, and being transparent towards stakeholders. This recommended practice was asked of the interviewees in Q10, as to whether companies treat all shareholders and stakeholders equally, and why they thought that and, Q11asked if companies should be transparent and disclose information, and if so why?

After piloting both the Arabic and English version of the interview questions with PhD students at Dundee University Business School including Kuwaiti nationals and those also researching corporate governance, Twenty-three individuals from different stakeholder groups were interviewed who have an in depth knowledge of listed companies' governance

practices representing board members, executive managers, investors, regulators and legislators. The interviewees from each group were selected because they had experience of listed companies, and of issuing and enforcing codes, and of current companies' practices. Access to each interviewee was obtained through personal contacts and networks.

5.7.1.2 Interview Results and the Questionnaire Survey

In interviews question 3 of section A asked what extent the companies' Act (Article 15) covers all aspects of corporate governance. This is linked to Q5 in section B of the questionnaire survey that asks: *"To what extent do you agree with the following, where 1= strongly agree / 5= strongly disagree that The Kuwait 1960 Companies' act (Article 15) is adequate*". Another linkage between the interviews and questionnaire is in Q1 in interviews section C, *"How are your board members elected, and why is it done this way?*" and Q8 in questionnaire survey *"To what extent do you agree that the following factors influence selecting chairmen, selecting board directors, and selecting the CEO*". Q14 in the questionnaire survey asks: *"To what extent do you agree that the merchant families influence the decision making processes of the: regulators, legislators, government, BM, EM, current practice, applying codes and regulations, and selecting BMs and Ems*". This question is derived from different questions in the interviews such as: Q9 in section C that asks: *"Do all companies comply with the Companies' Act (Article 15), and for those that don't why is that?*", Q2 in section C: "*How is the CEO appointed, and why has your board chosen this way?*", Q1 in section C: "*How are your board members elected, and why is it done this way?*", Q9 section B: "*Do merchant families dominate companies' boards, and if so, how and why?*", Q7 section B: "*Do you think that merchant families and their networks exert their influence in CMA, Government, or in the*

parliament?". Finally, Q2 section B asks: "*Are there any political, economic, cultural or social factors affecting why there is no corporate governance code?*".

The findings from both the interviews and literature informed the second part of the empirical work on this thesis which aimed to explore the main factors preventing the issuance of a Kuwaiti corporate governance code. In particular, the interview findings raised three issues that needed to be addressed in the questionnaire survey. The first was the inadequacy of Article 15 and the need for it to be replaced by a new article that included corporate governance principles. This issue was highlighted because the interview findings indicated that the majority of interviewees stated that the company's article is very old and inadequate. Therefore, the second part of the empirical study included a wide range of respondents who are involved in the Companies' Act (Article 15) and practices to confirm the interview results regarding the inadequacy of this article. The second issue rasied was that most companies' practices contradict corporate governance principles, and hence it was important that the questionnaire was distributed across a wide sample of involved groups. The third issue highlighted that different types of external influence that have an impact on the issuance of corporate governance in Kuwait, and that most of these are enforced by the merchant families.

Accordingly, the second part of the empirical work was designed further to explore, confirm and investigate the factors behind the absence of corporate governance in Kuwait and the influence of the merchant families in this regard. In particular, the questionnaire survey sought to investigate whether the merchant families have a direct and/or indirect influence on the decision making process in the country that prevents the issuance of a corporate governance code in particular.

5.7.2 Questionnaire Survey

This study explores the reason for the absence of a corporate governance code in Kuwait through understanding different groups' perceptions: board members; executive managers; regulators; legislators; and investors. As previously outlined, interviews were used to investigate the perceptions of a variety of relevant groups regarding the factors that are preventing the issuance of a corporate governance code in Kuwait, and to explore the interviewees' views about the merchant families' influence in preventing the issuance of such a code. The questionnaire survey builds on the findings from the interview analysis, presented in Chapter 6 and seeks to explore the factors preventing the issuance of a Kuwaiti corporate governance code in further detail. In particular, the questionnaire survey investigates whether merchant families are exercising external pressure over the decision makers in Kuwait and the companies' management to prevent the issuance or voluntary adoption of the code.

The questionnaire survey is one of the most appropriate data collection methods in social science research. It is a research technique for collecting data in which each participant is asked to respond to the same set of written questions in a predetermined order. A questionnaire survey can be employed when using both the positivistic (objectivism) and phenomenological (subjectivism) research approaches (Kumar, 2005; Saunders et al., 2009; Oppenheim, 1998).

Questionnaire surveys are classified into two different types: a self-completed questionnaire (which the respondents complete by themselves), and an interviewer-completed questionnaire (which the researcher completes for the participants). The former is administered in three ways: collective questionnaires (delivered and collected by hand),

postal or email questionnaires, and internet-mediated questionnaires, while an interviewer-completed questionnaire enables the researcher to explain the questions (if necessary) and write down the respondents' answers (Saunders et al., 2009).

The questions on a questionnaire survey can also be classified into two different types: open-ended (which enable the respondents to express their opinions in response to questions as precisely as possible in their own words, but the answers might be difficult to code and analyse) and close-ended (whereby the respondents are asked to choose from a set of predetermined alternative answers ranging from "totally agree", "agree", to "totally disagree" the one that most closely resembles their opinion). The characteristic of close-ended questions is that the answers are easier to code and straightforward to analyse compared with the responses to open-ended questions. However, close-ended questions force the respondents to choose one answer from predetermined alternative answers that might not have otherwise have come to their mind (Collis and Hussey, 2009).

Also, the advantages of using questionnaires as a method for data collection can be summarized as being cheaper and less time-consuming compared with other methods, such as interviews. They also enable a large sample to be employed, thus providing a wider geographical coverage for the research. Moreover, the respondents may feel freer to express their opinions without being concerned about confidentiality because the questionnaire survey does not require the respondents to identify themselves. Distributing a questionnaire survey to many potential respondents and treating the responses confidentially will contribute to an increased response rate (Oppenheim, 1998; Collis and Hussey, 2009).

However, the disadvantages of using a questionnaire survey is that the respondents sometimes misinterpret or fail to understand some of the questions clearly because they are unfamiliar with or uninterested in the questionnaire subject. Besides, questionnaire surveys may have a "self-selecting" bias towards those who respond to them. These "self-selecting" respondents may have different attributes or motivations in responding to a questionnaire compared to non-respondents. This will have an influential impact if the response rate is very low, because the questionnaire findings may not represent the total population of the study; also, a low response rate and unanswered questions are common problems in a questionnaire survey (Kumar 2005). Another disadvantage of this method is that it does not allow the respondents to freely express their views due to the limited number of questions and, in the case of close-ended questionnaires, pre-determined answers. Also, the issue of the independency of the questions and answers is another disadvantage of questionnaire surveys, as prior research shows that respondents usually read all of the questions before they start answering them, which might, to some extent, affect the independence of the questions and answers (Bryman, 2004; May, 2005).

5.7.2.1 Questionnaire Design and Piloting

It is important that the questionnaire is designed to make it easy for the participants to understand the questions and to maintain the logic and sequence of the questions in order to make it easier for the participants to read and follow them. Thus, it should be delivered in an attractive way to motivate the participants to complete and return it, thus enhancing the response rate. All of these factors are very important in maximising the validity and reliability of the questionnaire (Saunders et al., 2009; Collis and Hussey, 2009; Kumar, 2005).

The self-administered questionnaire that is delivered and collected personally by the researcher was applied for this data collection, both to increase the response rate and also in light of the fact that, in the Kuwaiti environment, prospective participants often ignore this kind of email. Also, all of the questions were close-ended, except the last one, which was open-ended, to offer the respondents the opportunity to give their opinions or add any further information related to the subject of corporate governance in Kuwait. Almost all of the questions utilised a five point Likert scale except for those requiring personal information.

Most of the questions in the questionnaire were about the actual governance practices in the Kuwaiti listed companies, and were designed to be appropriate for the four groups identified earlier. They were prepared in the light of the research objectives, the corporate governance literature review, the factors preventing the effectiveness of corporate governance principles, and the results of the interview findings. The questionnaire survey addresses the research questions, as shown in Table 5.2.

The questionnaire survey was prepared in two parts, sections A and B, and questions were set in accordance with the three main research questions. In section A questions 1 to 5 covered general questions about the respondent groups, ages and their knowledge of the Companies' Act 1960 and OECD corporate governance principles. In section B questions 10 and 14 were set to answer the first research question as is why there is no corporate governance code in Kuwait. The second research question of the factors that affect corporate governance practices in Kuwait were covered in the questionnaire survey in part B questions 6, 7, and 13. The last research question of whether there is a single community of practice was covered in questionnaire survey part B questions 8, 9, 11, and 12 (see appendix 3).

Table 5.2 The Linkage between the Research Questions and the Questionnaire Survey

Research	**Questionnaire**
1. Why there is no Kuwaiti code of corporate governance?	Part B: questions 10, 14
2. Which factors affect corporate governance practices in Kuwait?	Part B: questions 6, 7, 13
3. Is there a single community of practice?	Part B:questions 8, 9, 11, 12

Note: This table links the research questions and questionnaire survey questions.

In order to overcome misinterpretating or misunderstanding questions in the questionnaire survey, and to improve the response rate, both the English and Arabic versions of the questionnaire were piloted and pre-tested among the academic staff and PhD students at Dundee University Business School in April 2012 to obtain comments on the wording, sequence and structure of the questionnaire. Some of the PhD students said that the content and translation of the questionnaire was good.

In order to improve the response rate and motivate respondents to participate, personal contacts and networks were used to facilitate the distribution of the questionnaire before travelling to Kuwait. Personal contacts facilitated the process of distribution, and they were happy to collaborate and participate. For instance, one of the MPs was a classmate from high school and I asked him to facilitate the process of distributing the questionnaires to the members of the financial and economic, legislation, and protection of public fund committees. He granted me access and introduced me to the MPs to explain the aim behind the study. I explained briefly about the concept of corporate governance and the research area. The questionnaire was handed to other MPs and collected from their offices, and some of them handed them to my old school friend MP.

Also, the assistant minister for public companies facilitated the process of handing out the questionnaire survey by giving orders to the general manager and her assistant to help the

researcher and recommended that the most experienced staff should participate in this study.

The questionnaire consisted of a letter introducing the researcher, the supervisors and the university that explained the objective of the research, assured the participants that all of their responses would be treated in the strictest confidence, explained how to answer the questions, provided the contact details of the researcher, and finally expressed the researcher's appreciation for the respondents' participation in and contribution to the questionnaire.

5.7.2.2 Statistical Testing of the Questionnaire

This section outlines and justifies the types of statistical test used to analyse the questionnaire responses. After coding the responses to the questionnaire data according to the respondent type (group), the data were then transferred to the SPSS statistical package for analysis. As the questionnaire survey focuses on the respondents' perceptions of the factors that are preventing the issuance of a Kuwaiti code of corporate governance, it is appropriate to analyse the respondents' responses in terms of their behaviour within different descriptive statistical parameters. For this purpose, two types of statistical tool can be used: parametric and non-parametric tests. According to Field (2009), the selection of statistical tests depends on fundamental assumptions about the collected data. Field (2009) identified four assumptions relating to the use of parametric tests: (i) the data should be normally distributed; (ii) the variance should be the same throughout the data; (iii) the data collected should be measured at least at the interval level; and (iv) the data from different participants should be independent. He explains that if, any of these assumptions are not valid for the research data, a non-parametric test is more appropriate.

The Kruskal-Wallis test was used to evaluate whether there were significant differences in the median across the different groups for each question, while the Mann-Whitney test was used to identify which pairs of stakeholder group median were significantly different from each other. These two tests provide a popular, nonparametric alternative to the one-way analysis of variance. They are appropriate when the test variable is ordinal or its distribution does not meet the assumptions of normal distribution. The only assumptions made by these tests are that the test variable is at least ordinal and that its distribution is similar across all groups. The Kruskal-Wallis and Mann-Whitney tests ranks of the original values rather than the values themselves. This is appropriate for the questionnaire used in this thesis, because it uses an ordinal scale. In these tests, each case (respondent) is ranked without regard to group membership. Then, cases that tie on a particular value receive the average rank for that value. After ranking the cases, the ranks are summed within the groups. The Kruskal-Wallis and Mann-Whitney statistics measure how much the group ranks differ from the average rank of all groups (Field, 2009). All tests were conducted throughout using a conventional 95% confidence level.

However, the median is likely to be 3 for questions that used a 5-point Likert scale and would not provide any useful information for comparing the perceptions of respondents regarding the factors preventing the issuance of a Kuwaiti code of corporate governance. Therefore, as noted above, non-parametric tests were carried out to examine the differences between the four groups, while the mean was used to measure and compare the perceptions of the respondents regarding the factors preventing the issuance of a Kuwaiti code of corporate governance to convey more information about the variation in the data. The mean and standard deviations are considered to be powerful sociological tools, mainly used judiciously for social science research (Oppenheim, 1998).

5.8 Summary

This chapter outlines Burrell and Morgan's (1979) different philosophical standpoints in relation to the assumptions about the nature of social science and the nature of society. It also outlines the research paradigms and identifies and explains the interpretive paradigm that is adopted in the current study. Moreover, it outlines and discusses the two research methods used to conduct the empirical research for this thesis. The following two chapters will present the analysis of the results derived from the interviews and the questionnaire survey.

Chapter 6 Interviews

6.1 Introduction

The first research method adopted in this thesis was the collection of data in Kuwait via semi-structured interviews, conducted face to face, from May to July, 2011. The 23 interviews (see Table 6.1), with an average duration of an hour each, captured the views of board directors, executive management, legislators, regulators and investors who represent the actors in the organisational field of Kuwaiti listed companies. First, the interviewees were asked about their understanding of corporate governance in order to identify how knowledgeable they were about corporate governance, as background information to the study. Views were then sought about the factors affecting the current governance practices in Kuwaiti companies and whether, based on these factors, the actors in the organisational field can introduce a corporate governance code in Kuwait. The interviews were recorded with the permission of the interviewees and these recordings were later transcribed into Arabic, with relevant parts also being translated into English. This chapter presents the results of these interviews and highlights the main issues raised, interviewees are coded as shown in Table 6.1. The first point to note about the interviews is that the representatives of some companies refused to participate in them. These included: the National Investment company; Wataniya Telecommunication; the National Bank of Kuwait; Security House; Global House Investment; and the Security Group. These companies represented some of the merchant families in Kuwait, and one aim of the interviews was to obtain their views on the absence of a corporate governance code of practice in Kuwait. However, interviewees I4 and BM5 were from merchant families, so at least two responses from these families were obtained. Further, two individual major shareholders and the Public Companies Department of the Ministry of Commerce also refused to be interviewed, without providing any reason for this.

Table 6.1: Interviewee Coding

Code	Role	Type of organisation	
L1	Member of Finance Committee	Parliament	
R1	General Secretary of Development Plan	Ministry of Planning	
R2	Deputy Director	Kuwait Stock Exchange	
R3	Senior Planner	Central Bank	
R4	Commissioner Member	Capital Market Authority	
E1	Vice CEO for Legal Affairs	Investment company	
E2	Vice General Manager	Investment company	
E3	Vice CEO	Real estate company	
E4	General Manager	Real estate company	
E5	CEO	Telecommunication company	Merchant family
E6	General Manager	Real estate company	
E7	General Manager	Food company	
BM1	Board Member	Real estate company	
BM2	Chairman	Real estate company	
BM3	Vice Chairman	Telecommunications company	
BM4	Chairman	Real estate company	
BM5	Board Member	Investment company	Merchant family
I1	Investor	Minor investor	
I2	Investor	Minor investor	
I3	Investor	Minor investor	
I4	Investor	Major investor	Merchant family
I5	Investor	Minor investor	
I6	Investor	Minor investor	

Note: Table 6.1 clarifies the types and codes of the interviewees

The first part (A) explores whether the current Companies' Act 1960 (Article 15) is similar to corporate governance principles, which may explain why there is no corporate governance code in Kuwait. The second part (B) considers whether external factors are preventing the issuance of a Kuwaiti corporate governance code, specifically, the legal, political and cultural factors in Kuwait, both sections are derivate from literature chapter in sections 3.4, 3.5, 3.6

that discuss how legal, political, and culture factor may influence the development and effectiveness of corporate governance code in different countries. The last part (C) considers whether all listed companies have similar practices and, if so, how far these practices are similar to corporate governance international practices, and what isomorphism pressure has led to having a single practice, and this part is derivate from the literature chapter section 3.3 that discuss the development of international corporate governance practices.

The interviewees were asked if the interview could be recorded. 19 out of the 23 agreed and 4 refused (E6, BM5, E5, and R2). A full transcription of each recorded interview was undertaken by the researcher into Arabic. After transcribing the interviews, the interviewees' answers that mentioned 'personal relationships' and 'merchant families' were gathered in an excel spread sheet to compare each interviewees' answer in order to find out how many interviewees agreed on these factors as the main theme that linked with the literature review chapter.

6.2 Merchant families

Clarification is provided about the meaning of the term 'merchant families', as used in this thesis. Their views of how the corporate governance code should be applied are also reported, as well as accusations made by the interviewees regarding their resistance and suggestions for such resistance. Firstly, it was necessary to clarify how the merchant families were represented in the analysis. There was a general consensus about their role and the impact on corporate governance in Kuwait: 19 (83%) interviewees asserted that some, though not all, families would oppose the issuance of a Kuwaiti code of corporate governance:

> **R2:** *"There is opposition to corporate governance in the country from some merchant families."*

This assertion was also made by the representatives of the merchant families, BM5 and I4, who explained that such opposition came from the beneficiaries, a minority who has built a fortune through manipulative practice but who were not representative of all merchant families :

> **I4**: *"The merchant families cannot all be blamed...some who oppose it would benefit from the absence of corporate governance."*

It was clear that all of the interviewees recognised the existence of two types of merchant family. The first were those who acted in the public interest and called for radical economic reform in the country - for instance, by anticipating the Al-Manakh crisis[4] in 1977 and predicting a similar crisis in 2007:

> **I1:** "*Not all merchant families are the same; there are some who fought against Al-Manakh market crises, and in 2007 warned investors of another crisis...to differentiate between them you can see the companies' performance through the crises and afterwards...companies headed by the first type of merchant family are doing well after the crisis and aren't affected.*"

The second group[5] represented those merchant families who pursued their self-interest rather than those of their investors and other stakeholders, and who had made their fortunes through the country's financial crises. According to the interviewees, it was possible to differentiate between the two types of merchant family by investigating companies registered with the Stock Exchange and observing their performance both before and after the crises: the first group were those companies that were characterised by stable returns and share prices,

[4] Al-Manakh was an unofficial market for trading shares.
[5] The organisational field of Kuwaiti listed companies controlled by the second group, the first group of merchant families have their own private family companies

whereas those that collapsed during these crises were led by the merchant families who were pursuing their own interests and who control most of the Kuwaiti listed companies:

> **I1:** *"An example of those manipulative merchant families is AL-Daar investment company. Their major shareholders bought land and resold it to the company to build a fortune...also Global Investment House - their major shareholders invested in companies that they already own just to raise their share prices... and Al-Duwalyia investment company, that duped investors about an elusive investment project which they didn't own ... these merchant families control most of the listed companies."*

After clarifying what is meant by the term 'merchant families', the next section illustrates the current practices of listed companies within the organisational field, the role of the merchant families in establishing and imposing their practices, and the dominant logics that impose a community of practice inside the organisational field.

6.3 Current listed companies' practices

This section outlines the community of practice within the organisational field of Kuwaiti listed companies, which reflects the material and symbolic carriers of the organisational logics (Lepoutre and Valente, 2012). The interviewees were asked about the dominant logics whether there is a single community of practice. The following discussion illustrates the current practices of corporate governance related to board members' selection, board committees, CEO's selection processes, the level of disclosure and transparency, and ownership structure that was early discussed in chapter 3 under the recommended governance practices.

6.3.1 Board members' selection

When questioned about the board members' selection process, all of the interviewees stated that this was decided by a vote at the AGM; those gaining the highest number of votes achieved board membership. However, respondent I6 criticised the voting system as set out in the Kuwait Act (Article 15), arguing that there was no justice or equality between shareholders - for instance, in some companies, shareholders holding 10% of the total shares often failed to win a seat on the board, since the election depended on the numbers voting rather than on the percentage of shares; he believed that it would be fairer to recognise that those with a 10% ownership should constitute 10% of the total number of board members required - for example, if A's board requires ten members, the owner of 10% of the total shares should have one seat on the board:

> **I6:** *"The procedure for selecting board members according to the Kuwaiti Act is based on the highest numbers of votes gained...however, equality is missing...the best way should be by percentages rather than numbers."*

Referring to the existing practices for selecting board members, Solomon (2007) identifies that the most important way to promote efficiency would be to create a balance of independent members.

In response to the question about the dominant parties on the company boards, 20 of the 23 interviewees (except the representative of the merchant families BM5, I4, and E5) confirmed that the merchant families were the principal members of the boards, and that there were no independent board members:

> **I2:** *"The dominant board members in Kuwaiti listed companies are the merchant families...this dominance is achieved by government support through their ownership or by alliances between the merchant families."*

Ten of the 20 respondents confirming added that dominance of the board membership refers to the government ownership besides the merchant families' ownership, and they further attributed the absence of independent board members to the follow:

> **R2:** *"Boards are controlled by the major shareholders ... the merchant families and government ... independent board members do not exist since there is self and mutual interest between those major shareholders."*

Eight of the 20 interviewees (majority investors and regulators) illustrated that the dominance of the merchant families and the government was related to personal relationships:

> I2: *"The board membership consists exclusively of merchant families ... as a result of the government and merchant families' courtesy and favouritism between them ... the government by their ownership will not vote for minority investors."*

They added:

> *L1: "The chairman position is used to be in the hand of merchant families ... for two reasons ... as a part of social position and prestige ... and for protecting their interests ... although the government have a higher percentage of ownership in listed companies ... they used to delegate the position for merchant families for mutual interests between them and personal relationship."*

Therefore, the dominant practices within the organisational field of Kuwaiti listed companies is to exclude independent board members and for the board membership to be dominated by the merchant families.

6.3.2 Board committee

In addition, eighteen respondents stated that board committees, under the current listed companies' practices, are not required, except for audit committees in listed banks and investment companies as a result of the Central Bank forcing banks and investment companies to establish audit committees:

> L1: *"None of the listed companies have board's committees ... except for the banks and investment companies, which the Central Bank forced to have audit committees"*.

Although the banks and investment companies have audit committees, however, the requirements and recommendations of the board committees' membership are not considered when selecting the board committee members:

> R1: *"The audit committees of the banks and investment companies have no independent members...and the members of these committees are usually selected from the company's board and management"*.

The OECD report of 2009 noticed that the nomination, remuneration and audit committees of boards are the key committees for corporate governance. It recommends that they should be chaired by independent directors and that the membership of each should reflect a majority of these directors (OECD, 2009).

During the interviews, all of the legislators and regulators stated that the banks and investment companies had established audit committees following a ruling by the Central Bank. However, the majority of investors (four out of the six) reported that most companies did not have those committees, while three of the seven executives stated that their company currently had an

audit committee only. Of the five board members, only one stated that his company had set up an audit committee, while the others reported the absence of such a committee. From these current practices, it is clear that the companies lack nomination and remuneration committees as well as the practice of establishing other committees. Respondent L1 further stated that, even within the existing audit committees, that are implemented by law in the banks and investment companies, the recommendations of international practices in establishing these committees are ignored. He attributed the broad problem of the deficient corporate governance procedure to the government's own practices:

> **L1:** "*During the Central Bank's discussion of Kuwait's budget, the vice chairman stated that the boards constitute committees that can help them to evaluate performance and operation...I discovered that the audit committee of the Central Bank is headed by the general manager of internal auditing...this provides a justification for the commercial banks' failure to adopt either international practices or the concept of independent board members."*

Thus the private sector mimics incorrect practices within the government sector, and adopts the same procedures and if the governance practices of government were to be amended, then others would be forced to adopt this practice.

R1 observed that the absence of board committees refers to the weakness of the current Act (Article 15) (the level of enforcement will be further discussed in section 6.4) thus:

> **R1:** *"The current Companies' Act does not insist on establishing committees nor include any requirements regarding committees' membership...the act merely mentions that it is the board's responsibility to select an external auditor."*

Four respondents referred the reason for the absence of those committees to the self interests of those merchant families and mutual interests shared with the government; if those

committees existed, the merchant families' power and control would diminish over the companies' management as I2 noted:

> **I2:** *"The resistance of the merchant families to the establishment of those committees ... is a result of protecting their interests ... by giving their power and control to those committees to manage and control companies ... they prefer to control them directly through board membership."*

6.3.3 Duality of chair and CEO

Another current practice is duality in the appointment of the CEO and chair. However, the separation of the roles of CEO and chairman can help to reduce the domination of management over the board (Van den Berghe and Levrau, 2004). The OECD Principles of Corporate Governance (2004) recognise this, stating that:

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

In response to the question concerning the separation of the roles of chairman and CEO, five of the six investors stated that these roles should be separated, regulators and legislators agreed with the investors' statement, whereas four of the seven executives and three of the five board members stated that these positions should not separated. So the majority of interviewees are happy with the practice of separation.

When asked for the current practices in the listed companies, fourteen (four board members, three executives, three regulators and four investors) of the respondents (61%) stated that CEO duality existed in their companies:

> **R2:** *"In the absence of an act preventing the chairman from being the CEO at the same time...the majority of companies are characterised by CEO duality, with the aim of imposing control over the company's management and the board."*

Eight of the interviewees (35%) the majority of whom were executives, stated that, in listed companies, the CEO was selected by the board; four other respondents (17%), representing the majority of the investors, reported that the selection depended merely on the chairman's preference; I3 stated further that the chairman relied on his connections when selecting CEOs rather than on their track record, in order to maintain control over the company:

> **BM5:** *"The CEO is selected by the board members...they discuss some recommended names and then vote for the best candidate."*
>
> **I3:** *"In Kuwait the CEO is appointed by the chairman...and usually the process of selecting the CEO depends on the extent to which each candidate matches the chairman's interests...it doesn't depend on the candidate's track record."*

It was thus revealed that CEO duality was a dominant practice, a finding that was supported by the regulators' opinions about current practice. Respondent I6 added that, in some companies, the positions appeared to be separate, but in reality the CEO had no authority to take decisions without the chairman's approval:

> **I6:** *"... even when companies have separated the position of CEO and chairman...in practice, the CEO can't take any decisions without referring to the chairman and accepting his recommendation."*

The absence of nomination committees and independent members has impacted negatively on the selection and separation processes between the chairman and CEO:

> **R4:** *"Nomination committees and the concept of independent members do not exist...therefore, the selection process is related to the chairman's preferences and sometimes he prefers to hold both positions".*

BM5, who represents the merchant families, stated that the existence of CEO duality is legitimate, and highly recommended in order to keep up-to-date about the company's operation and protect their investment:

> **BM5:** *"CEO duality exists in the majority of the listed companies as the major investors want to keep an eye on the companies' transactions ... in my experience, there are no regulations preventing this".*

I3 stated that CEO duality exists in some companies just for prestige and courtesy between the major shareholders:

> **I3:** *"I know that in some listed companies CEO duality occurs just for prestige to introduce himself as the chairman and CEO of the company ... the chairman asks all the major shareholders to be CEO at the same time ... and those major shareholders agree just out of courtesy and favouritism not because he will effectively manage the company."*

The current practice of CEO duality within organisational field of this study shows that there is one community of practice that contradicts with the OECD principles of corporate governance.

6.3.4 Disclosure and transparency

The issue of transparency and disclosure and the extent to which this is addressed by the company management also drew comment from the interviewees. They were asked if the

current companies' Act (Article 15) 1960 forced companies to be transparent and disclose all information to their stakeholders. The regulators and legislators stated that, while this should be the case, in practice, they disclosed only what was required by the Act (Article 15) and no more. For instance, R2 claimed that the merchant families were reluctant to disclose information:

> **R2:** *"Merchant families don't like to disclose any information...if companies disclose information, such as their suppliers and sub-contractors, it will expose their manipulation to maximise their self-interest."*

R1 further stated that the weak level of disclosure refers to the weaknesses of the current Act (Article 15):

> **R1:** *"The act is subjective in specifying the level of transparency and disclosure...the merchant families would use this subjective level to adapt what they want to disclose...hence the level would be too weak."*

However, the executives asserted that there was an attempt to disclose beyond what is required by the Act (Article 15); E4 stated:

> **E4:** *"If companies are not forced to disclose...the board members and executives will disclose what is required by law but nothing more."*

This indicates that the majority of interviewees are dissatisfied with the current companies' practices. The majority refer those practices to the current Act (Article 15), that fails to mandate some practices or to specify and clarify other practices, as will discussed further in section 6.4.

The board members concurred with the executives about the attempts in their invested companies to disclose further. All the investors, except I4, agreed that, while companies should be transparent in their transactions and should disclose further, this will not be achieved since it was an optional rather than a mandatory requirement and the board members would not wish to disclose their manipulative transactions:

> **I2:** *"Merchant families control the companies' management...that management will not disclose any forbidden transactions that would lead to the conviction of the merchant families ... so enforcement by law is required."*

According to the above respondents' statement, they (the I and R groups) show agreement in their views, whereas the BM and E groups disagree with them about the level of disclosure and transparency that listed companies apply. This explains that there are two competing logics within the organisational field, I, except I4, and R groups call for changing the prevailing logics whereas BM and E groups (merchant families) resist any changes for the prevailing logics.

One aspect of the board's structure refers to the representation of independent directors in relation to the main role of the board. The OECD principles and Combined Code in the UK note that, the more independent directors present on the board, the greater its reliability and transparency. Donnelly and Mulcahy (2008) also find that, the more independent directors present on the board, the greater the voluntary disclosure of the company.

R2 stated that the level of disclosure and transparency were missing in the majority of listed companies, as companies are buying and selling assets without illustrating why these

operations are undertaken, and other companies are appointing and dismissing the executive management without explaining why:

> **R2:** *"Zain listed company dismissed and replaced the previous company management, without explaining why...the Commercial Real-estate listed company was selling and buying assets from its partner companies without explaining if there was any conflict of interest ... all decisions have been taken according to the board members' preferences and interests ... that will not be disclosed to the public"*

I3 stated that the regulators failed to disclose the buyers and sellers who trade in the KSE, and that most transactions are made between two portfolios that own by the same company in an attempt to raise the company's shares; hence, this failure by the regulators to disclose information reflects on the listed companies' disclosure as well, so another mimetic isomorphism of government bad practices:

> **I3:** *"the same company placed buy and sell order for a specific share for speculation to raise share prices ... and the current Act and regulations does not enforce the KSE management to include the name of the buyer or seller for each transaction ...this gives chances to manipulated merchant families to build fortune and rise their assets."*

Twelve interviewees (four regulators, one legislator, five investors, one executive, and one board member) stated that the level of disclosure of transparency within listed companies is weak due to the weakness of the regulations and Act (Article 15), as will be discussed later in section 6.4. Therefore, the lack of disclosure and transparency is also one of the current practices in the organisational field of Kuwaiti listed companies. The interviewees stated that this is due to the type of ownership structure within listed companies, specifically the existence of family ownership.

Therefore, the lack of disclosure and transparency is also one of the current practices in the organisational field of Kuwaiti listed companies. The interviewees stated that this is due to the type of ownership structure within listed companies, specifically, the existence of family ownership.

6.3.5 Owership structure

The current practices of listed companies, in the interviewees' view, appear to contradict the principles of corporate governance. Also, the interviewees describe a single community of practice within the organisational field, involving CEO duality, a lack of independent board members, a lack of disclosure and transparency, and an absence of board committees.

Fiveteen of the interviewees, the majority of whom were investors and regulators (four regulators, legislator, 5 investors, two board members, and three executive), stated that, as demonstrated by I1:

> **I1:** "*The new listed companies, in order to maintain their control over the board and management ... applied the same practices...which have become the norm for shareholders who are looking to control and protect their self-interest.*"

The dominant community of practice within the organisational field of Kuwaiti listed companies is related to the type of ownership structure in those listed companies as noted below.

The interviewees suggested that the merchant families are behind all of these current practices in order to maintain their control over the listed companies and so protect their self-interest.

The following illustrates the interviewees' views about the ownership structure in Kuwaiti's listed companies and how these affect the protection of the minority shareholders' interests.

Such dominance was reported by the interviewees when questioned about the ownership structure of listed companies, as all of the interviewees stated that the major shareholders dominated the board, and I1 commented that:

> **I1:** *"All listed companies are characterised by major shareholders...these major shareholders are the merchant families and government ownership."*

This observation supports the finding of the OECD (2002) that, in Kuwait, large shareholders - institutional investors such as Pension Funds, the Kuwait Investment Authority and the merchant families - owned 56% of the shares of Kuwaiti companies, thus representing highly concentrated ownership.

This powerful group of owners would be threatened if a corporate governance code were to be introduced, as their control over the management of listed companies might be reduced and the self- and mutual interests of the major shareholders would be threatened as well, as I2 stated:

> **I2:** *"It is impossible to issue a code of corporate governance since the merchant families exist and control the listed companies ... they will fight against issuing the code to maintain their interests and keep making a fortune through their illegal transactions."*

Singam (2003) claims that the problem with concentrated ownership is the potential for the expropriation of the rights of the minority shareholders by the controlling shareholders. They

may act in their own best interests at the expense of the minority shareholders and other investors. La Porta et al. (1999b) similarly explain how the shareholders who control the management may only be concerned with a firm in relation to how it affects their personal interests, at the expense of the other shareholders.

I6 gives an example to illustrate how the merchant family control and run listed companies to maximise their self-interest at the expense of others, showing that the protection of the minority interests are weak due to current Act (Article 15) and regulations:

> **I6:** *"Al-Kurafi family since they sold their investment in Zain in Africa to get cash...the company and minority shareholders lost a lot, whereas that family generated over a billion dollars from both dividends, as the family are both the major shareholder and the broker of the deal".*

Pyramid ownership was mentioned by the interviewees (15 interviewees, the majority being investors, regulators and executives) as negatively impacting on enforcement and activating the codes and regulations, as this type of ownership gives the merchant families political power. This will be discussed further in section 6.5, to press on the government and regulators to disable the codes and acts. I3 stated that:

> **I3:** *"Since Al-Khurafi family group control most of the listed companies...this control gives them political power that enables them to bargain with the government...when they were accused by the Court of Illegal Trading, they instructed all of the companies that own an influential portfolio to stop trading on the Stock Exchange...which led all traders to press the government to interfere."*

This is consistent with a statement by Morck et al. (2005), that controlling shareholders can divert and direct corporate resources for private interests as a pyramidal group and, at the

economic level, extensive control of corporate assets by a few families distorts the capital allocation. Morck et al. (2005) suggest that political influence is further related to what one controls rather than what one owns, and they further state that the controlling owners of pyramids thus have greatly amplified political influence relative to their actual wealth.

In general, it is clear from both the respondents' views and the current practices reported by them regarding the lack of board committees, CEO selection based on the chairman's preferences, and CEO duality, that Kuwaiti companies are far from voluntarily adopting corporate governance, and that those procedures that have been applied have been implemented as a result of external pressure by the major shareholders, as many listed companies have a family ownership structure and keep control of their companies. Merchant families benefit from maintaining the current situation. If a corporate governance code was issued, their power over listed companies would diminish and the independent board members would become more dominant. CEO duality would be reduced and board committees would have authority to monitor, select and manage the company effectively. The degree of disclosure and equal treatment for all shareholders would be improved. Such measures would deter the manipulative transactions of the merchant families and prevent them from maximising their self-interest. R2 was one of five interviewees to indicate that the major shareholders' self-interest prevented voluntary adoption:

> **R2:** *"The self-interest associated with family owners ... prevents companies from voluntarily adopting the corporate governance code."*

R3 explained that the opposition from the merchant families was due to their pursuit of self-interest; in particular, the control of merchant families over the board and management of

listed companies led to prioritising their own self interests even if it is against laws and regulations:

> ***R3:*** *"Board members violate the company's statute by shifting 60% of the company's main real estate operation to speculate on the stock exchange...not because they want to raise the company's profit... they just want to raise other companies' shares which they invest in to pursue their self-interest."*

It is clear that all of the above examples result from the major shareholders' control over listed companies in order to maintain their self-interest, showing that the current practices contradict corporate governance principles. Such practices might disappear, thus affecting the interests of the merchant families, if a corporate governance code was introduced, so they exert pressure on the decision-makers to prevent the issuance of the act:

> **I2:** *"Merchant families know very well that, if corporate governance were to be issued...their illegal practices would not be permitted ... since they build their fortunes on illegal transactions ... they will keep putting pressure on the decision-makers not to issue the code."*

Also, 16 interviewees (legislator, all regulators, four executives, two board members, and 5 investors) considered that the merchant families would oppose the issuance of a corporate governance code. For example, BM2 suggested that:

> **BM2:** *"All of the merchant families would oppose the issuance of corporate governance as they would lose their control and power over the companies' management; even if they are not corrupt, they want to keep their power."*

BM5, E5, and I4, who represent the merchant families' view, disagreed with the above majority's criticism of these families:

> **BM5:** *"The beneficiaries oppose corporate governance issuance, not the merchant families, as the beneficiaries do not represent the merchant families."*

BM5 and I4 who represent merchant families and E5 who was appointed by a merchant family as CEO, tried to defend themselves against the accusation over them that the other groups refer to the merchant families by opposing the issuance of Kuwaiti corporate governance code.

Respondents who were in favour of issuing a corporate governance code concluded that it would discourage the abuse of power and manipulative transactions by the merchant families, and also reduce their control over the companies; as a result, its introduction would face strong resistance; as L1 noted:

> ***L1:*** *"Changing from the current murky culture to a new environment governed by the corporate governance code is expected to face strong resistance...from a group of merchant families...who usually make their fortune in the existing corrupt environment by spreading rumours and using inside information on daily trading."*

6.3.6 Voluntary adoption of corporate governance

Thus, the majority of interviewees (14) identified the merchant families oppose the voluntary adoption of corporate governance in listed companies by applying coercive pressure on company management to reject the voluntary adoption of corporate governance practices:

> **BM5:** *"In my view, the current act is fair enough and covers the companies' and market needs...no serious modification is needed."*

L1 noted that voluntary adoption was meaningless since power lay in the hands of the board members:

> **L1:** *“Voluntary adoption would not suit board members who are looking to maximise their self-interest.”*

I1 agreed with the statement of L1, that the power of those merchant families over the listed companies hinders the application of a code that would contradict their interests:

> **I1:** *“Since the merchant families are against corporate governance...the companies will not adopt it voluntarily.”*

The majority of the interviewees (16 of the 23) asserted that coercive pressure was therefore needed in order to force companies to apply corporate governance principles, because of the resistance of the merchant families to any modification of current practices, which served their interests. Voluntary adoption (normative pressure) would prove ineffective since the management of the companies was dominated by the merchant families, who placed their own interests above those of the other stakeholders.

The responses confirmed that corporate governance should be mandatory rather than voluntary as merchant families prevented voluntary adoption:

> **I3:** *“Merchant families exercise an external pressure on the companies’ management not to adopt corporate governance voluntarily...this pressure is exercised by direct intervention through their presence on the executive management or through indirect intervention through their representative.”*

I1 stated that the current practices were a result of the merchant families’ power and control that enabled them to influence the regulative and monitoring role of the government to prioritise the merchant families’ interests over those of the minority shareholders due to the mutual interests between the government and the merchant families:

> **I1:** *"The current practices of the listed companies is due to the merchant families' power and control...the role of government in protecting the minority shareholders is missing due to the mutual interest of the two groups".*

Therefore, the dominant logics within the organisational field of Kuwaiti listed companies represent the logics of the actors inside the field, who are the merchant families. Lepoutre and Valente (2012) state that organisational logics consist of symbolic and material carriers and the material carriers in this study, represented by current practices, appear to contradict the principles of corporate governance, as a result of the symbolic carriers (beliefs) within the merchant families that any change will threaten their self-interest and control. Hence, the actors inside the organisational field will resist change, thus the material caariers (current practices and network of actors) are set to maintain the merchant families' beliefs of controlling listed companies and protect their interests (symbolic carriers):

> **I1:** *"The merchant families' logic is to keep the current practices without change…the aim is to maintain their control and protect their self-interest."*

According to the above practices, it is clear that the community of practices inside the organisational field of Kuwaiti listed companies contradicts the international practices recommended by the OECD principles of corporate governance and the UK combined code. Sixteen interviewees accused the merchant families that that would oppose the issuance of a new Kuwaiti code of corporate governance as they regarded this as contradicting their self-interests. Table 6.2 shows all of the interviewees' views about the current practices. Investors accuse the merchant families of being behind the current community of practices whereby the merchant families refer to current practices as a result of the regulations that exist and they just follow them.

Table 6.2 Interviewees' view of the current practices

Question	Regulators	Legislators	Investors	Board members	Executive management	Total
Independent board members do not exist	Agree **4/4**	Agree **1/1**	Agree (except I4) **5/6**	Agree (except BM5) **4/5**	Agree (except E5) **6/7**	20 out of 23 Agree
Board committees do not exist	Agree Audit committee in banks and investment companies **4/4**	Agree Audit committee in banks and investment companies **1/1**	Agree **4/6**	Agree **4/5**	Agree **4/7**	12 out of 23 state committees do not exist
CEO + chair not separated	Agree **3/4**	Agree **1/1**	Agree **4/6**	Agree **4/5**	Agree **3/7**	15 out of 23
Disclosure and transparency is weak	Agree **4/4**	Agree 1/1	Agree **5/6**	Agree **1/5**	Agree **1/7**	12 out of 23 Agree
Most listed companies are Family owned	Agree **4/4**	Agree **1/1**	Agree **5/6**	Agree 4/5	Agree **6/7**	20 out of 23 Agree
Merchant families oppose issuance of a Kuwaiti corporate governance code	Agree **4/4**	Agree **1/1**	Agree **5/6**	Agree **2/5**	Agree **4 /7**	16 out of 23 Agree

Note: this Table shows the view of the interviewees about the current practices gathered from the above sections.

One symbolic carrier (Companies' Act 1960, Article 15) is examined in the next section. This raises questions about why there is no corporate governance code in Kuwait, why the regulators and legislators do enforce one, whether the regulators and legislators demonstrate a weak knowledge and understanding of corporate governance principles, and whether the existing regulations, especially the 1960 Companies' Act (Article 15), are adequate or should be replaced with a new corporate governance code.

6.4 The legal and regulatory system

Before discussing the legal and regulatory system's weaknesses and the level of similarity between the Companies' Act (Article 15) and corporate governance principles, the level of understanding and knowledge of the corporate governance principles among all groups will be illustrated to determine whether their comments on corporate governance are based on experience and knowledge.

The majority of the interviewees (17 of the 23, 74%) possessed good or excellent knowledge and understanding of corporate governance. The majority of these were regulators, legislators and investors, and their knowledge was fairly broad, as R4 demonstrated:

> **R4:** *"Corporate governance can be observed from two different views...the narrow view, which is defined according to the shareholder's interest...or beyond to include all stakeholders' interests."*

The knowledge and understanding of corporate governance among the remaining six interviewees (26%) was weak. These included two group board members and four executive managers, for instance, E5:

> **E5:** *"Corporate governance is a system enforced by companies to constitute the audit committees and other required committees."*

According to the above, the regulators and legislators, since they showed a good to excellent understanding of the corporate governance principles, should issue a Kuwaiti code of corporate governance and coerce listed companies within the organisational field to apply it. However, to date, no code of corporate governance has been issued. Hence, the question arises of whether the current Companies' Act (Article 15) is enough and incorporates corporate governance principles, and whether there are barriers in the legal and regulatory system in the country.

6.4.1 Companies' Act (Article 15) 1960

When questioned about their view of the 1960 Companies' Act (Article 15), two interviewees, (BM5 and I4) who represent merchant families, believed it to be adequate and that there was no need to issue another code, but the majority (21, 91%) regarded it as outdated and in need of review as for example BM2:

> **BM2:** "*... the 1960 Act is outdated and needs to be replaced with a new code that can cater for the economic and market needs ....the Act does not protect the minority shareholders' interests from the major shareholders' expropriations."*

R3 insisted on change process rather than modification or updating since he states that:

> **R3:** *"The current act should be replaced by a new act which includes all of the corporate governance codes and other ethical and moral codes."*

E3 added that the KSE should be a more developed market in terms of regulation and the applied system of trading between the MENA countries:

> **E3:** *"... our market is classified as the oldest market among MENA countries after Cairo's market... and is still monitored and governed by the old Act published in 1960...this shows that the country's economic situation is stuck in the 1960s.*"

L1 further commented that the operation and management, not only of the market but of the country as a whole, was based on laws from the 1960s:

> **L1:** *"Kuwait is still managed and operated by laws, acts and a constitution from the 1960s; since that time, the country really needs to radically change, and all of the acts should be amended, including the Companies' Act and laws that were published before."*

This assertion was confirmed by R2, who commented that the continued use of Indian Rupees[6] instead of Kuwaiti Dinars as the currency for sanctions and fines provided evidence that the current Act (Article 15) had not been reviewed since its publication in 1960

[6] The Indian Rupee was traded and accepted in Kuwait before 1960, after which the Kuwaiti Dinar became the main currency of the country

> **R2:** *"The sanctions included in the 1960 Companies' Act are in Rupees...this indicates that the act has not been reviewed at all...whereas, if it is reviewed, the first amendment is to move to Kuwaiti Dinars rather than keep Indian Rupees."*

L1 further stated that a stipulation in Companies' Act (Article 15), that all board members should hold a number of shares in the company, made it impossible to include independent board members; this would be contrary to normal corporate governance principles:

> **L1:** *"The concept of the independent board member gives a more credible picture of the company's operation...but the problem is with the current act, that prevents any non-shareholder from being a board member."*

In addition, all of the interviewees agreed with the concept of independent directors sitting on the board, yet the stipulation of the Company's Act (Article 15) that all board members should hold a number of shares makes it impossible to include independent board members. The majority of the interviewees (with the exception of the merchant families group) therefore called for the modification of the existing outdated Act (Article 15) in order to create greater transparency for all stakeholders. This would be achieved if independent board members, with no benefits or interest within the company, could make decisions based on the interests of all stakeholders:

> **L1:** *"The concept of the independent board member gives a more credible picture of the company's operation...but the problem with the current act is that it prevents any non-shareholder being a board member."*

It is clear that the absence of an effective regulatory framework, as represented by an outdated Companies' Act (Article 15) 1960, led to the majority of interviewees (21) feeling dissatisfied with the current, outdated Act (Article 15). Thus, the lack of regulatory pressure has led to the absence of any corporate governance practices, and there has not been any coercive pressure

on listed companies to apply a corporate governance. Whether any barriers exist within the legal and regulatory system of the country will be discussed further in the next section.

6.4.2 Barriers in the country's legal and regulatory system

In an attempt to identify the factors hindering the issue of corporate governance code, the interviewees were asked if they considered there were any contradictions between the current Companies' Act (Article 15) and a corporate governance code. All but the two merchant family interviewees (BM5 and I4) stated that there was no such contradiction. E1 commented that any corporate governance code would be complementary to the current Act (Article 15):

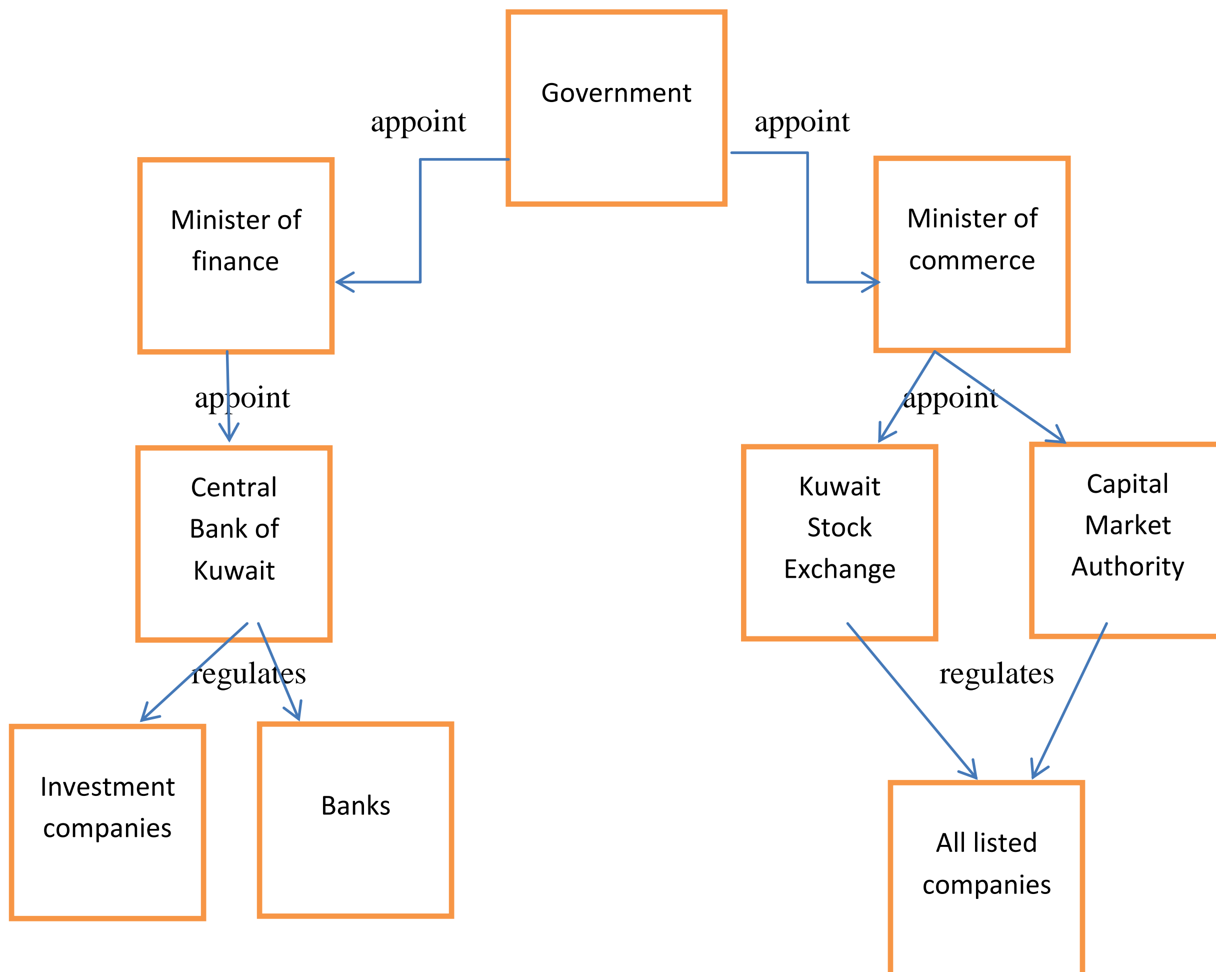
> **E1:** *"Corporate governance is complementary to, not in conflict with, the current Companies' Act...as it requires more disclosure and transparency."*

The view of the group merchant families differed as BM5 stated that:

> BM5: "how listed companies can appoint independent board member and the Act require all members should hold a number of share percentage."

Before discussing legal factors it is useful to explain the relationship between the regulatory and monitoring bodies in Kuwait. Diagram 6.1 shows that the government is represented in both the finance and commerce ministries, as the minister in both ministries are appointed by the prime minister, these ministers then appoint the executives in the regulatory bodies. The political parties in parliament (merchant families' party) usually lobby the prime minister and ministers to appoint their representatives in the regulatory bodies to act in their interests.

Diagram 6.1 The relationship between regulatory bodies in Kuwait



Notes: the diagram shows how the government and regulatory bodies are connected.

One of the main barriers in the country's legal and regulatory system is that the legal system in the country is weak and lacks enforcement and effectiveness. For example, the concept of equal treatment for all shareholders exists in the current Companies' Act (Article 15), but the regulators and monitoring bodies have failed to activate it and force the listed companies to apply it. In many cases, listed companies pay more attention to their major shareholders:

> **R1:** *"What happens in practice is different from what should be done...the companies' management pays more attention to the major shareholders, since the regulator does not force companies to effectively apply the Act."*

Five of the seven executives acknowledged that, although the 1960's Act (Article 15) insists on equal treatment for all shareholders, it was ignored and most listed companies did not apply the Act (Article 15), since the major shareholders have made a considerable investment in the company, so the executives have to pay more attention to their views and requirements:

> **E5:** *"In practice, it is difficult to satisfy all investors...so at least they would give more consideration to the major investors as they make a considerable investment in the company."*

The representatives of the merchant families (I4 and BM5) stated that it is not a matter of activation and enforcement of act, it is a matter of prioritising major shareholders' preferences:

> **I4:** *"Equal treatment for all shareholders should be limited to share returns...other than that, it is impossible to treat someone who owns 20% of the total shares equally to someone who has 1% ... the preferences of major shareholders always should become first."*

The above indicates that the current Act (Article 15) has not been activated nor the law and regulations enforced; also, the executives and board members do not apply the Act based on their view that equality of treatment means that the major shareholders' preferences should be priorised. The civil law system that the country applies is characterised by weakness and a lack of enforcement, since the Company's Act (Article 15) mentions the equality of treatment of all shareholders. The major shareholders comply with the Act (Article 15) and ignore the minority shareholders' interests and rights, while at the same time the regulators and monitoring bodies are weak in enforcing the Act (Article 15) over those companies:

> **I1:** *"The legal system is weak in the country...the regulators and monitoring bodies are weak in activating the existing code since the major shareholders are ignoring the minority shareholders' rights."*

Thus, the issue of corporate governance is impeded by the lack of an effective regulatory framework (i.e. the lack of coercive pressure) to force companies to practise the requirement of the 1960 Act (Article 15) such as the equal treatment of shareholders.

Another barrier in the country's legal and regulatory system is the weakness level of minority protection provided. La Porta et al. (1997) and Mallin (2004) both argue that the legal system of any country has an important impact on the level of protection of the minority shareholders' interests and the effectiveness and enforcement of the law. This is consistent with the comment of R2 that this is one of the weaknesses of the 1960 Act (Article 15), which fails to protect the rights of minority shareholders and lacks activation:

> **R2:** *"The current Act is weak in the way it protects minority shareholders' rights...and the level of activation is very weak."*

The legal system of the country is weak at protecting minority interests since the companies' management ignores minority interests and does not apply the current Act (Article 15). Five of the seven executives such as E1 asserted that:

> **E1:** *"I just want to clarify that, despite the Company's Act being mandatory, some companies are manipulating it and failing to apply it."*

Three of the five board members supported the view expressed by E1 and other executives regarding the act and the extent of protecting minority interests as BM1 stated:

> **BM1:** *"Not all companies apply the Companies' Act...since it can be overcome as there are many gaps ... the level of protection of the minority interests is weak since the Act is ignored"*

Five out of the six investors noted that the level of protection of minority interests was negatively affected by the mutual interests between government and merchant families:

> **I6:** *"The current act is not activated...the government usually disables the act, especially for the group of merchant families who usually bargain with the government in parliament."*

Another barrier in the country's legal and regulatory system is the weak level of disclosure and transparency. For example, I1 clarified that, in the case of companies who did not disclose their major shareholders holding more than 20%, those shareholders would be charged and their percentage of ownership withheld from trading for two years; yet 126 companies were accused of this practice, and the law was not activated against them:

> **I1:** *"Offending companies who fail to disclose their major shareholders owning more than 20% should be punished by stopping their shares from trading for two years ...however, the law was not activated against 126 listed companies who did not disclose."*

The merchant families avoid disclosing their percentage of ownership as major shareholders because they were unwilling to reveal to the public their dominance over the companies; at the same time, they could secure control of the board membership through distributing their ownership to different companies. They held almost 100% ownership in some companies, and were influential in others. The merchant families could thus select a group which comprised of themselves and their representatives to vote in the elections for board membership. Each company would vote for one person so, by securing a high number of votes, the merchant families could achieve domination over the board membership:

> **I2:** *"The voting method that the major shareholders used is to diversify their ownership percentage among different companies...each company votes for itself and its representatives, so they will get the highest numbers of votes and dominate the board membership."*
> L1: *"Four merchant families own almost 100% of Americana listed companies ... by direct and indirect investment."*

All the above weaknesses of activating codes and law, protecting minority interests, and lack of disclosure and transparency can be traced back to the weak role of the regulators. The investors, including I4 (merchant family), blamed the regulators, I1 stated that the appointed executives on the monitoring bodies lack education, and the companies' team was superior to the regulatory and monitoring bodies in terms of both their educational attainment and their talent:

> ***I1:*** *"In fact, companies are better educated and their staff can compete with the regulators, as the latter lack both experience and knowledge."*

Three regulators referred to the weak role of the regulators with regard to parliament, since MPs do not show any signs of accepting a change to the current Act (Article 15):

> ***R1:*** *"The superiority of the private sector over the government sector...is a result of the current act is outdated and the role of the parliament is missing..."*

The unsatisfactory level of knowledge among the regulators was also criticised by executives, and E3 suggested that they were ill-equipped to issue the most important acts that organised the companies' practices:

> **E3:** "*Regulators...have insufficient education and knowledge to issue a company's code."*

Also board members criticised the regulators rather than the current Act (Article 15) 1960. BM2 provided an example of the weakness of the monitoring bodies, especially those related to the Ministry of Commerce, who had no experience of organising and running AGMs, due to their lack of specialism:

> ***BM2:*** *"The government regulators lack specialism...and they don't know what codes the market requires to be issued...imagine that, at the AGM, the representatives of the Ministry of Commerce have graduated from social sciences courses.*"

All of these statements indicate that the lack of education and specialism among the regulators, compared with the more talented private sector, had led to a decline in the authority and prestige of groups of regulators, including those representing the Central Bank, the Stock Exchange and the Ministry of Commerce:

> **R2:** *"Both groups of regulator are unaware of the codes' advantages as a result of their limited knowledge and education... this leads to an absence of authority and prestige for the Central Bank, the Stock Exchange and Ministry of Commerce."*

I1 further commented that the lack of specialisation among the decision-makers on the Stock Exchange meant that inadequate attention was paid to the quality of the acts that aimed to improve and regulate the companies' transactions with their stakeholders:

> **I1:** *"In Kuwait, because of the absence of specialisation among the management of the KSE...the output of acts were not those that were recommended and desired, and they underestimated how to regulate companies in the proper manner."*

These selection processes for the executives of the monitoring bodies will be discussed later in the political and cultural sections.

It is clear that the investors, executive management, and board members agree that the regulators' level of education and specialism are weak, whereas the regulators refer the weaknesses to the law packages offered for specialists where private companies offer an attractive package and to the failure of parliament to issue a new act.

According to the above, the main barriers are the legal system of the country, as the regulators lack effectiveness and experience, and fail to activate the code. This is identical to La Porta et al.'s (1998) classification of the characteristics of the civil law system, concentrated ownership and weak legal system, that lack the activation of the codes. Hence, a symbolic carrier within the dominant logics of the organisational field, which is the legal system, is weak and ineffective, thus representing an obstacle in the process of corporate governance code issuance in Kuwait.

Since the legal and regulatory system is weak in the country and the regulators have failed to issue a corporate governance code to date, hence, the question arises of why the latter is the case, since the regulators have the power to issue legislation in the country. Specifically, L1 demonstrates an excellent understanding and knowledge of corporate governance. The next section discusses further the role of political factors in the issuance of corporate governance.

6.5 Political factors

This section illustrates the role of political factors and the reason behind parliament's failure to issue a corporate governance act. Also, examples are provided by the interviewees of how the presence of the merchant families in parliament has negatively impacted on the legislation's role in issuing a corporate governance code, as a result of the self- and mutual interests of the merchant families' party in parliament and the government.

6.5.1 The Kuwaiti Parliament and the merchant families

As stated previously, the legislative system is represented by parliament as the sole body in Kuwait empowered to issue laws. The merchant families have sought to maintain their presence in parliament since it was established in order to protect their interests and bargaining power:

> **R2:** *"Merchant families have been present in parliament since it was constituted...their presence keeps them in power so that they can bargain with the government to gain benefits."*

It is vital for the merchant families to preserve their dominance over the monetary and financial committee of parliament. Fourteen interviewees confirmed that, since it was established, the merchant families' party in parliament had maintained its control and dominance over the monetary and financial committee. To achieve this, deals were made whereby the merchant families voted for parties to be elected onto other committees in return for votes for their own party at the elections for the monetary and financial committee. Also, the government voted for the merchant families to dominate the monetary and financial committee:

> **E7:** *"The merchant families' party fights to dominate the monetary and financial committee in parliament...this is achieved through their deals with both the government and with other parties who vote for them at the committee elections...in turn, the merchant families will vote for those parties at the elections for other committees."*

E1 justified the government support and votes for merchant families as stated that:

> **E1:** *"The government always votes for the merchant families for the monetary and financial committee seats...both groups try to protect their interests...those interests are political and economic."*

The majority of the respondents (14), representing the legislators, investors and regulators, identified this pressure to dominate the monetary and financial committee, as R3 noted:

> **R3:** *"The aim behind the merchant families' party's domination over the monetary and financial committee in parliament...is to ensure that no act can be issued that threatens their control and dominance over companies."*

An example of protecting their control and interests is the Capital Market Authority Act. This includes a code of corporate governance, and had been considered by the monetary and financial committee in parliament since 2000; it was finally released in late 2010, but did not include the corporate governance code. Throughout this period, the merchant families had demanded that it should be held back but, after the financial crisis of 2008, investors exerted pressure on the legislators to issue the act:

> **I1:** *"The monetary committee in parliament, representing the majority of the merchant families, was pressurised into withholding the Market Authority Act and corporate governance code...since the financial crisis of 2008, investors pressed MPs to issue the act and it was issued in late 2010."*

Acts that serve the merchant families interests, such as the Debt Difficulties Act, are agreed on and approved by the monetary and financial committee. This act was issued to protect the merchant families from the bankruptcy resulting from the manipulation of Al-Manakh market that led to the banks' financial crisis:

> **I6:** *"The government, instead of punishing the manipulative merchant families, introduced the Debit Act to protected 300 members of the merchant families due to Al-Manakh crisis by paying out 5.5 billion Kuwaiti Dinars...this amount was paid from the Future Generation portfolio."*

Similarly, E1 justified the merchant families' existence in the parliament to that:

> **E1:** *"The presence of the merchant families in parliament is to protect their interests by constantly bargaining with the government when they need support."*

When questioning the interviewees about how the presence of the merchant families in parliament can lead to bargaining with the government, 17 (a regulators, a legislator, five investors, five executives and two board members) stated that the bargaining process involves supporting the government when the government is questioned by the opposition. In return, the government grants concessions to the merchant families' party through strengthening their connection with the government and decision makers in the country and appointing their representatives in the area of regulation:

> I2: *"The mutual interests of the merchant families' party and the government is dominant in the political life of the country ... the government aims to maintain the political support of the merchant families' party ... and the merchant families maintain their interests by obtaining government contracts and appointing their representatives to the monitoring bodies."*

All of the regulators, the legislator, five investors and four executives stated that the merchant families' party in parliament influence the government and decision making process in the country, that strengthens their power and control over the issuance process of the code and law:

> **I5:** *"The merchant families are widely represented in parliament through their party...in the government and on the monitoring bodies."*

Similarly I6 asserted that:

> **I6:** *"As a result of the merchant families dominating the decision- makers...they became more influential over issuing acts that conflict with their interests, especially the corporate governance act."*

This influential role of the merchant families on the issuance of the acts and codes in the country is confirmed by 19 interviewees, who state that the merchant families oppose corporate governance by exerting pressure and forming connections with the decision-makers:

> **R2:** "*The merchant families, through their presence in parliament, build good connections with the decision-makers...especially the government and monitoring side, to stop them issuing corporate governance, as it would threaten their interests."*

The opposition of the merchant families to the issuance of corporate governance through their presence in parliament and their wide connection with the regulators is because the corporate governance code might threaten their control, interest and current practices:

> ***R2:*** *"The merchant families used their connections with the government and MPs to secure themselves as they engaged in suspicious transactions in the companies that they headed...for instance, the board members of Al-Daar and the Global Investment companies used to buy shares and land and re-sell them to the company to make a fortune, until they bankrupted those companies... Kuwait Finance House used its influence on MPs by giving them financial benefits just to put pressure on the government and regulators to treat the bank as lying outside the umbrella of the Central Bank's law and regulation."*

The above examples provide evidence to contradictory practices to the notion of corporate governance principles, that explains why the merchant families oppose the issuance of corporate governance either through their presence in parliament or by pressing the decision makers in the country.

Also, another form of merchant families' bargaining with the government is through appointing their representatives to the regulative bodies to maintain their control over the regulators:

> **I2:** *"The appointed regulators in Kuwait are always nominated by the merchant families' party as they have the upper hand over the government and decision makers in the country."*

Fifteen of the interviewees (the legislator, three regulator, four investors, five executives, and two board members) confirmed that the appointed regulator is usually nominated by the merchant families' party in parliament when they bargain with the government:

> L1: *"The merchant families' party exploits the clash between the opposition and the government to appoint their representatives to the regulators bodies to protect their interests and control."*

On the other hand, BM5 and I4, who represent the merchant families' group, argued that the merchant families use their presence in parliament to serve society:

> **I4:** *"Despite the merchant families being well connected with the decision makers...any act that serves the whole economy and society, no one can prevent being issued."*

In defence of the merchant families, BM5 and I4 also argued that responsibility should be attributed to the regulators and legislators, who had the authority to issue acts, rather than to the merchant families:

> **BM5:** *"The responsibility for issuing act lies in the hands of the regulators or legislators...and it is untrue that the merchant families are responsible for delaying the issuance of a corporate governance act."*

Appearing to favour their views, E5 ruled out the impact of the merchant families on the issuance of corporate governance, attributing the main reason for the absence of corporate governance to the plurality of regulators and lack of specialisation:

> **E5:** *"... the plurality of regulators and the absence of specialisation are the main reasons behind the absence of corporate governance..."*

The defence of E5 for the favour of merchant families may be noted that E5 was appointed by the chairman of the company, who represented a group of merchant families:

> **E5:** *"I have been selected as CEO for the company as a result of the major shareholders' preference with regard to those nominated for this position."*

Interviewees also mentioned that the government, as a regulator and major shareholder, also influence on the issuance of corporate governance code besides merchant families, the next section further illustrates their criticism.

6.5.2 The role of the government

It has been observed that the government also influences the issuance of a Kuwaiti code of corporate governance, as 18 interviewees noted that:

> **I1:** *"The government together with the merchant families ... both have mutual interests ... the government influence over the issuance of corporate governance comes from both sides as a major shareholders of the listed companies ... and their dominance over the regulative bodies in the country."*

All of the interviewees confirmed that the government is a major shareholder in most of the listed companies in the KSE:

> **E3:** *"The government owns an influential ownership percentage of most of the listed companies."*

These influential ownership percentages are managed through their sovereign funds (pension funds and KIA), and the staff who manage the KIA and pension funds are appointed by the government:

> **E1:** *"The government, has their investment arms ... the KIA and pension funds ... the managers and staff are all appointed by the government that manage these percentages."*

The OECD reported a highly concentrated ownership structure in listed companies in Kuwait, represented by the major shareholders (institutional investors), such as the Pension Funds, the Kuwait Investment Authority (owned and managed by the government) and the merchant family companies (OECD, 2002).

Fifteen of the interviewees (the majority being investors, legislators and regulators) stated that, although the government had an influential ownership percentage of most of the listed companies, they delegated the board membership to the merchant families to control the companies they invest in or in which they have only one appointed member, despite their ownership percentages allowing them to appoint more than one representative:

> **I1:** *"The government owns more than 26% of Zain listed company and the law allows to them to appoint two representatives ... whereas they appoint just one member and support Al-Khurafi merchant family by giving them 5 seats on the board ... the government also owns more than 30% of other listed companies and they don't have any representatives among the board membership."*

L1 justifies the reason behind the delegation of the government to the board members to the political factors and mutual interests between the government and merchant families. This view was supported by the majority of investors, regulators, three executive and one board member:

> **L1:** *"The merchant families support the government politically ... and the government delegates the board to them, as a courtesy."*

R2 criticised the government by stating that the courtesy of the government for the merchant families continue to invest in other listed and unlisted companies:

> **R2:** *"The government through their investment arms invest in merchant families' companies ... whether these companies are listed or unlisted ... and whether these companies profitable or collapsed ... just to satisfy the merchant families' party."*

Fourteen of the interviewees (the majority being investors, legislators and regulators) stated that, although the government had influential ownership percentages, none of the invested companies show any signs of the voluntary adoption of corporate governance:

> I1: *"The government through their ownership does not exert pressure on the companies' board and management voluntarily to adopt corporate governance principles ... this leads to the government supporting the merchant families' view."*

On the contrary the government was satisfied with these actions on the part of the merchant families since the merchant families' party supports them politically, which satisfies both groups' interests. BM3 gives an example of the manipulation of KIA investments and the government taking no action against the merchant families:

> **BM3:** *"The Minister of Finance who is a member of a merchant family in Kuwait...sold the BMW franchise to a relative...and other government investments to a group of merchant families, but no action was taken against him about a conflict of interest; at the same time, the government is satisfied, as it supports them."*

The Kuwait Gulf Bank is another example where the government shows support for the merchant families' manipulative practices, which contradicts the principles of corporate governance, as illustrated by I3:

> **I3:** *"Kuwait Gulf Bank is the famous case of when bargaining occurred between the merchant families and the government...since one of the board members made losses on his portfolio and refused to pay ... the government paid instead of accusing him, as he headed a political party in parliament."*

The government's role as a major investor in most listed companies has impacted negatively on the issuance of corporate governance, since they retained their investments in most listed companies in order to support the merchant families; hence, the aim is not to invest but rather to gain political support, since current practices, as mentioned by the interviewees, contradict the corporate governance principles. Hence, the government as a major investor is blocking the issuance of a corporate governance code:

> **I3:** *"The government through their ownership of almost all listed companies oppose corporate governance...because the principles contradict their political interests which influence their mutual interests with the merchant families' party in parliament."*

L1 observed that the Kuwait government was the "*last bastion of communism"*[7], not because the country demonstrated the basic principles of communism but because the government sought to extend its influence over the legislators in parliament. This might be achievable via the investment arm of government, namely, the Kuwait Investment Authority (KIA), a major shareholder of most listed companies. Such extensive and diverse ownership gave it the power to maintain the mutual interests with parliamentary groups by providing political support when government ministers or the Prime Minister faced questions from the opposition group. Ownership also empowered it to provide economic support to those who represented the merchant families in parliament. In this situation, the government would not be free from "communist" influences nor would corporate governance codes be issued:

[7] The interviewee meant the Fascist regime rather than the Communist regime.

> **L1:** "*Kuwait is the last bastion of communism...the government dominates 80% of economic activity influenced by political issues which are used to bargain with parliamentary groups in the national assembly who are usually from the merchant families. This is done by the merchant families' group supporting the government when it is faced with challenges from other oppositionist groups who question any encroachment on the economic support for the merchant families and beneficiaries groups through government ownership of listed companies - an example of this is that the government voted in the Zain company (against the shareholders' interests by supporting one of the merchant families who headed the company's board) to amend the status of the company by providing loans for other companies, which violates the basic statute as it operates in the telecommunication sector, not in the bank sector.*"

Hence, the actors, merchant families and the government, of the organisational field of the listed companies who represent the major shareholders, are sharing the same logic of maintaining the current practices, as these serve both actors' interests. This dominant logic contradicts the corporate governance principles.

Another influence of the government over the process of the issuance of a Kuwaiti code of corporate governance is through their regulative role in the country.

I6 identified the monitoring and regulatory bodies in the country as the Ministry of Commerce, the Central Bank, the Kuwait Stock Exchange and the Capital Market Authority; assemblies who monitored the stock market:

> **I6:** *"The government dominates and controls all of the assemblies that monitor the Stock Exchange and companies...such as KSE, CMA, Ministry of Commerce, and the Central Bank."*

Eleven respondents (the majority being investors and executives) noted the weakness of the regulatory and monitoring bodies in activating the laws and regulations or issuing a new code of corporate governance:

> **BM3:** *"The monitoring bodies in the country are weak ... and lack the power to activate or issue codes that they responsible of."*

The interviewees referred to the weakness of the regulatory and monitoring bodies to two main reasons: government influence and the process of appointing and selecting the persons in those regulatory bodies.

Fifteen of the interviewees (the majority being investors, regulators, and executives) noted the weakness of the regulatory role to the government's influence, usually to foster their own political interests:

> **I3:** *"The merchant families in parliament press the government to deactivate the law for violating boards in return for the merchant families' support in parliament."*

R2 gives an example of the 1960 Act (Article 15) stated that the board was fully responsible for the company's shareholders; since 1960, however, no board members had been convicted of manipulating the shareholders' wealth, since the government influences the regulatory bodies' decision-making process in order to maintain their mutual interests with the merchant families' party:

> **R2:** *"The government used to disable the current Act for their political interests ... in particular, there is the clear manipulation of companies' transactions, such as AL-Daar Investment and Global Investment House ... the board of both companies are well presented in the merchant families' party in parliament ...and the government does not activate the Act against them since there is mutual interest between them."*

On the contrary, the government presses the regulatory bodies to apply the Act against the merchant family who oppose the government politically:

> **I1:** *"Al-sultan Merchant Family took land from the government to make a free zone...they started selling the land for investment instead of building the free zone...the government didn't activate the law against them since they supported the government politically in parliament...after opposing the government...they activated the law against them...not because they had violated the main activity for the project...but because they opposed the government and in turn the government punished them."*

Therefore, the regulative bodies have no power or authority to issue a corporate governance code since the government is influencing their decision making process; I2 and another 13 interviewees stated that issuing an act would certainly affect the group of merchant families who support the government in parliament:

> **I2:** *"The government would not wish to issue the act of corporate governance ... since this act will definitely have a negative impact on the practices of the merchant families who support the government in parliament."*

The other reason of the weaknesses of regulative bodies refers to the process of selection and appointing the executives in those regulative and monitoring bodies.

Twelve of the interviewees (the majority being investors and executive management) stated that the process of the selecting and appointing those executives to the regulative and monitoring bodies lies in the hands of the government, who appoint executives to the monitoring bodies based on their loyalty to the government and disregard their qualifications. The result is that the executives themselves are underqualified to monitor companies and unaware of the current code of listed companies:

> **R1:** *"The monitoring bodies are insufficiently qualified to monitor companies...as regards to their qualification and experience level."*

13 respondents (the majority of investors, legislator, regulators and executives) stated that some regulators might feel obliged to follow the interests of the merchant families who had appointed them to the monitoring bodies and act in their favour:

> **R2:** *"The merchant families have forced the government to appoint nominated persons to the monitoring bodies...therefore those persons will follow the interests of the merchant families."*

I3 confirmed R2's statement and the other 12 respondents that the merchant families forced the government to appoint executives to the monitoring bodies not because they were well-educated but because they could rely on them to represent and protect their interests:

> **I3:** *"Most of executives on the monitoring bodies are appointed by the merchant families ... as a result of the merchant families' influence over the government."*

The issue of corporate governance was therefore impeded by the executives who represented the interests of the merchant families:

> **I2:** *"...Therefore those executives have a negative impact on corporate governance since it contradicts the interests of the merchant families who appoint them."*

Since the actors in the field, the merchant families and the government, both have political influence and mutual interests, these mutual interests of the two groups oppose the issuance of corporate governance since corporate governance principles contradict with their practices. Therefore, the political factor represented by the role and influence of the merchant families in parliament and the government role as a major investors or as regulator both represent a barrier to the issuance of a Kuwaiti corporate governance code. This presence of the merchant families in parliament enhances their power over the decision making in the country and they have become a dominant factor in the legislative role in the country, with government support.

Also, the interviewees confirmed that the merchant families' representation in parliament facilitates their relationship with the decision-makers in the country, who protect the merchant families' interests rather than the public interests. This relationship is, as the interviewees noted, from the country's culture that the merchant families became above the law. The next section further illustrates this dominant culture and how it impacts on the issuance of a corporate governance code in Kuwait.

6.6 Cultural factors

The interviewees were asked which cultural factors influence the issuance of a Kuwaiti code of corporate governance. Eighteen of the interviewees identified different factors that influence the issuance of a corporate governance code, such as cultural differences, prestige, favouritism, and the social and personal relationships between merchant families with the government and regulators.

The first factor, cultural differences, was repeated by 15 interviewees (the majority being investors and regulators). The merchant families, in their resistance to any code that threatens their interests, usually refers to differences in culture, arguing that as the codes issued in other countries do not fit their culture, without justifying why, simply because they wish to resist the issuance of the code since it contradicts their interests:

> R3: *"The cultural factor is the regular justification of the merchant families ... when they fear codes that threaten their interests ... different regulations have been banned under this justification, such as franchising contracts and monopolies ... they resist these changes due to the culture differences between our culture and US culture."*

Another main obstacle lies within Kuwaiti society: supported by their social and personal relationships with the regulators, government and decision-makers, the merchant families and the government are either close friends or relatives, so both a social and personal relationship sets the culture in society, as every merchant family that has a social or personal relationship with the government should be treated differently from the other citizens, even with regard to the application of the laws and code, as they are above the law. Thus the network of actors is very strong supporting one community of practice. Also, six interviewees, including R1, confirmed that, since social and personal relationships, seen as a cultural factor, were dominant in traditional Kuwaiti culture, they were taken into account when issuing any ethical or corporate governance codes; it was recognised that no code would be issued that would affect the social and personal relationship between the regulators, the government and decision-makers within the merchant families:

> **R1:** **"***All of the traditions in Kuwaiti culture are opposed to applying corporate governance...it affects the good relationship and social alliance between regulators and the merchant families because the main principle of corporate governance is to limit the owners' intervention in the company's business.*"

The case of AL-Daar Investment Company is the best example to illustrate how the merchant families are treated differently and they are above the law as regard to their personal relationship with the government. The chairman had been convicted by the court three times in favour of one of the commercial banks in Kuwait, and was instructed to return a bank loan, yet the code was not activated against him, nor was any ban on travelling imposed as a result of his personal relationship:

> ***R2:*** *"The chairman of AL-Daar Investment ... who is one of the merchant family has been convicted three times by the court and nobody dared to ban him from travelling outside the country ... as he well connected and have personal relationship with the prim-minister."*

These social and personal relationships between the merchant families and the government give the former prestige in society, enabling them to be above the law as a result of the merchant families' contribution pre the crude oil discovery:

> **I6:** *"The prestige of the merchant families of being above the law came from the government ... since those merchant families were supporting the government economically prior to the discovery of oil."*

The courtesy towards the merchant families in society refers to the government's favouritism towards those families. Nine of the respondents (the majority being investors and regulators) asserted that, due to the government's favouritism towards the merchant families, this favouritism has become part of the national culture as, when the interests of those families

conflicted with the interests of other citizens, the government will side with the merchant families:

> L1: *"The government always sides with the merchant families' interests ... against any other group's interests ... and it has become a cultural factor that, when the citizens recognise that their interests will contradict the merchant families' interests ... they well know that the government will support the merchant families."*

Another cultural obstruction, identified by twelve interviewees (4 investors, 3 regulators, 3 executives, legislator, and one board member), to the issuance of corporate governance is that corruption has become part of the country's culture, encouraged by a group of merchant families to maintain their interests. The decision makes are subjected to bribes with regard to passing, opposing, or deactivating laws, and the group of merchant families, specifically, who own pyramid ownership and have political power, are satisfied since they can build a fortune through this corruption. The government fails to take any action against this corruption, since they also receive political support:

> **BM3:** "*The absence of corporate governance codes in Kuwait is related to the current status of corruption in the country...the law of transparency and integrity have been present in parliament since 2004...and until now, this has not been issued...as a result of the powerful merchant families making a fortune and the government getting political support*."

R3 confirmed the above and stated that it is often the case in some societies that the beneficiaries of corrupt practices were those who built their fortunes by opposing corporate governance and other codes, since these might obstruct their illegal practices. Although Kuwait had been recognised as experiencing widespread corruption, those who benefitted from this situation were likely to resist any codes that aimed to amend their practices:

> **R3:** "*The corporate governance code does not exist because the owners are opposed to any commitment to other investors...and nobody supports issuing the code, whether the government, the regulators or any other stakeholders*."

Another dominant cultural obstacle in the private sector that hinder the issuance of corporate governance is represented by traditional thinking; R4 and other seven respondents (2 investors, 3 executives, and 2 regulators) observed that the board members preferred to manage companies using their own established practices, rather than to adopt western styles of management by separating the management from ownership, hence the cultural obstacle presented in that merchant families fight to control board and executive management of companies will hinder the issuance of a Kuwaiti code of corporate governance:

> **R4:** *"The companies' board members come from the classic school, as they want to manage companies under the old system rather than let new blood get involved in managing companies in the western way of thinking."*

The dominant cultural obstacle that represents the traditional thinking is a result of the selection method applied in the country as a whole and to the monitoring bodies specifically. The standard for appointing executives to the monitoring bodies is subject to age, disregarding their level of qualification, knowledge and experience:

> **R2:** *"The selection process when appointing executives to the monitoring bodies lacks a basic standard of qualification ... such as the level of knowledge and experience ... it is always based on the age scale ... the older they are, the more chance of being selected for an executive position."*

The dominant cultural stance represented by personal and social relationships are based on courtesies and favouritism of government to the merchant families together with the corruption

and traditional thinking that impede the process of change within the organisational field of Kuwaiti listed companies, and actors in the field promote these cultural factors in order to maintain their interests.

6.7 Summary

The representatives of the merchant families' group from the sample of the interviewees showed a weak understanding of corporate governance principles. Despite this, they insist on raising obstacles in the process of issuing a corporate governance code, as result of the current practices inside the organisational field satisfying their interests.

Based on interviewees' views of current practices, it appears that there is a single community of practice as a result of the dominant logics inside the organisational field that reflect the logics of the actors, the merchant families and the government. Legal, political and cultural factors restrain any effort to introduce organisational change as a result of both the merchant families and the government's domination over the political and legal system of the country. This domination of both groups is to protect their self- and mutual interests.

The coercive pressure is weak since the regulators did not practice their roles and activate codes against the merchant families' illegal practices. The normative pressure represented in government-owned companies' practices, such as the CBK, that contradict with the international governance practices. Besides that, the merchant families are mimicking the government-owned companies' practices, since it maintains their control and power over listed companies. Also, the lack of coercive pressure is a result of the network of actors between merchant families and the government, and the weak level of specialisation and qualification

of executives within the regulatory bodies with regard to the normative practices of corporate governance. Hence, the endogenous forces for the process of change in the organisational field of Kuwait corporate governance is (represented by coercive pressure from regulators) ineffective.

The next chapter presents the results of the questionnaire survey, which seeks to explore the impact of the actors, the merchant families, on both the community of practices inside the organisational field and their role in opposing the issuance of a corporate governance code in the country, and whether those legal, political, and cultural factors and a result of the merchant families and government interference to protect their self- and mutual interests, mentioned above, represent the main obstacle to the issuance of the code.

Chapter 7

Questionnaire analysis

7.1 Introduction

The previous chapter presented the findings from the interviews. This chapter presents the results gathered from the second research method that was applied in this thesis, which is a questionnaire survey. The questionnaire survey explores the respondents' views about the main reasons behind the absence of a corporate governance code, the adequacy of the current 1960 Companies' Act (Article 15), and their views of whether or not the current practices of listed companies are in line with corporate governance principles. Also, this chapter aims to confirm the findings of the previous chapter that the actors in the organisational field of Kuwaiti listed companies, the merchant families and the government, their personal connections with the regulators and legislators, and their self and mutual interests are the main reasons for the absence of a Kuwaiti code of corporate governance. This chapter is organised as follows, section 7.2 outlines the topics the questionnaire and identifies the respondent groups. Section 7.3 outlines the respondents' views about the main factors that influence the practice of corporate governance and the factors that hinder the issuance of a corporate governance code in Kuwait. Section 7.4 teases out the method of selection of board members and executive management in listed companies and the extent of minority interest protection. Section 7.5 explores the existence of board committees, the method and the main factors that influence the selection process of committees' board members. Section 7.6 focuses on respondents' views on the impact of merchant families on the Government; regulators; legislators; and companies' management and practices. Section 7.7 summaries the chapter.

The questionnaire survey prepared in accordance with the three main research question, the first research question was why there is no corporate governance code in Kuwait was covered in questionnaire survey in part B question 5 that was ask about the adequacy and convergence of international corporate governance code with the current Companies' Act 1960 (Article 15). The second research question was what factors prevent the issuance of corporate governance code in Kuwait were covered in questionnaire survey in part B question 6, 7, 9, 10, and 14. The last research question which is whether is there a single community of practices were covered in questionnaire survey part B questions 8, 11, 12, and 13.

The main findings from the interviews are that the Companies' Act (Article 15) is old that; companies' practices contradict corporate governance principles; and that merchant families influence corporate governance practice. These main findings are linked with the questionnaire survey in questions 5, 8, 9, 13, and 14 (see appendix 3) in order to confirm the findings of the interviews.

7.2 Questionnaire Topics and Respondent Groups

The majority of the questions in this questionnaire were about the adequacy of the current Kuwaiti 1960 Companies' Act (Article 15), the current practices of companies and the absence of a corporate governance code in Kuwait. Questions were prepared, along with the research objectives, from a review of the corporate governance literature, the related literature in developing countries, Kuwait codes and regulation, and from the interview findings.

The questionnaire contained two sections. Section A contains personal information and the general understanding of the respondents about the Kuwait 1960 Companies' Act (Article 15), OECD principles of corporate governance and the UK's combined code, as well as their perceptions about companies' ownership structures. Section B is designed to elicit respondents' perceptions of the adequacy of the Kuwaiti 1960 Companies' Act (Article 15), listed companies' current practices, and factors that influence: (i) governance practices; (ii) selecting the chairman, board members and CEO; (iii) protection of minority interests (iv) the existence of board committees and the process of selection of committees' board members (v) the separation of the chairman from the CEO; (vi) factors that hinder the issuance of corporate governance code in Kuwait; (vii) and the extent to which merchant families affect decision makers in Kuwait. All questions were on a 5-point Likert scale.

The process of questionnaire distribution started at the beginning of April 2012 to Parliament (legislators), government and regulators (KSE, CMA, MOCI, CBK), board members and executives (listed companies), and investors.

All the listed companies to be included in the sample were organised using Excel. First, All of the listed companies on the KSE were set out in the same order as the KSE (the total is 216 listed companies), then arranged in alphabetical order via Excel. The sample was selected by taking the first company that appeared, after arranging them in alphabetical order, and then alternate numbers (3, 5, 7…) until the sample reached 100 companies (from number 1 to number 199).

The selection of the samples for this study is based on the fact that they are involved with listed companies in Kuwait. There are four samples: regulators and legislators; investors; board members; and executive management. These groups were selected to share their views and institutional logics about the factors preventing the issuance of a Kuwaiti code of corporate governance, and affecting current practices.

Table 7.1 shows the respondents for each group by percentage. The first group the Government (G) includes three categories which includes: the Ministry of Commerce; the regulators (R) including the Central Bank, the Capital Market Authority, and Kuwait Stock Exchange; and the legislators (L) who are Members of Parliament. For this group Questionnaires were given by hand to 50 persons in each group, except the members of parliament where 19 were handed questionnaires. Two hundred and nineteen questionnaires were personally delivered by hand to encourage them to participate and because the post is not reliable in the country.

For this sample group the selection process for the legislators was, three parliamentary committees, the monitory committee (7 members), the legislation committee (7), and the protection of investment and public money committee (5 members). These committees were selected due to their involvement in financial regulation and laws. All of the committees included and combined the merchant families' party and the opposition party[8]. The total number of questionnaires delivered to MPs was 19.

The government, represented by MOCI, was included in the sample as it supervises and

[8] See page 159

monitors all listed companies. The questionnaires were delivered by hand to the following: the minister, the assistant minister, the assistant minister for public companies, the general manger for public companies, the assistant manager for public companies, and another 45 staff members from the public companies department, selected according to their experience of the public companies department, on which the departmental general manager advised[9]. The total number of questionnaires delivered was 50.

The first regulator (CBK) was delivered 50 questionnaires, distributed as follows: the CBK board members (8 people), the bank governor, the deputy bank governor, the manager and assistant manager of the supervision, banking operation, and legal departments, respectively, plus other staff from these three departments (34 people). These departments were selected due to their direct role in monitoring the banks and investment companies' operations and compliance with the regulations and law. The staff members were also selected based on their experience in each department, with each managers recommending the most experienced staff to participate in the sample who had knowledge of, and experience with, codes and laws.

For the second regulator (CMA), the same quantity (50 questionnaires) were distributed and delivered by hand to the following: the commissioner of the CMA (6 people), plus eleven to the managers and most experienced staff in each of the four sectors (research, monitoring, legal, and market regulation), according to the suggestions of the manger of each sector.

The KSE sample also included regulators where a total of 50 questionnaires were distributed there, as follows: board members of KSE (11 people); the General Manager and Assistant General Manager of the KSE; and the manager, assistant manager and 35 other staff members from the listed companies department, based on their experience, as suggested by the department manager.

[9] See page 159

The second sample group is that of the board members (BM), to whom 200 questionnaires were distributed. The board members group included in the sample were board members of Kuwaiti listed companies, some of whom represented the major shareholders. The Board Members' selection were generated by a random numbers for each name on the list by applying the formula ("rand = ( )"), then arranging the board members' names in alphabetical order and including the smallest number generated by the formula. This process was applied to all 100 companies that had been selected earlier. The total number of questionnaires delivered to the BMs group was 200. Board members were included to trace their understanding of corporate governance principles, their companies' current practices, and the factors preventing the voluntary adoption corporate governance principles and also the issuance of a Kuwaiti code of corporate governance.

The third group was executive management (EM) where 200 questionnaires were distributed, who were chosen from the same companies. As the board members, this group included General Managers (GMs), Chief Executive Officers (CEO), and the deputy of Chief Legal affairs Officers (CLO). CLOs are more involved with the regulations and law and were expected to have a good knowledge of the corporate governance principles. Also, they were included to trace their views about the factors preventing the voluntary adoption of corporate governance within their companies and also the factors preventing the issuance of a Kuwaiti code of corporate governance. The last group is investors (I), and for this group 200 questionnaires were delivered, this group was included in the sample to trace the major shareholders and minority investors' views and understandings of the concept of corporate governance, as well as to identify the role of the merchant families as the main external factor influencing the issuance of a corporate governance code. For the investor group, the

questionnaire was handed to investors who arrived at the KSE between 11.30am and 12.30pm (after trading had closed) throughout the second week of April. This time was chosen because most traders arrive during this time to settle their transactions after trading closes. The group of investors in the KSE was a mix of major and minority investors, and the aim was to hand out 200 questionnaires during that week. The researcher was present in the settlement department with the manager between 11.30am until 12.30pm from the 8th to the 12th of April 2012 to prompt traders to participate.

The total number of questionnaires distributed for all groups including the government group between April and June 2012 was 819, the total respondents was 192 (23.4%), as shown in Table 7, which outlines the profile of the respondents. Most of the questionnaires were distributed and collected by hand. Although this was costly and time consuming, it was very thorough and led to a good response rate of 23.4%. Table 7 shows the number of questionnaires distributed and returned, the response rate for each group, and the overall response rate. As can be seen from Table 7, 819 questionnaires were distributed to the different groups between April and June 2012. One hundred and ninety two (192) questionnaires were returned, although not all of them were complete. Consequently, the number of useable questionnaires for the MOCI, Regulators, Legislators, BMs, EMs, and Investors were 15, 35, 11, 19, 31, and 81 respectively.

In most cases, the respondents were contacted personally through the researcher's personal and social contacts, which helped to access the group samples, especially board members and executive management, who were very helpful about completing the questionnaires and in helping to contact other board members who had been selected and executive management as well.

Table 7 questionnaires' respondents group

Main group	Sub group	Total delivered	Total received	Response rate for each group	Percentage of total responses
Government					
	Ministry of Commerce	**50**	**15**	**(30%)**	**8%**
	Regulators	**150**	**35**	**(23%)**	**18%**
	Legislators	**19**	**11**	**(58%)**	**6%**
		219	**61**		
Board members		**200**	**19**	**(10%)**	**10%**
Executive management		**200**	**31**	**(16%)**	**16%**
		400	**50**		
Investors					
	Minority investors	**100**	**75**	**(75%)**	**39%**
	Merchant families	**100**	**6**	**(6%)**	**3%**
Total		**819**	**192**		**100%**

Note: this Table shows the respondents group, each group with the total number sent and received, the response rate shows the number of each group's respondents compared with total questionnaires received 192.

Table 7.1 shows that the majority of respondent from investors group are the minority investors (75%) and they are the highest response rate, followed by the legislators (58%), then MOCI (30%). The BMs and EMs, if it is assumed that listed companies are dominated by merchant families, and the merchant families themselves as major shareholders, represent the lowest response rate. The merchant families' response rate was low compared with the minority investors' response rate. The low response rate of merchant families' participation may refer to their sensitive of discussing their practices that may accuse them.

However, some BMs were very busy and their questionnaires were delivered to them by the general manager or secretary. Thus not all board members responded to the questionnaire, as Table 7.1 shows.

Moreover, during the distribution process, two MPs were very helpful in helping to contact the other MPs on the selected committees, and facilitated the process of questionnaire distribution. Many of the respondents expressed an interest in the research topic and completed the questionnaire.

Also, for the regulators, who regulate the extent of listed companies' compliance with the Companies Act, the CBK and KSE were eager to participate, especially three colleagues, who encouraged their staff and mangers to participate and respond. The MOCI gave a different response compared with the request for interviews; during the first phase of the data collection (interviews), the department refused to participate, whereas in the second data collection phase they participated to some extent. This was a result of the researchers' social relationship with the assistant minister of public companies who, in turn, encouraged those in the department to participate.

However, it was surprising that the CMA, who participated in the interviews, refused to participate in the questionnaire. This was because the contact person (board member) at the CMA had resigned and the new person instructed all staff and managers not to participate justifying that refusing as the CMA is not one of their tasks to participate in studies.

After coding the responses to the questionnaire data according to respondents' type, the data was analysed using SPSS. For this purpose, the mean is reported to compare the views of respondents about the main factors that hinder the issuance of a Kuwaiti corporate governance code and the adequacy of 1960's Companies' Act (Article 15). The standard deviation was also used to reveal the variance of the responses. However, the questionnaire data responses did not have a normal distribution, which is a requirement for using the mean and standard deviation. The median is a more appropriate measure, but the median on a 5-point Likert scale would not give any useful information when comparing the views of respondents on current companies' practices and factors hindering the issuance of a Kuwaiti corporate governance code. Thus, although non-parametric tests were carried out to examine the differences between different groups, the means are reported to convey more information about the data.

Two non-parametric tests were used to examine the differences between the independent groups; the Kruskal-Wallis test and the Mann-Whitney test. The Kruskal-Wallis test was used to test whether there were any significant differences amongst the different groups' views. The Mann-Whitney test was used to identify which particular pairs of groups were significantly different from each other. Principle Components Analysis test (PCA) was also used for some of the questions (7, 8, 9, 10, 13, and 14) to reduce the numbers of factors and distil them down. All tests were conducted throughout using a conventional 95% confidence level. The next sections discuss the findings from the questionnaire.

The factors of self interest (M), favouritism (N), courtesies (O), and prestige (P), are derived from the interviewees in chapter 6 (see pages 164, 167, 169, 172, 194, 204, 210, 211, 212, 213, and 214), and to confirm these findings they were included in the questionnaire and translated into English for the purpose of this thesis. For instance, self interest was repeated by interviewees as one of the main factor influences the current practice and the issuance of Kuwaiti corporate governance code. To confirm this finding, a question 7 of the survey asked respondents: "*To what extent do you agree that the following factors influence good governance practices*", self interest was included as a factor which might contradict governance practices. For instance, interviewee 2 refer the contradiction of current listed companies practices to the international corporate governance practices to the self interests associated with merchant families as he stated that: "*The resistance of the merchant families to the establishment of those committees ... is a result of protecting their interests ... by giving their power and control to those committees to manage and control companies ... they prefer to control them directly through board membership.*" Also in question 10 (appendix 3) that asks respondents: "*To what extent do you agree that the following factors hinder the issuance of a corporate governance code in*

Kuwait", self interest was listed as a factor to show how the self interests of the actors in the field might hinder the issuance of a corporate governance code.

7.3 Corporate Governance Practices in Kuwaiti Listed Companies and Factors that hinder the issuance of a Kuwaiti Code of Corporate Governance

Before asking respondents their views on listed companies' current practices and the main factors that hinder the issuance of a Kuwaiti Code for Corporate Governance, it was important to investigate their familiarity with the Kuwaiti 1960 Companies' Act (Article 15), the OECD principles of corporate governance, and the UK's combined code since the knowledge and understanding of any regulations might be one of the factors that influences governance practices in listed companies and hinders the issuance of a Kuwaiti code of corporate governance. Table 7.1 shows the respondents' knowledge and understanding of regulations and codes. The understanding of Kuwaiti 1960 Companies' Act (Article 15) (3a) was ranked the highest (mean 2.34). This shows that most respondents had some knowledge and understanding of corporate governance. However, respondents were unfamiliar with the OECD principles (3b) and even less so of the UK's combined code (3c).

Table 7.1: Knowledge and Understanding of Codes and Regulation

Q	Statement	N	Mean	Std. Deviation	Skewness	Kurtosis	Rank
3a	**Understanding of Kuwait 1960 Companies' Act (Article 15)**	**192**	**2.34*** **	**0.936**	**0.579**	**-0.052**	**1**
3b	**Understating of OECD principles of corporate governance**	**192**	**3.36*** **	**1.050**	**0.021**	**-1.027**	**2**
3c	**Understanding of the UK's combined code**	**192**	**4.04*** **	**0.891**	**-0.576**	**-0.518**	**3**

Note: A 5-point Likert scale was used in this question, it ranged from 1= "very familiar" to 5 = "unfamiliar". The ranking column is based in the mean of all participants.
Although the data is not normally distributed, the mean is shown to show the relative strength of agreement/disagreement.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 10% level.
An ** indicates that the mean is significantly different from the neutral response of 3.00 at 5% level.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 1% level.**

This result is in line with the interview findings reported in chapter 6, which indicated that some interviewees were unfamiliar with corporate governance codes. The difference here is that in chapter 6 the interview findings showed that regulators (R) were familiar with the OECD principles of corporate governance and the UK combined code, whereas the findings here show that they are not. In this phase of the study, the CMA refused to participate, unlike in the interview phase, at which time they showed a familiarity with both the OECD principles of corporate governance and the UK's combined code. Therefore for the regulators group, the non-participation of the CMA may have negatively influenced the whole group's response regarding familiarity with the OECD principles of corporate governance and the UK combined code. Table 7.2 shows the results by stakeholders group. In line with the interview findings reported in chapter 6 the BM, E, and I groups have a more limited knowledge and understanding of the 1960 Companies' Act (Article 15). This result raises some doubt of those groups' ability to criticise the regulations in the country and hence hinder the issuance of a Kuwaiti Corporate Governance Code. Table 7.2 also shows that all groups are neutral or have no knowledge about the OECD principles of corporate governance or the UK combined codes.

Table 7.2: Knowledge and Understanding of Codes and Regulation: Difference between Groups

Q	Group Means				K-W p-values	M-Whitney P-Values						Total of M-Whitney difference
	R	BM	E	I		R, BM	R, E	R, I	BM, E	BM, I	I, E	
3a	**2.03**	2.56	2.42	2.49	.01***	0.00***	0.02***	0.00***	0.52	0.62	0.85	3
3b	3.34	3.12	3.26	3.51	0.37	0.35	0.78	0.36	0.67	0.07**	0.35	1
3c	3.98	3.96	4.16	4.07	0.72	0.88	0.33	0.69	0.29	0.65	0.44	0
Total differences						1	1	1	0	1	0	4

Note: This table shows group means, p-values for the Kruskal-Wallis test, which shows whether there are any differences amongst different groups, and p-values for Mann-Whitney tests, which shows which particular pairs of groups are significantly different from each other.
An * indicates that there is significant differences between groups at 1% level.**
R= regulators, BM= board members, I= investors, E= executives

Thus the knowledge and understanding of regulations are different between groups on the 1960 Act (Article 15) it that shows that regulators understand more than the other groups. After identifying each group's knowledge and understanding of the current Companies' Act (Article 15), OECD principles of corporate governance, and UK's combined code, the respondents were asked which factors influenced governance practices in listed companies. Table 7.3 summarises the respondents' views about the factors influencing governance. The results in Table 7.3 indicate that all factors are influential (mean less than 3.00) and the most influential factors are the self-interest of board members (mean 2.09) and that of controlling shareholders (mean 2.17), whereas the least influential factor is the prestige of board members (mean 2.80) .

Table 7.3 Factors that influence governance practice

Q	Statement	N*	Mean	Std. Deviation	Skewness	Kurtosis	Rank
7a	1960 Companies' Law requirement	189	2.61***	1.079	0.203	-0.615	11
7b	KSE regulation	189	2.47***	1.003	0.367	-0.360	8
7c	Government monitoring and regulators	189	2.52***	1.040	0.151	-0.721	9
7d	Annual general meeting of shareholders	189	2.55***	1.162	0.294	-0.867	10
7e	Government ownership	189	2.45***	1.028	0.404	-0.350	7
7f	Merchant families ownership	189	2.65***	1.065	0.108	-0.746	13
7g	Mutual interest between major shareholders	189	2.36***	1.170	0.534	-0.714	6
7h	Mutual interest between major shareholders and government	189	2.36***	1.175	0.580	-0.641	6
7i	Controlling shareholder (s)	189	2.17***	1.125	0.844	-0.145	2
7j	Executive management	189	2.27***	0.983	0.332	-0.598	4
7k	Experience and qualification of appointees	189	2.36***	1.016	0.350	-0.720	6
7l	Personal relationships between merchant families and regulators	189	2.35***	1.119	0.601	-0.436	5
7m	Self interest of board members	189	2.09***	1.228	1.116	0.171	1
7n	Favouritism of board members	190	2.66***	1.166	0.230	-0.748	14
7o	Courtesies	189	2.63***	1.153	0.236	-0.781	12
7p	Prestige of board members	188	2.80*	1.074	0.217	-0.527	15
7q	Cultural influences	188	2.24***	1.163	0.646	-0.507	3

Note: A 5-point Likert scale was used in this question, it ranged from 1= "very familiar" to 5 = "unfamiliar". The ranking column is based on the mean of all participants.
Although the data is not normally distributed, the mean is shown to show the relative strength of agreement/disagreement.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 10% level.
An ** indicates that the mean is significantly different from the neutral response of 3.00 at 5% level.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 1% level.**
N* in the table is less than 192 as there is some respondents did not answer all the questions

These results are in line with the interview findings in chapter 6 where interviewees identified the obstacles behind not adopting corporate governance practices as political and government lethargy, social and cultural factors such as the network of actors presented in personal relationships and between merchant families and regulators, and their self and mutual interests. The interviewees in chapter 6 stated that some governance practices, such as appointing independent board members, are not applied in Kuwaiti listed companies as the 1960 companies' Act (Article 15) states that board members should be shareholders. Thus, Table

7.3 confirms that cultural and legal factors affect Kuwaiti governance practice. The differences amongst each group's response were analysed next as shown in Table 7.4.

Table 7.4 Factors influencing governance practice: differences between groups

The number of agreement/ disagreement of groups	Q	**Group Means**				**K-W p-values**	**M-Whitney P-Values**						**Total numbers of M-N differences**
	Group	R	BM	E	I		R, BM	R, E	R, I	BM, E	BM, I	I, E	
	7a	2.53	2.48	2.37	2.82	0.11	0.51	0.319	0.07**	0.67	0.13	0.06**	**2**
2 V 2	7b	2.52	2.20	2.17	2.64	0.05**	0.06**	0.03**	0.70	0.74	0.07**	0.03***	**4**
	7c	2.63	2.40	2.43	2.50	0.64	0.31	0.36	0.30	0.95	0.72	0.79	**0**
	7d	2.63	2.32	2.59	2.55	0.75	0.26	0.80	0.63	0.50	0.45	0.94	**0**
2 V 2	7e	2.37	3.04	2.70	2.22	0.00***	0.01***	0.09**	0.31	0.22	0.00***	0.02***	**4**
2 V 2	7f	2.57	3.24	3.10	2.32	0.00***	0.00***	0.03***	0.19	0.75	0.00***	0.00***	**4**
2 + 2	7g	2.33	3.32	2.66	1.95	0.00***	0.00***	0.23	0.02***	0.05**	0.00***	0.01***	**5**
1 + 3	7h	2.35	3.24	2.59	1.99	0.00***	0.00***	0.36	0.05**	0.06**	0.00***	0.02***	**5**
1 V 3	7i	1.98	3.20	2.52	1.84	0.00***	0.00***	0.07**	0.51	0.05**	0.00***	0.02***	**5**
1 V 3	7j	2.28	2.48	2.69	1.89	0.00***	0.01***	0.04**	0.01***	0.56	0.00***	0.00***	**5**
	7k	2.42	2.36	2.28	2.34	0.92	0.77	0.58	0.54	0.81	0.81	0.91	**0**
1 V 3	7l	2.45	3.04	2.45	2.01	0.00***	0.02**	0.94	0.00***	0.07**	0.00***	0.08**	**5**
1 V 3	7m	2.05	2.88	2.31	1.77	0.00***	0.01***	0.53	0.14	0.13	0.00***	0.09**	**3**
1 V 3	7n	2.70	3.32	2.63	2.41	0.01***	0.03**	0.65	0.08**	0.06**	0.00***	0.49	**4**
1 v 3	7o	2.65	3.24	2.67	2.39	0.01***	0.02**	0.80	0.12	0.111	0.00***	0.41	**2**
	7p	2.77	3.12	2.86	2.70	0.387	0.11	0.75	0.81	0.447	0.09**	0.57	**1**
2 V 1 V 1	7q	2.07	3.24	2.59	1.92	0.00***	0.00***	0.03***	0.27	0.02***	0.00***	0.00***	**5**
Total differences		**2.40**	**2.90**	**2.56**	**2.25**		**12**	**6**	**6**	**6**	**13**	**11**	**54**

Note: Group means, p-values for the Kruskal-Wallis test, shows whether there are any differences amongst different groups, and p-value for Mann-Whitney test, shows which particular pairs of groups are significantly different from each other.
An * indicated that there is significant differences between groups at 5% level.
The total group mean is the sum of factors means divided on the total number of the factors
R= regulators, BM= board members, I= investors, E= executives.
The first column shows the agreement and disagreement between the group's views, 2v2 = BM+E V I+R, 1v3 = BM v I+R+E.

Table 7.4 shows that, according to the total average means for each group, the I, R and E group's average means (2.25, 2.40, 2.56) converge whereas the BM total average group's mean (2.90) is for more neutral. This suggests that the I, E and R groups agree more on the

influence of these factors on the governance practices (the means are less than 3), whereas the BM is less so on the level of influence of the factors except for the regulations and government, on which they agree.

However, Table 7.4 shows that groups held significantly different views from each other on individual factors. For factors such as KSE regulations (b), government ownership (e), merchant families' ownership (f), and mutual interests between major shareholders (g) the views of the I and R groups were significantly different from those of the BM and E. These factors represent ownership structures and regulations. This finding is identical to that in the interview chapter, when the merchant families blamed the regulations and investors blamed the merchant families (board members and executive management) behind the current practices that contradict corporate governance.

Regarding regulation, the Board Members and Executives might be trying to shift criticism from themselves as they are responsible for voluntarily adopting governance, and can blame the regulations for hindering the adoption of good practice. On the other hand, the Regulators and Investors may blame Board Members and executives for not improving the governance of their companies. Ownership structure was blamed by I and R as influential factors whereas BM and E were more neutral, in line with the interview findings where investors and regulators blamed government ownership and merchant families ownership behind the reason for companies not voluntary adopting good governance, and promoted their own self interest.

Another finding is that for eight factors[10] the BM group's view was different from the other groups. This is not surprising since the other groups blamed the BM for advancing their own self interest and networking with the government. Hence, the E group, although they agree on factors that influence governance practices with the BM group may be trying to move criticism away from themselves and put responsibility on the BM. For instance, regarding (i) controlling shareholders and (j) the executive group, the E group and Board Members group have more similar views.

According to Table 7.4, the I group is very different in terms of their views from the BM group with regard to 13 factors and also very different with regard to 11 factors from the E group's views. This may be because the I group think both the E and BM groups influence the governance practices of listed companies.

It concludes that two different logics are identified here, BM and E groups refer their practices (material carriers) to the set of symbolic carriers of the organisational logics (Comapnies' Act 1960, Articl 15), whereas I and R refer the existing practices to the set of material carriers that the actors of the field (merchant families and the government) have established.

To distil the influential across all 17 factors a Principles Component Analysis (PCA) was conducted as displayed in Table 7.5.

[10] Mutual interest between shareholders and government (h), controlling shareholders (i), personal relationships between merchant families and regulators (l), self interest of board members (m), favouritism of board members (n), courtesies (o), prestige of board members (p), and cultural influences (q)

Table 7.5 Principal Components Analysis for factors affecting Governance Practices

Factor	Actor networks	Coercive pressures	Ownership	Experience	Executive management
1960 Companies' Law requirement	0.174	0.759	-0.038	-0.127	-0.303
KSE regulation	0.095	0.836	-0.311	-0.217	-0.103
Government monitoring and regulators	0.254	0.806	-0.126	-0.247	-0.060
Annual general meeting of shareholders	0.108	0.436	0.210	0.458	0.646
Government ownership	0.418	0.478	0.404	-0.048	0.392
Merchant families ownership	0.596	0.129	0.434	-0.358	0.077
Mutual interest between major shareholders	0.819	-0.099	0.386	-0.150	-0.061
Mutual interest between major shareholders and government	0.840	-0.099	0.301	-0.129	-0.101
Controlling shareholder (s)	0.819	-0.013	0.126	0.170	-0.119
Executive management	0.541	0.001	0.157	0.396	-0.482
Experience and qualification of appointees	0.161	0.518	-0.032	0.654	-0.198
Personal relationships between merchant families and regulators	0.816	-0.143	-0.132	0.153	-0.040
Self interest of board members	0.781	-0.261	-0.093	0.032	0.058
Favouritism of board members	0.791	-0.135	-0.433	-0.095	0.134
Courtesies	0.840	-0.068	-0.422	-0.018	0.112
Prestige of board members	0.680	-0.046	-0.473	0.031	0.267
Cultural influences	0.736	-0.181	0.086	-0.024	-0.099
Eigen value	6.620	2.793	1.414	1.141	1.098
Proportion of Variance	38.943	16.429	8.318	6.709	6.462
Cumulative	38.943	55.372	63.690	70.399	76.861

Note: This table show the highest selected factors in response to the question of voluntary adoption of corporate governance practices in the listed companies.

According to Table 7.5, the first column shows the first factor labeled actor networks representing personal relationships and mutual interests with major shareholders and the government. Thus the role of the merchant families, through their strong interconnected networks throughout society, has a major impact on the way companies are run. Thus, social

ties are the most influential factor (material carriers). The law and regulations (the symbolic carriers of the organisational logics) are the second major factor that influences governance practices in Kuwaiti listed companies. Thus, the legal framework, as a coercive isomorphic force is important.

This is in line with the interview findings where interviewees criticized the current Companies' Act as being outdated and contradicts principles of corporate governance. The third factor in Table 7.5 shows government and merchant families ownership versus board members' courtesies; prestige; and favoritism, the more ownership of government and merchant families, the less courtesies, favoritism, and prestige as they might want to control and manage the company by themselves; this practice contradicts principles of corporate governance that calls for the separation of ownership from management. The fourth factor is the experience and qualifications of appointees. In the respondents' view, and as for the interviewees in chapter 6 executive management are appointed and selected by the merchant families who control the board membership, and not from their experience, thus they follow the orders and interests of the merchant families. Thus, it might be coercive pressure, exercised by merchant families over executive management that influences the governance practices.

The last factor and column shows that executive management is also a factor in how companies are run, and the more active the role of shareholders at the AGM that exercise coercive pressure over executives possibly the better the practices of the executives, as shareholders through the AGM can force executive management to voluntarily adopt good practices; if shareholders do not participate or monitor executive management the latter may

be able to advance themselves at the expense of the company. Further, normative pressure between executive management in listed companies is missing since they lack the professional qualifications and experience, as shown in column 4.

Table 7.6 reports the factors that hinder the issuance a Kuwaiti corporate governance code. Table 7.6 shows that for regulation, monitoring, government ownership, and prestige, the means are close to neutral.

However, Table 7.6 shows that the most influential factors that hinder the issuance of a corporate governance code are the lack of experience and qualifications of the legislators (mean 1.91), followed by the self interest of board members (mean 1.93), and controlling shareholders (2.02). The main hindrance is the lack of experience and qualifications of the legislators. Various parties are represented in parliament, such as the brotherhood, liberal, and opposition parties as, although they have the power to issue a code, this is opposed by the merchant families' party in parliament and the government, and they are unfamiliar with the corporate governance practices in other countries, and are not mindful of bringing about any change. Hence, there is a lack of normative isomorphic pressure that hinders the issuance of corporate governance code.

Table 7.6 Factors that hinder the issuance of a Kuwaiti code of corporate governance

Q	Statement	N*	Mean	Std. Deviation	Skewness	Kurtosis	Rank
10a	1960 Companies' Law requirement	188	2.97	1.195	0.147	-0.915	13
10b	KSE regulation	188	3.11	1.234	-0.042	-0.970	15
10c	Government monitoring and regulators	188	2.93	1.138	-0.061	-0.665	12
10d	Government ownership	188	3.02	1.062	0.076	-0.369	14
10e	Merchant families ownership	188	2.62***	1.139	0.070	-0.927	9
10f	Mutual interest between major shareholders	188	2.06***	1.122	0.931	-0.117	4
10g	Mutual interest between major shareholders and government	188	2.06***	1.100	1.101	0.625	4
10h	Controlling shareholder (s)	188	2.02***	1.177	1.024	0.024	3
10i	Executive management	188	2.38***	1.166	0.358	-0.862	7
10j	Experience and qualification of legislators	188	1.91***	1.167	1.310	0.930	1
10k	Experience and qualification of regulators	188	2.06***	1.162	0.940	0.020	4
10l	Personal relationships between merchant families and regulators	188	2.31***	1.212	0.762	-0.388	6
10m	Self interest of board members	188	1.93***	1.133	1.229	0.655	2
10n	Favouritism of board members	188	2.71***	1.204	0.209	-0.877	10
10o	Courtesies	188	2.61***	1.247	0.454	-0.845	8
10p	Prestige of board members	188	2.91	1.146	0.157	-0.899	11
10q	Cultural influences	187	2.27***	1.189	0.814	-0.308	5

Note: A 5-point Likert scale was used in this question, it ranged from 1= "very familiar" to 5 = "unfamiliar". The ranking column is based on the mean of all participants.
Although the data is not normally distributed, the mean is shown to show the relative strength of agreement/disagreement.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 10% level.
An ** indicates that the mean is significantly different from the neutral response of 3.00 at 5% level.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 1% level.**
N* in the table is less than 192 as there is some respondents did not answer the whole questions

This in line with the findings reported in the interview chapter, as the interviewees criticised the lack of qualification and experience of legislators who are those with the responsibility for issuing a code; they further stated that the merchant families were a party in parliament and their representatives dominated the financial and economic committee in parliament and they stood against any attempts to update the current Companies' Act (Article 15) as it would go against their own self interest.

Table 7.7 displays the difference between the groups regarding the factors that hinder issuing a Kuwaiti Code of Corporate Governance and shows that the results are only slightly different from those in Table 7.4, whereby There is a split between the I and R groups' views versus that of the BM and E groups. According to Table 7.7, the I and R groups are nearly the same regarding their view of the factors that hinder the issuance of a Kuwaiti code of corporate governance, except for three factors, which are executive management (i), personal relationships (l) and favouritism (n), and these differences may be related to the I group thinking that there is actor network between merchant families and the regulators which hinder the issuance of Kuwaiti code of corporate governance. The same harmonisation occurs between the BM and E groups, except for the controlling shareholders (h), courtesies (o), and culture influences (q) factors. These differences may relate to the E group's thoughts that the symbolic carrier of merchant families is the prevailing organisational logics, and the thoughts and beliefs of merchant families contradict corporate governance principles and this justifies their opposition. Overall, there were strong differences between the views of the I group and both the BM group (12 factors) and E group (10 factors), and between the R group and the BM group (11 factors). It is evident that the I group thought that the merchant families and executives hinder the issuance of a Kuwaiti code of corporate governance since they benefit from the current situation, and in turn these groups deny this charge and referring it back to the current companies' Act (Article 15), and the regulators as blocking the issuance of a Kuwaiti code of corporate governance. The interesting difference between the views of the R and BM groups is that the R group consider the BM group (merchant families) of hindering the issuance of a code since their control and interests will be affected if such a new code were introduced, such as a code of corporate governance, as the interviewees stated earlier in chapter 6.

Table 7.7 Factors that hinder issuing a Kuwaiti Code of corporate governance: differences between groups

	Q	Group Means				K-W p-values	M-Whitney P-Values						
The number of agreement and disagreement between groups	Groups	R	BM	E	I		R, BM	R, E	R, I	BM, E	BM, I	I, E	**No. Of significant differences**
	10a	3.00	2.96	3.10	2.90	0.91	0.63	0.70	0.74	0.72	0.94	0.48	**0**
	*10b	3.21	3.04	3.17	3.03	0.85	0.36	0.96	0.54	0.78	0.91	0.58	**0**
	10c	2.80	3.12	2.87	3.00	0.56	0.30	0.81	0.17	0.50	0.72	0.67	**0**
2v2	10d	2.85	3.64	3.33	2.81	0.00***	0.00***	0.02***	0.96	0.23	0.00***	0.02***	**4**
2v2	10e	2.51	3.12	2.83	2.44	0.05**	0.02***	0.23	0.75	0.35	0.01***	0.15	**2**
2v2	10f	1.97	2.80	2.30	1.79	0.00***	0.00***	0.31	0.24	0.15	0.00***	0.07**	**3**
2v2	10g	1.85	2.92	2.57	1.72	0.00***	0.00***	0.00***	0.32	0.29	0.00***	0.00***	**4**
2v1v1	10h	1.77	3.04	2.43	1.69	0.00***	0.00***	0.00***	0.72	0.07**	0.00***	0.00***	**5**
2v2	10i	2.39	2.96	2.67	2.06	0.00***	0.04***	0.36	0.06**	0.32	0.00***	0.02***	**4**
2v2	10j	1.74	2.48	2.60	1.58	0.00***	0.05**	0.00***	0.12	0.63	0.00***	0.00***	**4**
2v2	10k	1.80	2.60	2.87	1.75	0.00***	0.02***	0.00***	0.47	0.48	0.00***	0.00***	**4**
2v2	10l	2.34	3.04	2.63	1.90	0.00***	0.01***	0.38	0.00***	0.22	0.00***	0.00***	**4**
	10m	1.90	2.56	2.07	1.68	0.00***	0.01***	0.42	0.27	0.11	0.00***	0.07**	**3**
	*10n	2.85	3.00	2.57	2.54	0.26	0.64	0.26	0.10*	0.24	0.14	0.84	**1**
	10o	2.69	3.12	2.47	2.43	0.12	0.19	0.30	0.18	0.08**	0.00***	0.94	**2**
	10p	2.82	3.24	2.70	2.96	0.31	0.13	0.56	0.40	0.13	0.27	0.28	**0**
2v1v1	10q	2.18	3,04	2.50	1.99	0.00***	0.00***	0.20	0.38	0.10*	0.00***	0.03***	**4**
Total differences		**2.40**	**3.00**	**2.70**	**2.25**		**11**	**5**	**3**	**3**	**12**	**10**	**44**

Note: This table shows group means, p-values for the Kruskal-Wallis test, which shows whether there are any differences amongst different groups, and p-value for Mann-Whitney test, which shows which particular pairs of groups are significantly different from each other.
An * indicated that there is significant differences between groups at 5% level.
R= regulators, BM= board members, I= investors, E= executives
The first column shows the agreement and disagreement between the group's views, 2v2 = BM+E V I+R, 1v3 = BM v I+R+E.

Again, a PCA (Principal Components Analysis) was used to narrow down the influential factors that hinder the issuance of a Kuwaiti corporate governance code, as shown in Table 7.8.

Table 7.8 PCA for factors that hinder the issuance of a Kuwaiti corporate governance code

Factor	Actor networks	Coercive pressures	Experience and qualifications	Material and symbolic carriers
1960 Companies' Law requirement	0.302	0.817	0.114	0.343
KSE regulation	0.275	0.790	0.092	0.377
Government monitoring and regulators	0.330	0.715	0.308	-0.201
Government ownership	0.561	0.491	0.236	-0.233
Merchant families ownership	0.666	0.021	0.330	-0.379
Mutual interest between major shareholders	0.785	-0.097	0.127	-0.388
Mutual interest between major shareholders and government	0.804	0.001	0.023	-0.320
Controlling shareholder (s)	0.841	-0.160	-0.225	-0.231
Executive management	0.689	0.148	-0.194	-0.070
Experience and qualification of legislators	0.679	0.126	-0.555	-0.039
Experience and qualification of regulators	0.603	0.229	-0.644	0.040
Personal relationships between merchant families and regulators	0.737	-0.185	-0.111	0.227
Self interest of board members	0.720	-0.232	-0.126	0.252
Favouritism of board members	0.677	-0.369	0.433	0.165
Courtesies	0.695	-0.429	0.303	0.225
Prestige of board members	0.597	-0.184	0.481	0.320
Cultural influences	0.736	-0.195	-0.220	0.328
Eigenvalues	6.752	2.650	1.703	1.193
Proportion of Variance	39.719	15.587	10.019	7.019
Cumulative	39.719	55.305	65.324	72.343

Note: this table shows the most influential factors have been selected by respondents that hinder issuance of Kuwaiti corporate governance code.

According to Table 7.8, the first factor is that of the actor network between controlling shareholders, or major shareholders and their personal influences as part of the culture of Kuwait. This can be explained through referring to the findings of the interviews in Chapter 6, where the interviewees stated that, for example, the merchant families treated listed companies as their own personal fiefdoms and they thought that their companies should not operate without their control. It is expected that they would refuse to accept any code that would

diminish their control over their companies or challenge their practices because they dominate companies' boards and have power over the country's economy.

The second factor is identical to that in Table 7.5, where coercive pressure through regulation and regulators are important. The third major factor is the lack of experience and knowledge of the regulators and legislators as a major influence on the lack of a code.

The last column shows that the prevailing organisational logic are drive by material carriers as negative influences and symbolic carriers as a positive influence result of the actor networks between merchant families and the government (material carriers), have a negative impact contrary to the regulations (symbolic carriers).

The reason why board members, who are often members of the merchant families, influence and hinder the issuance of a Kuwaiti code of corporate governance is referred to by their current practices, as will be shown in the next section.

7.4 Board members and executive management selection processes and minority interests

The next question was concerned with respondents' views on the factors that influence the selection of Chairmen, Board Members and CEOs, the protection of minority interests, and the separation of the position of Chairman from the position of CEO.

7.4.1 Factors that influence the Selection of Chairmen

Table 7.9 shows that most factors influence the selection of chairmen, and only two factors are not influential (means above 3): executive management and the qualification and experience of the chairman.

The most influential factors again reflect the influence of merchant families and their actor networks as controlling shareholders (mean 1.74), merchant families ownership (mean 1.90), and self interest (mean 2.06) are the most important factors.

Table 7.9 Factors Influencing the Selection of Chairmen

Factor	Statement	N*	Mean	Std Deviation	Skewness	Kurtosis	Rank
Q8ia	1960 Companies' Law requirement	188	2.29***	1.062	0.448	-0.378	7
Q8ib	KSE regulation	188	2.31***	1.139	0.721	-0.248	9
Q8ic	Government monitoring and regulators	187	2.96	1.163	-0.144	-0.531	14
Q8id	Annual general meeting of shareholders	189	2.30***	1.228	0.811	-0.239	8
Q8ie	Government ownership	188	2.17***	1.101	0.970	0.403	5
Q8if	Merchant families ownership	189	1.90***	1.008	1.148	0.935	2
Q8ig	Mutual interest between major shareholders	189	2.14***	1.186	0.910	0.012	4
Q8ih	Mutual interest between major shareholders and government	189	2.29***	1.200	0.684	-0.352	7
Q8ii	Controlling shareholder (s)	188	1.74***	1.023	1.530	1.891	1
Q8ij	Executive management	188	3.09	1.134	-0.146	-0.591	15
Q8ik	Experience and qualification of appointees	189	3.23***	1.032	-0.442	-0.010	16
Q8il	Personal relationships between merchant families and regulators	190	2.35***	1.128	0.884	0.074	10
Q8im	Self interest of board members	188	2.06***	1.128	1.004	0.213	3
Q8in	Favouritism of board members	188	2.41***	1.165	0.516	-0.467	11
Q8io	Courtesies	188	2.52***	1.102	0.444	-0.356	12
Q8ip	Prestige of board members	189	2.31***	1.097	0.808	0.059	9
Q8iq	Cultural influences	188	2.35***	1.144	0.794	-0.139	10
Q8ir	Current Chairman's preferences	188	2.88	1.143	-0.018	-0.540	13
Q8is	Existing board member preferences	189	2.19***	1.078	0.628	-0.173	6

Note: A 5-point Likert scale was used in this question, it ranged from 1= "strongly agree" to 5 = "strongly disagree". The ranking column is based on the mean of all participants.
Although the data is not normally distributed, the mean is shown to show the relative strength of agreement/disagreement.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 10% level.
An ** indicates that the mean is significantly different from the neutral response of 3.00 at 5% level.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 1% level.**
N* in the table is less than 192 as there is some respondents did not answer the whole questions

These results are in line with the findings from the interviews that actor networks are highly influential in the process of selection of chairmen in listed companies, where interviewees

stated that chairmen positions would always go to merchant families, specifically the family that owns the highest percentage of shares and usually the government votes for them whether through courtesies or their mutual interests such as getting favours for their votes in parliament. The interviewees also stated that, in agreement with questionnaire respondents experience and qualifications were not an influential factor in the process of selecting of chairmen.

For further illustration, Table 7.10 shows each group's view of the most influential factors. The table shows that for the merchant families' ownership (f) as a factor, investors (I) and regulators (R) strongly agreed (means 1.75 and 1.82 respectively), whereas the Board Members (BM) and executives (E) agreed less strongly (means of 2.20 and 2.16 respectively). Regarding the factor of controlling shareholders (i), regulators, executives, and investor groups agreed that this was influential (means of 1.64, 1.77 and 1.71 respectively) but Board Members agreed less strongly (with a mean of 2.09)**.** Thus, the prevailing organisational logic for selecting chairman is driven by symbolic carriers (beliefs).

The I and R group had similar views together versus the BM and E group. This finding is consistent with what interviewees stated earlier, that the chairman position is usually for the family who owns the highest share percentage; investors in Chapter 6 stated that it was usually through government support, voting for the merchant families through their shareholdings, whereas regulators (chapter 6) stated that chairman positions are usually for the merchant families who own the highest percentage and this is coordinated by other merchant families.

Table 7.10 Factors influencing the selection of Chairmen: differences between groups

The number of agreement and disagreement between groups	Q	Group Means				K-W p-values	M-Whitney P-Values						No. Of significant differences
		R	BM	E	I		R, BM	R, E	R, I	BM, E	BM, I	I, E	
	Q8ia	2.28	2.20	2.23	2.37	0.91	0.67	0.98	0.68	0.82	0.48	0.72	**0**
	Q8ib	2.38	2.32	2.42	2.21	0.74	0.46	0.93	0.31	0.62	0.84	0.54	**0**
	Q8ic	2.92	2.88	2.97	3.01	0.94	0.73	0.61	0.56	0.97	0.90	0.99	**0**
	Q8id	2.38	2.32	2.13	2.29	0.88	0.75	0.42	0.65	0.71	0.99	0.63	**0**
2v2	**Q8ie**	2.11	2.52	2.47	1.97	0.11	0.13	0.13	0.30	0.91	0.10	0.04	**2**
2v2	**Q8if**	1.82	2.20	2.16	1.75	0.30	0.18	0.30	0.82	0.82	0.10	0.20	**1**
	Q8ig	2.10	2.84	2.13	1.93	0.02***	0.02	0.81	0.32	0.05	0.00	0.32	**3**
1v3	**Q8ih**	2.23	3.00	2.48	2.00	0.00***	0.01	0.16	0.26	0.12	0.00	0.02	**3**
1v3	**Q8ii**	1.64	2.08	1.77	1.71	0.45	0.17	0.48	0.85	0.49	0.15	0.45	**0**
	Q8ij	3.03	3.24	2.71	3.24	0.10*	0.29	0.19	0.13	0.11	0.74	0.03	**1**
	Q8ik	3.03	3.00	3.23	3.48	0.06**	0.73	0.27	0.00	0.71	0.23	0.31	**1**
1v3	**Q8il**	2.21	2.88	2.48	2.24	0.07**	0.02	0.21	0.53	0.24	0.03	0.16	**2**
2v1v1	**Q8im**	1.85	3.04	2.39	1.75	0.00***	0.00	0.03	0.61	0.06	0.00	0.00	**5**
	Q8in	2.36	3.12	2.61	2.13	0.00***	0.01	0.26	0.17	0.13	0.00	0.04	**3**
2v2	**Q8io**	2.46	2.96	2.81	2.28	0.01***	0.06	0.08	0.22	0.54	0.01	0.01	**4**
2v2	**Q8ip**	2.18	2.84	2.77	2.03	0.00***	0.01	0.01	0.29	0.82	0.00	0.00	**4**
1v3	**Q8iq**	2.25	2.72	2.42	2.28	0.14	0.03	0.45	0.96	0.24	0.04	0.49	**2**
	Q8ir	2.98	2.84	2.32	3.04	0.01***	0.73	0.00	0.52	0.11	0.52	0.00	**2**
	Q8is	2.44	2.56	2.42	1.74	0.00***	0.86	0.72	0.00	0.91	0.00	0.00	**3**
Total differences		**2.35**	**2.42**	**2.47**	**2.29**		**8**	**4**	**2**	**2**	**11**	**9**	**36**

Note: The Kruskal-Wallis test, shows whether there are any differences amongst different groups, and the Mann-Whitney test, shows which particular pairs of groups are significantly different from each other.
An * indicated that there is significant differences between groups at 5% level.
R= regulators, BM= board members, I= investors, E= executives
The first column shows the agreement and disagreement between the group's views, 2v2 = BM+E V I+R, 1v3 = BM v I+R+E.

The total average of each group's mean show more agreement between I and R groups versus BM and E groups' view about the level of factors' influences in selecting the chairmen. Table 7.10 shows that most differences on the factors influencing the selection of chairmen is

between the BM group and I group (11 factors). The I group think that the major shareholders in listed companies (the merchant families and the government) and the mutual interests between them and cultural factors such as personal relationships courtesies and preferences influence selection chairmen (material carriers), whereas merchant families (BM group) agreed less strongly.

The second difference in Table 7.10 is between the I and E groups, where the E group agree on the influence of merchant families on selecting chairmen and disagree on the influence of government in selecting chairmen, this is possibly because the E group involvement with what usually happened in listed companies. The third difference in views are between the R and BM groups, the R group thought that the mutual interests between merchant families and government and cultural influences such as personal relationships, courtesies and favouritism were behind the selection of chairmen whereas merchant families disagreed with the R views. Thus, actor networks and material carriers are influences in selecting chairmen.

The BM group does not agree with the others groups on actor networks and factors reflecting the merchant families' interests, thus the BM who are often from merchant families have far less strong views than those of the other groups on their own influence in appointing chairmen. The E group thought they had more of an influence than any of the other groups thought, they thought that chairman themselves exerted more influence from the other groups did. The I group thought that BMs had more influence than other groups. Table 7.11 distils down all the factors into four influences.

Table 7.11 PCA for Factors that influence selection of chairmen

Factors	Actor networks	Coercive pressures V material carriers	Executive managements V Merchant families	Experience and qualifications
1960 Companies' Law requirement	0.377	0.604	-0.128	-0.361
KSE regulation	0.419	0.232	-0.231	-0.106
Government monitoring and regulators	0.436	0.587	0.146	-0.095
Annual general meeting of shareholders	0.362	0.659	-0.068	-0.171
Government ownership	0.649	0.277	-0.476	0.106
Merchant families ownership	0.467	0.218	-0.610	0.290
Mutual interest between major shareholders	0.639	-0.534	-0.194	0.027
Mutual interest between major shareholders and government	0.664	-0.512	-0.222	-0.026
Controlling shareholder (s)	0.646	0.074	-0.394	0.270
Executive management	0.259	0.092	0.578	0.526
Experience and qualification of appointees	0.198	0.357	0.360	0.619
Personal relationships between merchant families and regulators	0.816	-0.028	0.191	0.056
Self interest of board members	0.770	-0.268	0.103	0.014
Favouritism of board members	0.761	-0.320	0.179	0.047
Courtesies	0.817	-0.222	0.257	-0.108
Prestige of board members	0.836	-0.182	0.212	-0.155
Cultural influences	0.700	0.011	0.363	-0.438
Current Chairman's preferences	0.315	0.524	0.390	-0.043
Existing board member preferences	0.509	0.142	-0.256	0.182
Eigenvalues	6.700	2.564	1.939	1.278
Proportion of Variance	35.261	13.496	10.203	6.724
Cumulative	35.261	48.756	58.960	65.684

Note: this table shows the most influential factors have been selected by respondents that influence selecting chairmen

The first factor reflects board members, owners, and merchant families have their own personal relationships and networks which lie at the heart of everything they do, in line with the culture of Kuwaiti business. This was confirmed by the interviewees when they stated that

one aspect of Kuwaiti culture is the social and personal relationships between the merchant families and the government to protect their own self interests. The second factor is the tension between, the influence of regulations and the mutual interests of the merchant families in selecting chairmen. Again, it matches the interviewees' statements that the merchant families, with their actor network with the government and regulators, weakens any coercive pressure from laws and regulations to establish their own practices that maintain their interests. The third factor shows the tension between merchant families who may even ignore executive management that run their companies, in choosing a chairman that will act in their interests. As found in the interview chapter; one of the interviewees (a general manager) stated that the power lay completely in the hands of the company's chairman, and that executive management just follow orders. The fourth factor shows that the qualifications and experience of appointees and executive management may have same bearing on the process of selection chairmen, but this is a weak, for the influence with an eigenvalues of just 1.278 compared to that of actor networks of 6.700.

7.4.2 Factors that influence the selection of Board Members

The next question is concerned with the factors affecting the selection of board members in listed companies rather than just chairmen. Table 7.12 shows that the experience and qualifications of appointees (k) do not influence the selection of board members, but all other factors may have some influence. A part from j and s which are neutral, the findings here are in line with the responses to the appointment of chairmen (Table 7.9) as the most influential factors are the controlling shareholders (mean 1.75) merchant families ownership (mean 1.93), and their own self interests (mean 2.01). It is noticed that experience and qualifications are not important, despite governance codes around the world which call for the diversity of boards.

Table 7.12 Factors influencing selecting Board Members

Factor	Statement	N*	Mean	Std Deviation	Rank	Rank for chairmen	Mean for chairmen
Q8iia	**1960 Companies' Law requirement**	**188**	**2.29*** **	**1.092**	**8**	**7**	**2.29*** **
Q8iib	**KSE regulation**	**188**	**2.27*** **	**1.144**	**7**	**9**	**2.31*** **
Q8iic	**Government monitoring and regulators**	**187**	**2.89**	**1.128**	**13**	**14**	**2.96**
Q8iid	**Annual general meeting of shareholders**	**189**	**2.20*** **	**1.198**	**5**	**8**	**2.30*** **
Q8iie	**Government ownership**	**188**	**2.22*** **	**1.086**	**6**	5	**2.17*** **
Q8iif	**Merchant families ownership**	**189**	**1.93*** **	**1.024**	**2**	**2**	**1.90*** **
Q8iig	**Mutual interest between major shareholders**	**189**	**2.12*** **	**1.176**	**4**	**4**	**2.14*** **
Q8iih	**Mutual interest between major shareholders and government**	**189**	**2.30*** **	**1.202**	**9**	**7**	**2.29*** **
Q8iii	**Controlling shareholder (s)**	**188**	**1.75*** **	**1.022**	**1**	**1**	**1.74*** **
Q8iij	**Executive management**	**188**	**3.09**	**1.150**	**16**	**15**	**3.09**
Q8iik	**Experience and qualification of appointees**	**188**	**3.28*** **	**1.012**	**17**	**16**	**3.23*** **
Q8iil	**Personal relationships between merchant families and regulators**	**189**	**2.33*** **	**1.031**	**10**	**10**	**2.35*** **
Q8iim	**Self interest of board members**	**190**	**2.01*** **	**1.103**	**3**	**3**	**2.06*** **
Q8iin	**Favouritism of board members**	**188**	**2.38*** **	**1.161**	**12**	**11**	**2.41*** **
Q8iio	**Courtesies**	**188**	**2.47*** **	**1.125**	**12**	**12**	**2.52*** **
Q8iip	**Prestige of board members**	**189**	**2.29*** **	**1.151**	**8**	**9**	**2.31*** **
Q8iiq	**Cultural influences**	**188**	**2.36*** **	**1.159**	**11**	**10**	**2.35*** **
Q8iir	**Chairman's preferences**	**188**	**2.99**	**1.075**	**14**	**13**	**2.88**
Q8iis	**Existing board member preferences**	**188**	**3.07**	**1.152**	**15**	**6**	**2.19*** **

Note: A 5-point Likert scale was used in this question, it ranged from 1= "strongly agree" to 5 = "strongly disagree". The ranking column is based on the mean of all participants.
Although the data is not normally distributed, the mean is shown to show the relative strength of agreement/disagreement.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 10% level.
An ** indicates that the mean is significantly different from the neutral response of 3.00 at 5% level.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 1% level.**
N* in the table is less than 192 as there is some respondents did not answer the whole questions.

Table 7.13 shows the four groups' views on the factors influencing Board Member selection. The results are similar to those presented in Table 7.10 in that all groups agree on 6 factors that include, controlling shareholders and merchant families' ownership that influence the selection of board members. Thus there is no difference in the view that actor networks and the merchant families dominate board members.

Table 7.13 Factors Influencing Board Member Selection: differences between groups

The number of agreement and disagreement between groups	Q	Group Means				M-W p-values	M-Whitney P-Values						**No. Of significant differences**
		R	BM	E	I		R, BM	R, E	R, I	BM, E	BM, I	I, E	
	Q8iia	2.23	2.36	2.23	2.35	0.94	0.84	0.81	0.54	0.84	0.86	0.76	**0**
	Q8iib	2.28	2.36	2.42	2.15	0.82	0.85	0.71	0.47	0.73	0.81	0.38	**0**
	Q8iic	2.79	2.92	2.97	2.93	0.70	0.34	0.31	0.45	0.92	0.73	0.72	**0**
	Q8iid	2.21	2.24	2.13	2.19	0.99	0.85	0.82	0.82	0.95	0.97	0.92	**0**
2v2	**Q8iie**	2.13	2.64	2.57	2.01	0.03***	0.14	0.03	0.41	0.95	0.05	0.01	**3**
2v2	**Q8iif**	1.85	2.20	2.19	1.78	0.33	0.22	0.31	0.71	0.91	0.13	0.18	**0**
1v3	**Q8iig**	2.10	2.84	2.10	1.90	0.02***	0.02	0.92	0.26	0.04	0.00	0.34	**3**
1v3	**Q8iih**	2.23	3.04	2.52	2.00	0.00***	0.01	0.13	0.28	0.11	0.00	0.01	**3**
	Q8iii	1.66	2.08	1.77	1.71	0.48	0.20	0.55	0.74	0.49	0.15	0.45	**0**
E	**Q8iij**	3.05	3.28	2.65	3.25	0.05**	0.29	0.12	0.15	0.06	0.71	0.01	**2**
	Q8iik	3.07	3.08	3.26	3.54	0.03***	0.48	0.23	0.00	0.91	0.28	0.21	**1**
2v2	**Q8iil**	2.20	2.92	2.55	2.15	0.01***	0.01	0.09	0.52	0.25	0.00	0.05	**4**
	Q8iim	1.79	3.04	2.39	1.68	0.00***	0.00	0.01	0.64	0.06	0.00	0.00	**5**
2v2	**Q8iin**	2.30	3.12	2.61	2.08	0.00***	0.00	0.19	0.22	0.13	0.00	0.02	**3**
2v2	**Q8iio**	2.41	2.96	2.81	2.20	0.00***	0.05	0.07	0.18	0.54	0.00	0.00	**4**
2v2	**Q8iip**	2.18	2.84	2.77	1.99	0.00***	0.01	0.01	0.19	0.82	0.00	0.00	**4**
1v3	**Q8iiq**	2.26	2.72	2.42	2.30	0.20	0.04	0.48	0.91	0.24	0.05	0.54	**2**
	Q8iir	2.93	3.24	2.42	3.20	0.00***	0.17	0.02	0.08	0.01	0.77	0.00	**4**
	Q8iis	3.00	3.28	2.68	2.23	0.09**	0.19	0.18	0.20	0.06	0.66	0.03	**2**
Total differences		**2.21**	**2.51**	**2.50**	**2.30**		**8**	**6**	**2**	**5**	**9**	**10**	**40**

Note: The Kruskal-Wallis test, shows whether there are any differences amongst different groups, the Mann-Whitney test, shows which particular pairs of groups are significantly different from each other.
An * indicated that there is significant differences between groups at 5% level.
R= regulators, BM= board members, I= investors, E= executives
The first column shows the agreement and disagreement between the group's views, 2v2 = BM+E V I+R, 1v3 = BM v I+R+E.

The BM and E groups agreed on 14 factors and disagreed on 5 factors, reflecting actor networks (g, j, m, r, and s factors). For 2 factors h and m the BM group were neutral whereas the other groups strongly agree that merchant families selected board members. For one factor (s) the I group were alone as they disagreed that qualifications and experience influenced

board members appointments but the other agreed, possibly not wishing to acknowledge that qualification are not taking into account. Interviewees stated earlier in chapter 6 that board members were usually selected based on their ownership percentage in companies with a disregard to their level of experience and qualifications.

Table 7.13 also shows that the I and R group agreed on 6 factors that influenced the selection of board members, whereas the BMs and Es groups disagreed. The I and R groups agreed on almost all factors that influence the selection process of board members, except 3 factors (j, k, r)where the I and R groups were more neutral on the influence of executive management, the experience and qualification of appointees and chairmen preferences. Another 2 factors (a, b) all groups agreed that regulations and law, it is common sense as the 1960 companies' Act (Article 15) identified that board members should be shareholders. Again the total average means of each group's view in table 7.13 shows that I and R group versus the BM and E groups view about factors influencing board members selection. Thus, both coercive and normative pressures affect the practice of selecting board members. Coercive pressure is applied through specifying that board members should be shareholders, and normative pressure is based on the actor networks between the merchant families and the government.

Table 7.14 shows the principal components analysis of the factors distributed into 4 factors. The first factor, actor networks is almost identical to Table 7.11, thus these are the most important for appointing chairmen and board members.

Table 7.14 PCA for Factors that Influence the Selection of Board Members

Factor	Actor networks	Coercive pressures & Government ownership	Board members preferences	Merchant families Ownership
1960 Companies' Law requirement	0.374	0.657	0.186	-0.383
KSE regulation	0.347	0.373	-0.083	-0.147
Government monitoring and regulators	0.342	0.482	0.324	-0.298
Annual general meeting of shareholders	0.210	0.731	0.279	-0.062
Government ownership	0.639	0.553	-0.033	0.207
Merchant families ownership	0.460	0.495	-0.055	0.546
Mutual interest between major shareholders	0.659	-0.172	-0.469	0.178
Mutual interest between major shareholders and government	0.697	-0.088	-0.498	0.118
Controlling shareholder (s)	0.660	0.292	-0.034	0.411
Executive management	0.269	-0.370	0.558	0.235
Experience and qualification of appointees	0.164	-0.012	0.642	0.346
Personal relationships between merchant families and regulators	0.820	-0.102	0.136	-0.098
Self interest of board members	0.787	-0.205	-0.118	-0.071
Favouritism of board members	0.772	-0.310	-0.135	-0.019
Courtesies	0.817	-0.293	-0.113	-0.105
Prestige of board members	0.842	-0.244	-0.067	-0.140
Cultural influences	0.685	-0.119	0.057	-0.459
Chairman's preferences	0.293	-0.375	0.693	0.124
Existing board member preferences	0.352	-0.197	0.715	-0.092
Eigenvalues	6.444	2.636	2.483	1.272
Proportion of Variance	33.913	13.872	13.069	6.693
Cumulative	33.913	47.785	60.854	67.547

Note: this table shows the most influential factors have been selected by respondents selecting board members

The second column of Table 7.14 shows that the law and government ownership are the next most influential factors in selecting board members, as the government can coerce listed companies by law and set requirements for board membership, and by their ownership

percentage as being major shareholders can exercise normative pressure in appointing board members; this pressure was clarified earlier in chapter 6, where the government always votes for the merchant families for board membership. The third factor for appointing board members is the tension between board members preferences, including that of chairman and the executive management with the experience and qualification of appointees in. Merchant families ownership is the fourth influential factor in selecting board members, and this identical with interviewees statement in chapter 6 that merchant families control the majority of listed companies. Thus, the mutual interests between merchant families and government, through their personal relationships and actor networks play an important role in selecting chairmen and board members. Hence, the process of selecting board members is dominated by symbolic carriers in the organisational logics that have been established by the merchant families' thoughts and beliefs besides that Comapnies' Act; the material carriers in the process of selecting chairmen and board members is based on normative pressure and actor networks between merchant families and the government, which serves the symbolic carriers of merchant families and the government to maintain both of their self interests.

7.4.3 Factors that influence the selection of CEO

The last part of question 8 was concerned with the factors influencing the selection of companies' CEOs. Table 7.15 shows that most of the factors mentioned influence the selection of companies' CEOs except government monitoring (c) and executive management themselves (j). Respondents disagreed that the experience and qualification of appointees (k) affected CEO selection, thus, CEOs, and executive management are not appointed on merit and being fit for the job, but on other factors such as the merchant families and government preferences.

Table 7.15 Factors Factors influencing CEOs selection

Factor	Statement	N*	Mean	Std Deviation	Rank	Rank for BMs	Rank for Chairman
Q8iiia	1960 Companies' Law requirement	188	2.48***	1.144	13	8	7
Q8iiib	KSE regulation	188	2.43***	1.215	10	7	9
Q8iiic	Government monitoring and regulators	187	2.94	1.146		13	14
Q8iiid	Annual general meeting of shareholders	189	2.47***	1.295	12	5	8
Q8iiie	Government ownership	188	2.31***	1.175	7	6	5
Q8iiif	Merchant families ownership	189	1.97***	1.069	3	2	2
Q8iiig	Mutual interest between major shareholders	189	2.22***	1.221	6	4	4
Q8iiih	Mutual interest between major shareholders and government	189	2.31***	1.204	7	9	7
Q8iiii	Controlling shareholder (s)	188	1.78***	1.045	1	1	1
Q8iiij	Executive management	187	2.94	1.105		16	15
Q8iiik	Experience and qualification of appointees	188	3.13**	1.007		17	16
Q8iiil	Personal relationships between merchant families and regulators	189	2.33***	1.051	8	10	10
Q8iiim	Self interest of board members	190	2.04***	1.163	4	3	3
Q8iiin	Favouritism of board members	188	2.35***	1.158	9	12	11
Q8iiio	Courtesies	188	2.44***	1.095	11	12	12
Q8iiip	Prestige of board members	189	2.31***	1.098	7	8	9
Q8iiiq	Cultural influences	188	2.35***	1.121	9	11	10
Q8iiir	Chairman's preferences	188	2.10***	1.100	5	14	13
Q8iiis	Existing board member preferences	189	1.90***	1.001	2	15	6

Note: A 5-point Likert scale was used in this question, values ranged from 1= "strongly agree" to 5 = "strongly disagree". The ranking column is based on the mean of all participants. Although the data is not normally distributed, the mean is shown to show the relative strength of agreement/disagreement.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 10% level.
An ** indicates that the mean is significantly different from the neutral response of 3.00 at 5% level.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 1% level.**
N* in the table is less than 192 as there is some respondents did not answer the whole questions

Further, existing board members' preferences were the second highest factor followed by merchant families' ownership compared to table 7.9 and 7.12. Each of the four group's views about the influential factors on selecting companies' CEOs, is shown in Table 7.16.

Table 7.16 factors influencing CEOs selection: differences between groups

The number of agreement and disagreement between groups	Q	Group Means				K-W p-values	M-Whitney P-Values						No. Of significant differences
		R	BM	E	I		R, BM	R, E	R, I	BM, E	BM, I	I, E	
	Q8iiia	2.62	2.20	2.48	2.45	0.53	0.17	0.87	0.37	0.30	0.42	0.61	**0**
	Q8iiib	2.57	2.36	2.55	2.28	0.41	0.31	0.89	0.11	0.48	0.85	0.32	**0**
	Q8iiic	2.90	2.88	2.97	2.99	0.90	0.56	0.48	0.61	0.97	0.91	0.82	**0**
	Q8iiid	2.59	2.60	2.48	2.32	0.58	0.99	0.86	0.18	0.86	0.38	0.43	**0**
2v2	**Q8iiie**	2.23	2.64	2.70	2.10	0.07**	0.32	0.06	0.34	0.72	0.11	0.02	**2**
2v2	**Q8iiif**	1.89	2.28	2.29	1.81	0.33	0.24	0.33	0.61	0.94	0.13	0.18	**0**
1v3	**Q8iiig**	2.21	2.88	2.23	1.99	0.02***	0.03	0.78	0.21	0.06	0.00	0.21	**3**
2v2	**Q8iiih**	2.28	3.00	2.52	2.01	0.00***	0.01	0.21	0.20	0.15	0.00	0.01	**3**
1v3	**Q8iiii**	1.70	2.20	1.80	1.69	0.39	0.21	0.71	0.51	0.40	0.10	0.41	**1**
	Q8iiij	2.70	3.24	2.74	3.11	0.04***	0.03	0.96	0.01	0.15	0.50	0.13	**2**
	Q8iiik	2.82	2.96	3.29	3.39	0.00***	0.39	0.00	0.00	0.46	0.26	0.94	**2**
2v2	**Q8iiil**	2.13	2.88	2.58	2.19	0.01***	0.01	0.02	0.80	0.36	0.02	0.03	**4**
2v2	**Q8iiim**	1.80	3.00	2.42	1.75	0.00***	0.00	0.01	0.62	0.10	0.00	0.00	**5**
1v3	**Q8iiin**	2.25	3.08	2.65	2.06	0.00***	0.00	0.08	0.24	0.19	0.00	0.01	**4**
2v2	**Q8iiio**	2.33	2.96	2.84	2.18	0.00***	0.02	0.01	0.30	0.58	0.00	0.00	**4**
1v3	**Q8iiip**	2.15	2.88	2.87	2.01	0.00***	0.00	0.00	0.32	0.93	0.00	0.00	**4**
1v3	**Q8iiiq**	2.23	2.72	2.45	2.28	0.16	0.03	0.34	0.87	0.28	0.05	0.42	**2**
1v3	**Q8iiir**	1.84	2.60	2.10	2.14	0.06**	0.00	0.30	0.15	0.12	0.10	0.87	**2**
2v2	**Q8iiis**	1.85	2.32	2.26	1.65	0.00***	0.03	0.06	0.19	0.93	0.01	0.00	**4**
Total differences		**2.26**	**2.72**	**2.54**	**2.23**		**11**	**8**	**2**	**2**	**11**	**8**	**42**

Note: The Kruskal-Wallis test, shows whether there are any differences amongst different groups.
For The Mann-Whitney test, shows which particular pairs of groups are significantly different from each other.
An * indicated that there is significant differences between groups at 5% level.
R= regulators, BM= board members, I= investors, E= executives
The first column shows the agreement and disagreement between the group's views , 2v2 = BM+E V I+R, 1v3 = BM v I+R+E.

Again Table 7.16 shows agreement between the I and R groups (average means 2.23, 2.26) versus the BM and E groups' views (average mean 2.72, 2.54) about the level of influences of each factors in the process of selecting CEOs.

Table 7.16 shows that all groups agreed (BM and E) to strongly agreed (I and R) about the influence of existing board members' preferences for selecting CEOs whereas regarding the chairmen and board members' selections, only the I and E groups agreed on the influence of board members' preferences. The change in the R and BM's views here may refer to the fact that there is no coercive pressure that sets requirements for CEO appointments. The interesting finding from Table 7.16 is that, for the first time, the BM and I groups agree that one factor, executive management influencing CEO selection, has no influence.

The BM group disagree with the R and I groups over 11 factors and suggests that the BM group do not want to agree that networks of actor between merchant families (self-interests, personal relationships) and symbolic carriers (cultural influences and courtesies) are the main factors that influence CEO selection. This is identical to the interviewees' statements that the CEO is selected by the chairmen or board members to look after the interests of the merchant families who hire them, with no regard to their level of qualifications and experience.

Only BM group regards the mutual interests between major shareholders (g) and self-interest (m), as not important. The agreement of the E group was identified in chapter 6 by executives themselves when they stated that there were selected based on their personal relationship and network with merchant families. The following Table (7.17) presents the 5 most frequently selected factors by all groups.

Table 7.17 PCA for Factors that influence selecting of CEO

Factor	Actor networks	Coercive pressures	Experience and qualifications	Ownership	Chairman's preferences
1960 Companies' Law requirement	0.491	0.588	-0.007	-0.437	0.060
KSE regulation	0.437	0.466	-0.220	-0.135	0.189
Government monitoring and regulators	0.286	0.397	0.464	-0.251	-0.314
Annual general meeting of shareholders	0.402	0.716	-0.077	-0.126	0.129
Government ownership	0.699	0.393	-0.078	0.258	-0.185
Merchant families ownership	0.517	0.344	-0.067	0.575	-0.276
Mutual interest between major shareholders	0.653	-0.372	-0.398	0.085	-0.033
Mutual interest between major shareholders and government	0.653	-0.350	-0.365	0.061	-0.148
Controlling shareholder (s)	0.684	0.095	0.127	0.351	-0.148
Executive management	0.225	-0.286	0.686	0.100	0.309
Experience and qualification of appointees	0.107	0.055	0.787	0.225	-0.091
Personal relationships between merchant families and regulators	0.769	-0.116	0.151	-0.082	-0.161
Self interest of board members	0.793	-0.304	-0.059	-0.050	-0.050
Favouritism of board members	0.736	-0.340	0.118	-0.052	-0.136
Courtesies	0.784	-0.305	0.082	-0.187	0.137
Prestige of board members	0.845	-0.154	0.063	-0.163	-0.029
Cultural influences	0.679	-0.095	0.043	-0.528	-0.060
Chairman's preferences	0.559	0.012	0.078	0.148	0.651
Existing board member preferences	0.654	0.194	-0.134	0.363	0.329
Eigenvalues	7.105	2.246	1.754	1.385	1.015
Proportion of Variance	37.393	11.821	9.231	7.287	5.341
Cumulative	37.393	49.214	58.445	65.732	71.073

Note: this table shows the most influential factors have been selected by respondents selecting CEOs

The most influential factor is actor networks for selection CEOs, as it is for selecting chairmen in Table 7.11 and board members in Table 7.14. Thus personal relationships between the merchant families, government, and regulators that represent the network of actors play an important role in the process of selection.

The second most frequently selected factor in Table 7.17 refers to the law and AGMs, as coercive pressure is delegated to controlling shareholders to select CEOs and these controlling shareholders usually dominate the AGM. The third factor is experience and qualifications with the merchant families' is the fourth factor followed by chairmen's preferences, as stated earlier, chairmen are usually a family members that owns the highest percentage of shares, and control the selection and appointment of CEOs.

In summary the major influence in selecting chairmen, Board Members, and CEOs is the actor networks of merchant families and the government (material carriers), and the merchant families can maintain their prestige and be dominant in the country's economy (symbolic carriers); these material and symbolic carriers of the merchant families' logics has established just one community of practice.

7.4.4 Factors that affect the Protection of Minority Interests

Question 9i elicited respondents' views on about the most influential factors that protect minorities 'interests; and question 9ii also tries to identify the factors affecting whether there is a separation of the role of chairman and CEO.

Table 7.18 shows that the most influential factors affect the level of protection of minority interests are self-interest (m) associated with controlling shareholders (i), often merchant

families. This occurs since the government supports them as a result of the mutual interests of the merchant families and the government (h) factor that represents the second highest factor selected by all groups.

Table 7.18 Factors influencing the protection of minority interests

Factor	Statement	No	Mean	Std Deviation	Skewness	Kurtosis	Rank
Q9ia	**1960 companies' law requirement**	**189**	**2.88**	**1.245**	**-0.011**	**-0.954**	**12**
Q9ib	**KSE regulation**	**189**	**2.72*****	**1.125**	**0.277**	**-0.687**	**9**
Q9ic	**Government monitoring and regulators**	**188**	**2.67*****	**1.187**	**0.237**	**-0.873**	**7**
Q9id	**Annual general meeting of shareholders**	**189**	**2.71*****	**1.294**	**0.293**	**-1.053**	**8**
Q9ie	**Government ownership**	**189**	**2.76*****	**1.098**	**0.180**	**-0.710**	**10**
Q9if	**Merchant families ownership**	**189**	**2.72*****	**1.172**	**0.081**	**-1.134**	**9**
Q9ig	**Mutual interest between major shareholders**	**189**	**2.31*****	**1.181**	**0.696**	**-0.472**	**3**
Q9ih	**Mutual interest between major shareholders and government**	**189**	**2.28*****	**1.139**	**0.666**	**-0.405**	**2**
Q9ii	**Controlling shareholder (s)**	**190**	**2.28*****	**1.270**	**0.674**	**-0.833**	**2**
Q9ij	**Executive management**	**190**	**2.47*****	**1.130**	**0.513**	**-0.445**	**4**
Q9ik	**Experience and qualification of appointees**	**189**	**2.98**	**1.141**	**-0.077**	**-0.592**	**13**
Q9il	**Personal relationships between merchant families and regulators**	**190**	**2.57*****	**1.114**	**0.383**	**-0.524**	**6**
Q9im	**Self interest of board members**	**190**	**2.17*****	**1.161**	**0.939**	**0.153**	**1**
Q9in	**Favouritism of board members**	**189**	**2.72*****	**1.190**	**0.137**	**-0.915**	**9**
Q9io	**Courtesies**	**189**	**2.86***	**1.179**	**-0.015**	**-0.924**	**11**
Q9ip	**Prestige of board members**	**189**	**3.08**	**1.127**	**-0.168**	**-0.660**	**14**
Q9iq	**Cultural influences**	**190**	**2.54*****	**1.283**	**0.494**	**-0.791**	**5**

Note: A 5-point Likert scale was used in this question, values ranged from 1= "strongly agree" to 5 = "strongly disagree". The ranking column is based on the mean of all participants.
Although the data is not normally distributed, the mean is shown to show the relative strength of agreement/disagreement.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 10% level.
An ** indicates that the mean is significantly different from the neutral response of 3.00 at 5% level.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 1% level.**
N* in the table is less than 192 as there is some respondents did not answer the whole questions

These results are similar to the previous findings. Table 7.19 shows each group's views about the most and least influential factors regarding the protection of minority interests.

Table 7.19 Factors influencing minority interests: differences between groups

The number of agreement and disagreement between groups	Factor	Group Means				K-W p-values	M-Whitney P-Values						No. Of significant differences
		R	BM	E	I		R, BM	R, E	R, I	BM, E	BM, I	I, E	
	Q9ia	3.11	2.92	2.13	3.00	0.00***	0.56	0.00	0.64	0.03	0.81	0.00	**3**
	Q9ib	2.79	2.92	2.55	2.67	0.49	0.74	0.18	0.46	0.26	0.43	0.37	**0**
2v2	**Q9ic**	2.85	2.84	2.47	2.54	0.26	0.93	0.12	0.09	0.29	0.36	0.66	**1**
	Q9id	2.84	2.68	2.58	2.68	0.78	0.57	0.35	0.43	0.80	0.94	0.72	**0**
2v2	**Q9ie**	2.74	3.20	2.90	2.56	0.05**	0.06	0.33	0.42	0.22	0.01	0.10	**3**
1v3	**Q9if**	2.69	3.48	2.74	2.47	0.00***	0.00	0.82	0.32	0.01	0.00	0.31	**3**
1v3	**Q9ig**	2.28	3.56	2.32	1.89	0.00***	0.00	0.56	0.05	0.00	0.00	0.02	**5**
1v3	**Q9ih**	2.23	3.48	2.39	1.85	0.00***	0.00	0.19	0.06	0.00	0.00	0.00	**5**
1v3	**Q9ii**	2.10	3.48	2.52	1.93	0.00***	0.00	0.08	0.51	0.00	0.00	0.01	**5**
1v3	**Q9ij**	2.56	2.96	2.19	2.34	0.08**	0.15	0.21	0.28	0.01	0.02	0.70	**2**
Iv3	**Q9ik**	2.90	2.84	2.55	3.29	0.00***	0.93	0.17	0.02	0.35	0.12	0.00	**2**
1v3	**Q9il**	2.52	3.28	2.52	2.38	0.00***	0.00	0.99	0.39	0.01	0.00	0.50	**3**
1v3	**Q9im**	2.05	2.84	2.48	1.90	0.00***	0.00	0.02	0.48	0.32	0.00	0.00	**4**
2v2	**Q9in**	2.84	3.08	2.42	2.63	0.15	0.33	0.12	0.30	0.03	0.10	0.51	**2**
1v3	**Q9io**	2.80	3.28	2.87	2.75	0.22	0.06	0.61	0.85	0.11	0.06	0.63	**2**
	Q9ip	2.90	3.32	2.84	3.26	0.07**	0.07	0.82	0.04	0.10	0.62	0.08	**4**
1v3	**Q9iq**	2.41	3.28	3.10	2.15	0.00***	0.00	0.00	0.26	0.39	0.00	0.00	**4**
Total differences		2.62	3.14	2.56	2.49		**10**	**4**	**5**	**9**	**11**	**9**	48

Note: this table shows group means, p-values for the Kruskal-Wallis test, which shows whether there are any differences amongst different groups, and p-value for Mann-Whitney test, which shows which particular pairs of groups are significantly different from each other.
An * indicated that there is significant differences between groups at 5% level.
R= regulators, BM= board members, I= investors, E= executives
The first column shows the agreement and disagreement between the group's views, 2v2 = BM+E V I+R, 1v3 = BM v I+R+E.

Table 7.19 again shows the similarity of the average mean of I, E, and R groups (2.49, 2.56, 2.62) versus BM group (average mean 3.14), which means that all the three groups agree to some extent on the influence of merchant families and their mutual interests between them and the government. Also, the Table 7.19 shows that less than the BM group the R and I groups over many factors. Table 7.20 shows 4 factors from a factor analysis that affect the protection of minority interests.

Table 7.20 Principle Components Analysis for factors that influence the level of minority interests protection

Factor	Actor networks	Coercive pressures	Executive management V Prestige	Regulations V Experience and qualification
1960 companies' law requirement	0.566	0.576	0.145	0.158
KSE regulation	0.518	0.542	0.094	0.499
Government monitoring and regulators	0.619	0.568	0.220	0.229
Annual general meeting of shareholders	0.545	0.570	0.030	-0.160
Government ownership	0.838	0.046	-0.021	0.064
Merchant families ownership	0.761	-0.133	0.180	0.190
Mutual interest between major shareholders	0.746	-0.506	0.178	0.012
Mutual interest between major shareholders and government	0.766	-0.484	0.144	0.047
Controlling shareholder (s)	0.330	-0.381	0.037	0.476
Executive management	0.588	-0.072	0.530	-0.368
Experience and qualification of appointees	0.396	0.450	0.202	-0.520
Personal relationships between merchant families and regulators	0.742	-0.242	-0.019	-0.041
Self interest of board members	0.725	-0.403	0.066	-0.075
Favouritism of board members	0.779	-0.022	-0.432	0.006
Courtesies	0.779	0.022	-0.479	-0.100
Prestige of board members	0.646	0.184	-0.581	-0.146
Cultural influences	0.717	-0.160	0.003	-0.178
Eigenvalues	7.526	2.419	1.246	1.097
Proportion of Variance	44.270	14.229	7.331	6.452
Cumulative	44.270	58.499	65.831	72.282

Note: this table shows the most influential factors have been selected by respondents affect minorities' interest.

These results are very similar to the previous ones with actors network dominating.

7.4.5 Factors that affect the separation of the chairman and CEO

The perception of the factors that affect the separation of the role of chairman and CEO are shown in Table 7.21.

Table 7.21 Factors influencing the separation of the chairman and CEO

Factor	Statement	No	Mean	Std Deviation	Skewness	Kurtosis	Rank	Rank for 9i
Q9iia	**1960 companies' law requirement**	**189**	**2.89**	**1.180**	**0.031**	**-0.744**	**15**	**12**
Q9iib	**KSE regulation**	**189**	**2.86***	**1.188**	**0.280**	**-0.800**	**14**	**9**
Q9iic	**Government monitoring and regulators**	**188**	**2.79*****	**1.204**	**0.333**	**-0.813**	**13**	**7**
Q9iid	**Annual General Meeting of shareholders**	**189**	**2.57*****	**1.318**	**0.574**	**-0.836**	**7**	**8**
Q9iie	**Government ownership**	**189**	**2.71*****	**1.093**	**0.243**	**-0.724**	**9**	**10**
Q9iif	**Merchant families ownership**	**189**	**2.61*****	**1.141**	**0.237**	**-0.927**	**8**	**9**
Q9iig	**Mutual interest between major shareholders**	**189**	**2.30*****	**1.194**	**0.783**	**-0.270**	**4**	**3**
Q9iih	**Mutual interest between major shareholders and government**	**189**	**2.27*****	**1.147**	**0.696**	**-0.339**	**3**	**2**
Q9iii	**Controlling shareholder (s)**	**190**	**2.18*****	**1.231**	**0.812**	**-0.535**	**1**	**2**
Q9iij	**Executive management**	**190**	**2.73*****	**1.185**	**0.149**	**-0.861**	**11**	**4**
Q9iik	**Experience and qualification of appointees**	**189**	**3.12**	**1.061**	**-0.208**	**-0.382**	**16**	**13**
Q9iil	**Personal relationships between merchant families and regulators**	**190**	**2.54*****	**1.111**	**0.396**	**-0.632**	**6**	**6**
Q9iim	**Self interest of board members**	**190**	**2.23*****	**1.171**	**0.788**	**-0.266**	**2**	**1**
Q9iin	**Favouritism of board members**	**189**	**2.72*****	**1.175**	**0.133**	**-0.990**	**10**	**9**
Q9iio	**Courtesies**	**189**	**2.76*****	**1.212**	**0.105**	**-1.071**	**12**	**11**
Q9iip	**Prestige of board members**	**189**	**2.72*****	**1.171**	**0.290**	**-0.812**	**10**	**14**
Q9iiq	**Cultural influences**	**190**	**2.48*****	**1.233**	**0.545**	**-0.660**	**5**	**5**

Note: A 5-point Likert scale was used in this question, values ranged from 1= "strongly agree" to 5 = "strongly disagree". The ranking column is based in the mean of all participants.
Although the data is not normally distributed, the mean is shown to show the relative strength of agreement/disagreement.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 10% level.
An ** indicates that the mean is significantly different from the neutral response of 3.00 at 5% level.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 1% level.**
N* in the table is less than 192 as there is some respondents did not answer the whole questions

Table 7.21 shows controlling shareholders as the top influence in line with the findings in the interview chapter and the previous sections. The aim behind this CEO duality is to maximise the merchant families self-interests and remain involved and aware of the companies' day to day operations. Table 7.22 shows that the pairs of groups are significantly different from each other and the R, I and E groups agree for more strongly than the BM group.

Table 7.22 Factors Influencing Separation of the Chairman and CEO: differences between groups

The number of agreement and disagreement between groups	Factor	Group Means				K-W p-values	M-Whitney P-Values						**No. Of significant differences**
		R	BM	E	I		R, BM	R, E	R, I	BM, E	BM, I	I, E	
2v2	**Q9iia**	3.21	2.60	2.19	3.03	0.00***	0.02	0.00	0.41	0.30	0.09	0.00	**4**
	Q9iib	3.15	2.80	2.58	2.75	0.08**	0.18	0.02	0.04	0.44	0.99	0.30	**2**
	Q9iic	3.15	2.80	2.53	2.60	0.02***	0.17	0.01	0.00	0.47	0.47	0.87	**2**
2v2	**Q9iid**	2.79	2.20	2.29	2.63	0.13	0.05	0.08	0.44	0,78	0.14	0.23	**2**
1v3	**Q9iie**	2.72	3.24	2.68	2.54	0.04***	0.04	0.98	0.38	0.03	0.00	0.47	**3**
1v3	**Q9iif**	2.57	3.40	2.52	2.42	0.00***	0.00	0.77	0.48	0.00	0.00	0.79	**3**
1v3	**Q9iig**	2.20	3.68	2.26	1.93	0.00***	0.00	0.88	0.18	0.00	0.00	0.23	**3**
1v3	**Q9iih**	2.18	3.40	2.29	1.94	0.00***	0.00	0.43	0.26	0.00	0.00	0.09	**4**
1v3	**Q9iii**	1.98	2.88	2.45	2.00	0.00***	0.00	0.09	0.84	0.27	0.00	0.10	**4**
1v3	**Q9iij**	2.89	3.12	2.32	2.64	0.38	0.38	0.03	0.27	0.01	0.09	0.18	**3**
	Q9iik	2.97	3.20	2.81	3.35	0.28	0.28	0.55	0.01	0.16	0.67	0.01	**2**
1v3	**Q9iil**	2.52	3.28	2.65	2.26	0.00***	0.00	0.59	0.16	0.03	0.00	0.11	**3**
1v3	**Q9iim**	2.05	3.24	2.42	1.95	0.00***	0.00	0.05	0.70	0.00	0.00	0.01	**5**
1v3	**Q9iin**	2.75	3.08	2.48	2.68	0.21	0.21	0.32	0.76	0.06	0.15	0.44	**1**
1v3	**Q9iio**	2.62	3.20	2.81	2.71	0.04***	0.04	0.35	0.65	0.19	0.09	0.75	**2**
1v3	**Q9iip**	2.59	3.28	2.84	2.60	0.01***	0.01	0.33	0.78	0.17	0.01	0.40	**2**
2v2	**Q9iiq**	2.38	3.08	3.00	2.14	0.01***	0.01	0.02	0.35	0.65	0.00	0.00	**4**
Total differences		**2.63**	**3.08**	**2.53**	**2.48**		**12**	**8**	**3**	**8**	**12**	**6**	**49**

Note: The Kruskal-Wallis test, shows whether there are any differences amongst different groups, the Mann-Whitney test shows which particular pairs of groups are significantly different from each other.
An * indicated that there is significant differences between groups at 5% level.
R= regulators, BM= board members, I= investors, E= executives
The first column shows the agreement and disagreement between the group's views, 2v2 = BM+E V I+R, 1v3 = BM v I+R+E.

Tables 7.22 shows a tension between BM group with other groups in most of factors, R, I and E groups stated that factors representing actor networks (material carriers) and symbolic carriers representing board members' preferences are influential in the separation if the chairman and CEO.

BM and E groups are agreed that the 1960 companies' Act (Article 15) and the AGM factors are influential in the separation of the chairman and CEOs, whereas as R and I groups stayed neutralise. In opposite, the symbolic carriers (thoughts and beliefs) where seen influential by I and R groups, where BM and E groups stayed neutral.

Table 7.23 shows 4 factors distilled from the principal component analysis that affect the separation of the chairman and CEOs positions.

Table 7.23 Principle Components analysis for factors that influence the separation of the chairman and CEO

Factor	Actor networks	Coercive pressures	Symbolic	Executive management & Experience and qualification
q9iia	0.373	0.755	0.201	-0.019
q9iib	0.472	0.637	0.349	-0.164
q9iic	0.517	0.643	0.380	-0.091
q9iid	0.422	0.667	-0.145	-0.028
q9iie	0.823	0.015	-0.030	-0.009
q9iif	0.710	-0.237	0.166	0.205
q9iig	0.738	-0.482	0.197	0.062
q9iih	0.788	-0.432	0.174	-0.017
q9iii	0.596	-0.309	0.424	0.140
q9iij	0.595	0.090	-0.050	0.546
q9iik	0.459	0.316	-0.372	0.646
q9iil	0.795	-0.171	-0.011	-0.087
q9iim	0.796	-0.254	0.161	-0.175
q9iin	0.729	-0.035	-0.304	-0.257
q9iio	0.740	-0.001	-0.454	-0.210
q9iip	0.713	0.060	-0.506	-0.218
q9iiq	0.732	-0.050	-0.005	-0.034
Eigenvalues	7.463	2.615	1.325	1.014
Proportion of Variance	43.903	15.380	7.796	5.964
Cumulative	43.903	59.283	67.079	73.044

Note: this table shows the most influential factors have been selected by respondents affect minorities' interest.

Again the actor networks is the most influential factor affecting the separation between the chairman and CEO positions. Coercive pressure (regulations and regulators) is shown in the second column of most influential factors in the separation of the chairmen and CEO, followed

by symbolic carriers and then the experience and qualification of the appointees. According to the eigenvalues, the most important factor is related back to actor networks (7.463).

7.5 Board Committees' membership and the factors that influence their appointment

Under this section, respondents were asked their views regarding board committees and their membership. Question 13 was split into two parts, the first part 13i teased out factors that influenced listed companies to have board committees, and the second part was about the factors that influenced the appointment of board committee members.

7.5.1 Factors that influence Listed Companies having Board Committees

Table 7.24 shows that the most influential factors that respondents identify are again controlling shareholders (mean 1.84), existing board member preferences (mean 1.87), and chairman preferences (mean 1.90). It is clear that controlling shareholders, often merchant families, and their preferences have the most influence over board committees' existence in listed companies. This finding is consistent with interview findings as interviewees refer to the absence of those committees as caused by coercive pressure of major shareholders over listed companies.

Table 7.24 Factors influencing having Board Committees

Factor	Statement	No	Mean	Std Deviation	Skewness	Kurtosis	Rank
Q13ia	1960 companies' law requirement	187	3.03	1.121	-0.133	-0.656	18
Q13ib	KSE regulation	187	2.83**	1.177	-0.153	-0.906	15
Q13ic	Government monitoring and regulators	187	2.72***	1.149	0.261	-0.723	14
Q13id	Annual General Meeting of shareholders	187	2.14***	1.134	1.032	0.396	5
Q13ie	Government ownership	187	2.59***	1.105	0.352	-0.673	12
Q13if	Merchant families ownership	187	2.49***	1.133	0.356	-0.735	7
Q13ig	Mutual interest between major shareholders	187	2.54***	1.250	0.342	-0.974	9
Q13ih	Mutual interest between major shareholders and government	187	2.57***	1.187	0.366	-0.734	11
Q13ii	Controlling shareholder (s)	187	1.84***	0.942	1.106	0.764	1
Q13ij	Executive management	187	2.11***	0.989	0.795	0.244	4
Q13ik	Experience and qualification of appointees	187	2.51***	1.054	0.243	-0.565	8
Q13il	Personal relationships between merchant families and regulators	187	2.65***	1.197	0.236	-0.940	13
Q13im	Self interest of board members	187	2.29***	1.166	0.683	-0.314	6
Q13in	Favouritism of board members	187	2.96	1.126	-0.075	-0.717	16
Q13io	Courtesies	187	3.02	1.075	-0.190	-0.449	17
Q13ip	Cultural influences	187	2.56***	1.150	0.384	-0.689	10
Q13iq	Chairman's preferences	187	1.90***	1.048	1.243	1.131	3
Q13ir	Existing board member preferences	186	1.87***	0.985	1.507	2.454	2

Note: A 5-point Likert scale was used in this question, values from 1= "strongly agree" to 5 = "strongly disagree". The ranking column is based in the mean of all participants.
Although the data is not normally distributed, the mean is shown to show the relative strength of agreement/disagreement.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 10% level.
An ** indicates that the mean is significantly different from the neutral response of 3.00 at 5% level.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 1% level.**
N* in the table is less than 192 as there is some respondents did not answer the whole questions

To trace each of the four groups' views about the most and less influential factors influencing having board committees, Table 7.25 shows each group separately.

Table 7.25 Factors influencing having Board Committees: differences between groups

The number of agreement and disagreement between groups	Factor	Group Means				K-W p-values	M-Whitney P-Values						No. Of significant differences
		R	BM	E	I		R, BM	R, E	R, I	BM, E	BM, I	I, E	
	Q13ia	2.93	2.76	3.10	3.18	0.25	0.39	0.46	0.14	0,18	0.10	0.53	**1**
	Q13ib	2.75	2.65	2.80	3.01	0.27	0.42	0.88	0.15	0.40	0.09	0.31	**1**
	Q13ic	2.57	2.84	2.97	2.70	0.50	0.51	0.12	0.59	0.55	0.75	0.27	**0**
	Q13id	2.20	2.60	2.40	1.83	0.01***	0.11	0.50	0.06	0.50	0.00	0.04	**3**
2v2	**Q13ie**	2.28	3.40	2.97	2.42	0.00***	0.00	0.01	0.34	0.21	0.00	0.04	**4**
1v 3	**Q13if**	2.31	3.24	2.57	2.35	0.00***	0.00	0.27	0.58	0.04	0.00	0.39	**3**
1v 3	**Q13ig**	2.34	3.24	2.73	2.38	0.02***	0.00	0.21	0.71	0.19	0.00	0.26	**2**
2v2	**Q13ih**	2.31	3.32	2.93	2.37	0.00***	0.00	0.01	0.67	0.24	0.00	0.02	**4**
2v2	**Q13ii**	1.69	2.32	2.00	1.73	0.07**	0.02	0.11	0.56	0.46	0.04	0.17	**2**
2v2	**Q13ij**	2.08	2.56	2.37	1.86	0.01***	0.03	0.20	0.25	0.56	0.00	0.03	**3**
2v2	**Q13ik**	2.36	2.84	2.93	2.35	0.03***	0.08	0.02	0.98	0.74	0.06	0.01	**4**
2v2	**Q13il**	2.61	3.12	2.87	2.42	0.08**	0.09	0.32	0.35	0.47	0.02	0.10	**3**
2v2	**Q13im**	2.07	2.96	2.83	2.03	0.00***	0.00	0.00	0.97	0.72	0.00	0.00	**4**
	Q13in	2.80	3.20	3.10	2.94	0.41	0.14	0.24	0.42	0.76	0.30	0.50	**0**
	Q13io	2.90	3.20	3.13	3.00	0.59	0.24	0.31	0.58	0.79	0.41	0.57	**0**
2v2	**Q13ip**	2.46	3.12	2.80	2.35	0.01***	0.01	0.13	0.69	0.33	0.00	0.06	**3**
1v3	**Q13iq**	1.84	2.40	1.97	1.76	0.04***	0.01	0.30	0.90	0.21	0.00	0.20	**2**
2v2	**Q13ir**	1.84	2.20	2.03	1.70	0.15	0.12	0.37	0.49	0.63	0.03	0.15	**1**
Total differences		**2.35**	**2.94**	**2.69**	**2.35**		**11**	**4**	**1**	**1**	**15**	**8**	**40**

Note: the Kruskal-Wallis test, shows whether there are any differences amongst different groups, the Mann-Whitney test shows which particular pairs of groups are significantly different from each other.
An * indicated that there is significant differences between groups at 5% level.
R= regulators, BM= board members, I= investors, E= executives
The first column shows the agreement and disagreement between the group's views, 2v2 = BM+E V I+R, 1v3 = BM v I+R+E.

Again there is a split between BM and the I and R groups, with 11 and 15 differences respectively in Table (7.25). Also actor networks are highly agreed by I and R groups whereas BM and E groups stayed neutral. In order to distil the factors across all 18 factors a PCA was conducted as displayed in table 7.26.

Table 7.26 PCA for factors that influence having Board Committees

Factor	Actor networks & symbolic carriers	Coercive pressures	Major shareholders	Merchant families	Government and merchant families ownership
1960 companies' law requirement	0.445	0.649	0.332	-0.143	-0.335
KSE regulation	0.460	0.693	0.290	-0.231	-0.070
Government monitoring and regulators	0.523	0.599	0.212	-0.024	0.286
Annual General Meeting of shareholders	0.476	0.526	-0.365	.0255	-0.041
Government ownership	0.601	0.180	-0.429	-.0195	0.435
Merchant families ownership	0.642	-0.016	-0.484	-0.218	0.337
Mutual interest between major shareholders	0.764	-0.181	-0.241	-0.231	-0.424
Mutual interest between major shareholders and government	0.716	-0.114	-0.175	-0.202	-0.418
Controlling shareholder (s)	0.532	-0.134	-0.398	0.135	0.015
Executive management	0.669	0.165	-0.268	0.245	-0.120
Experience and qualification of appointees	0.659	0.178	0.001	0.326	0.161
Personal relationships between merchant families and regulators	0.812	-0.214	0.172	-0.215	0.048
Self interest of board members	0.796	-0.290	0.048	0.124	-0.241
Favouritism of board members	0.689	-0.335	0.369	-0.326	0.250
Courtesies	0.722	-0.298	0.318	-0.303	0.247
Cultural influences	0.804	-0.193	0.131	0.067	-0.183
Chairman's preferences	0.647	-0.240	0.113	0.531	0.059
Existing board member preferences	0.533	-0.084	0.393	0.585	0.138
Eigenvalues	7.584	2.125	1.565	1.393	1.139
Proportion of Variance	42.133	11.804	8.692	7.738	6.329
Cumulative	42.133	53.937	62.629	70.367	76.696

Note: this table shows the most influential factors have been selected by respondents affect minorities' interest.

Table 7.26 shows that the most frequently selected factors for influencing having boardcommittees are actor networks between the merchant families and regulators, and the

symbolic carriers within the organisational logics. The second most frequently selected factor refers to the existing regulations and monitoring bodies. As noted in chapter 6, the interviewees mentioned that the coercive pressure are missing; besides, the regulators have relationships and networks with the merchant families and they also lack the knowledge and qualifications to update the current Act (Article 15) to include the enforcement of establishing a board committee.

The third most frequently selected factor again refers to the merchant families and government ownership in the listed companies, which is in line with the interviewees' statement that the major shareholders in Kuwaiti listed companies control both the board members and executive management and oppose any amendment that minimises their power and control. The fourth most frequently selected factor refers to the preferences of the chairman and board members, often the merchant families. This usually conflicts with their preferences since they are willing to maintain their control over the listed companies; hence, their preferences usually affect the existence of such committees. The least frequently selected factor is the merchant families, government ownership and their mutual interests. The existence of the merchant families and government as major shareholders usually arises, according to the interviewees' statements outlined in chapter 6, due to the mutual interests between those major shareholders, which can negatively influence the existence or otherwise of board committees. In general the actor network between merchant families with the government and regulators; besides, the weak coercive pressure from regulator side are the main influential factors of having board committees.

7.5.2 Factors that influence appointing of Board Committee Members

Under this section, respondents show their views about the factors that influence selecting Board Committee members. Table 7.27 shows the same results as Table 7.24 about the factors that have no influence, little influence and much influence. In the case of Table 7.24 however, the most influential factor is controlling shareholders and in this case it is board members' preferences.

Table 7.27 Factors influencing appointing Board Committee Members

Factor	Statement	No	Mean	Std Deviation	Rank of 13ii	Rank of 13i
Q13iia	**1960 companies' law requirement**	**187**	**3.06**	**1.105**	**16**	**18**
Q13iib	**KSE regulation**	**187**	**2.86****	**1.180**	**13**	**15**
Q13iic	**Government monitoring and regulators**	**187**	**2.75*****	**1.138**	**12**	**14**
Q13iid	**Annual General Meeting of shareholders**	**187**	**2.17*****	**1.136**	**5**	**5**
Q13iie	**Government ownership**	**187**	**2.58*****	**1.096**	**11**	**12**
Q13iif	**Merchant families ownership**	**187**	**2.49*****	**1.133**	**6**	**7**
Q13iig	**Mutual interest between major shareholders**	**187**	**2.51*****	**1.272**	**8**	**9**
Q13iih	**Mutual interest between major shareholders and government**	**187**	**2.53*****	**1.206**	**9**	**11**
Q13iii	**Controlling shareholder (s)**	**186**	**1.88*****	**0.970**	**3**	**1**
Q13iij	**Executive management**	**186**	**2.15*****	**1.006**	**4**	**4**
Q13iik	**Experience and qualification of appointees**	**186**	**2.50*****	**1.062**	**7**	**8**
Q13iil	**Personal relationships between merchant families and regulators**	**186**	**2.55*****	**1.148**	**10**	**13**
Q13iim	**Self interest of board members**	**186**	**2.22*****	**1.104**	**6**	**6**
Q13iin	**Favouritism of board members**	**186**	**2.92**	**1.112**	**14**	**16**
Q13iio	**Courtesies**	**186**	**2.95**	**1.084**	**15**	**17**
Q13iip	**Cultural influences**	**186**	**2.49*****	**1.111**	**6**	**10**
Q13iiq	**Chairman's preferences**	**186**	**1.82*****	**0.904**	**2**	**3**
Q13iir	**Existing board member preferences**	**185**	**1.77*****	**0.804**	**1**	**2**

Note: A 5-point Likert scale was used in this question, values ranged from 1= "strongly agree" to 5 = "strongly disagree". The ranking column is based on the mean of all participants.
Although the data is not normally distributed, the mean is shown to show the relative strength of agreement/disagreement.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 10% level.
An ** indicates that the mean is significantly different from the neutral response of 3.00 at 5% level.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 1% level.**
N* in the table is less than 192 as there is some respondents did not answer the whole questions

The differences between Tables 7.24, and 7.27 may refer to whether the controlling shareholders and merchant families agree on having board committees; the process of selecting the board committees' members may refer to the existing board members and chairmen.

Table 7.28 shows each group's views about the influence of the 18 factors over the appointment of board committee members and all groups agree about the influence of regulations, regulators and courtesies factors over appointment of board committees' members, as regulations and courtesies have neutral influence over appointing board committee members.

Table 7.28 Factors that influence the appointment of Board Committee members: differences between groups

The number of agreement and disagreement between groups	Factor	Group Means				K-W p-values	M-Whitney P-Values						No. Of significant differences
		R	BM	E	I		R, BM	R, E	R, I	BM, E	BM, I	I, E	
	Q13iia	2.93	2.96	3.07	3.21	0.41	0.96	0.57	0.11	0.62	0.35	0.36	**0**
	Q13iib	2.75	2.68	2.77	3.04	0.33	0.82	0.98	0.12	0.86	0.21	0.19	**0**
	Q13iic	2.61	2.92	2.93	2.75	0.57	0.36	0.18	0.58	0.85	0.59	0.39	**0**
	Q13iid	2.23	2.64	2.40	1.85	0.01***	0.10	0.71	0.05	0.37	0.00	0.08	**4**
2v2	**Q13iie**	2.26	3.28	2.90	2.46	0.00***	0.00	0.02	0.20	0.25	0.00	0.11	**3**
1v3	**Q13iif**	2.33	3.16	2.47	2.39	0.03***	0.00	0.53	0.52	0.04	0.00	0.82	**3**
1v3	**Q13iig**	2.31	3.24	2.63	2.38	0.03***	0.00	0.38	0.60	0.13	0.00	0.56	**2**
2v2	**Q13iih**	2.28	3.32	2.80	2.35	0.00***	0.00	0.06	0.60	0.14	0,00	0.10	**4**
1v3	**Q13iii**	1.69	2.36	1.97	1.83	0.11	0.02	0.20	0.22	0.32	0.10	0.56	**2**
	Q13iij	2.13	2.60	2.31	1.93	0.05**	0.07	0.48	0.30	0.40	0.00	0.14	**2**
2v2	**Q13iik**	2.38	2.60	2.90	2.41	0.22	0.55	0.04	0.83	0.32	0.63	0.05	**2**
2v2	**Q13iil**	2.48	3.04	2.83	2.34	0.07**	0.07	0.21	0.44	0.56	0.02	0.08	**3**
2v2	**Q13iim**	1.97	2.92	2.72	1.97	0.00***	0.00	0.00	0.74	0.58	0.00	0.00	**4**
2v2	**Q13iin**	2.75	3.20	3.10	2.90	0.32	0.10	0.22	0.39	0.78	0.24	0.46	**1**
	Q13iio	2.80	3.16	3.07	2.94	0.51	0.19	0.31	0.36	0.77	0.41	0.68	**0**
1v3	**Q13iip**	2.39	3.04	2.66	2.32	0.04***	0.01	0.29	0.78	0.25	0.00	0.20	**2**
1v3	**Q13iiq**	1.67	2.32	1.97	1.72	0.02***	0.00	0.14	0.65	0.27	0.01	0.22	**2**
2v2	**Q13iir**	1.67	2.16	2.04	1.61	0.07**	0.04	0.20	0.71	0.63	0.01	0.11	**2**
Total differences		**2.31**	**2.86**	**2.64**	**2.35**		**13**	**4**	**1**	**1**	**12**	**5**	**36**

Note: The Kruskal-Wallis test shows whether there are any differences amongst different groups, the Mann-Whitney test shows which particular pairs of groups are significantly different from each other.
An * indicated that there is significant differences between groups at 5% level.
R= regulators, BM= board members, I= investors, E= executives
The first column shows the agreement and disagreement between the group's views, 2v2 = BM+E V I+R, 1v3 = BM v I+R+E.

However, again The BM and E groups views do not accord with those of the I and R groups. The highest differences in views is between the BM and R groups (13 factors) and between

BM and I group (12 factors) as noted in the previous sections. In order to condense the factor from 18 a factor was conducted as displayed in Table 7.29.

Table 7.29 PCA for factors that influence the appointment of Board Committee Members

Factor	Actor networks	Coercive pressures	Symbolic carriers	Merchant families & Government V Board members' preferences	Government
1960 companies' law requirement	0.370	0.723	-0.336	-0.134	-0.262
KSE regulation	0.397	0.750	-0.312	-0.041	0.012
Government monitoring and regulators	0.460	0.637	0.037	0.211	0.318
Annual General Meeting of shareholders	0.400	0.523	0.379	-0.234	-0.079
Government ownership	0.295	0.001	0.340	-0.076	0.725
Merchant families ownership	0.675	-0.136	0.166	-0.177	0.301
Mutual interest between major shareholders	0.769	-0.205	-0.070	-0.499	-0.112
Mutual interest between major shareholders and government	0.709	-0.127	-0.064	-0.413	-0.073
Controlling shareholder (s)	0.557	-0.167	0.397	-0.123	-0.072
Executive management	0.701	0.199	0.274	0.083	-0.080
Experience and qualification of appointees	0.608	0.214	0.272	0.294	0.082
Personal relationships between merchant families and regulators	0.800	-0.134	-0.276	0.043	0.058
Self interest of board members	0.801	-0.249	0.015	-0.104	-0.113
Favouritism of board members	0.688	-0.247	-0.479	0.290	0.215
Courtesies	0.697	-0.260	-0.473	0.253	0.134
Cultural influences	0.792	-0.139	-0.157	-0.005	-0.176
Chairman's preferences	0.627	-0.212	0.402	0.197	-0.254
Existing board member preferences	0.469	-0.008	0.273	0.571	-0.325
Eigenvalues	6.955	2.228	1.604	1.209	1.109
Proportion of Variance	38.637	12.377	8.913	6.719	6.160
Cumulative	38.637	51.014	59.927	66.646	72.806

Note: this table shows the most influential factors have been selected by respondents affect minorities' interest.

Table 7.29 shows almost similar results with the findings in Table 7.26 considering the previous findings.

7.6 The impact of merchant families on the Government; regulators; legislators; and companies' management and practices

The final part of the questionnaire covered the respondents' views about the merchant families' power and authority over the government, regulators, legislators, and companies' management. Table 7.30 shows that merchant families have a strong influence over all of these they have and that they permeate the whole of society in decision making and power.

Table 7.30 Merchant families' influence

Q	Statement	N	Mean	Std. Deviation	Skewness	Kurtosis	Rank
14a	Government	187	1.75***	0.913	1.248	1.221	2
14b	Legislators	186	2.37***	1.254	0.541	-0.864	6
14c	Regulators	185	2.45***	1.098	0.282	-0.707	7
14d	Board members	187	1.73***	0.832	1.330	2.203	1
14e	Executive management	186	1.77***	0.848	1.268	1.902	3
14f	Applying codes and law	184	2.57***	1.186	0.261	-0.756	8
14g	The process of board committee membership selection	184	1.92***	0.983	1.200	1.267	5
14h	Current company practices	184	1.86***	1.002	1.101	0.582	4

Note: A 5-point Likert scale was used in this question, values ranged from 1= "strongly agree" to 5 = "strongly disagree". The ranking column is based in the mean of all participants.
Although the data is not normally distributed, the mean is shown to show the relative strength of agreement/disagreement.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 10% level.
An ** indicates that the mean is significantly different from the neutral response of 3.00 at 5% level.
An * indicates that the mean is significantly different from the neutral response of 3.00 at 1% level.**
N* in the table is less than 192 as there is some respondents did not answer the whole questions

This positive influence for all the above factors supports the assumption that merchant families are the main actors in the organisational field and that they are well connected with the government and regulators by establishing networks with the decision makers in the country,

thus through their political represent often in parliament and by normative pressures as board members in listed companies there is a single community of practice over corporate governance. Thus, the influence of merchant families showing that they are competing organisational logics by not making any head way in changing these dominant logics.

The question that arises is whether all the groups' views were the same. Table 7.31 shows each group's view in regard to the merchant families influence.

Table 7.31 merchant families' influence: differences between groups

The number of agreement and disagreement between groups	Factor	Group Means				K-W p-values	M-Whitney P-Values						**No. Of significant differences**
		R	BM	E	I		R, BM	R, E	R, I	BM, E	BM, I	I, E	
1v3	**Q14a**	1.66	2.60	1.77	1.52	0.00***	0.00	0.43	0.34	0.01	0.00	0.09	**4**
1v3	**Q14b**	2.07	3.24	2.50	2.25	0.00***	0.00	0.52	0.38	0.03	0.00	0.21	**3**
1v3	**Q14c**	2.17	3.24	2.60	2.34	0.00***	0.00	0.06	0.46	0.02	0.00	0.20	**4**
2 v 2	**Q14d**	1.57	2.12	2.17	1.56	0.00***	0.00	0.00	0.69	0.86	0.00	0.00	**4**
2 v 2	**Q14e**	1.58	2.32	2.23	1.54	0.00***	0.00	0.00	0.58	0.77	0.00	0.00	**4**
2 v 2	**Q14f**	2.24	3.12	2.93	2.49	0.00***	0.00	0.00	0.23	0.54	0.02	0.09	**4**
2 v 2	**Q14g**	1.73	2.36	2.37	1.74	0.00***	0.00	0.01	0.86	0.69	0.00	0.01	**4**
2 v 2	**Q14h**	1.63	2.76	2.30	1.56	0.00***	0.00	0.00	0.49	0.15	0.00	0.00	**4**
Total differences		**1.83**	**2.72**	**2.35**	**1.87**		**8**	**6**	**0**	**3**	**8**	**6**	**31**

Note: this table shows group means, p-values for the Kruskal-Wallis test, which shows whether there are any differences amongst different groups, and p-value for Mann-Whitney test, which shows which particular pairs of groups are significantly different from each other.
An * indicated that there is significant differences between groups at 5% level.
R= regulators, BM= board members, I= investors, E= executives
The first column shows the agreement and disagreement between the group's views, 2v2 = BM+E V I+R, 1v3 = BM v I+R+E.

Table 7.31 shows that the R and I groups agree with each other but the BM and E groups agree much less strongly than the I and R groups about the influence.

7.7 Summary

This chapter shows that there seems to be a general agreement that networks of actor involving the merchant families and the government are the most influential factor affecting corporate governance and the fact that there is no corporate governance code. Table 7.32 summaries the factors with the highest means from all the proceeding tables in this chapter that influence governance practices in Kuwait.

Table 7.32 The most influential factors in all the above questions

Table	Question	The highest means		
		1	2	3
7.3	Factors influencing governance practices	Self interest of board members	Controlling shareholders	Cultural influences
7.6	Factors hindering the issuance of a Kuwaiti corporate governance code	Lack of experience and qualifications of legislators	Self interest of board members	Controlling shareholders
7.9	Factors influence selecting chairman	Controlling shareholders	Merchant families ownership	Self interest of board members
7.12	Factors influence selecting BMs	Controlling shareholders	Merchant families	Self interest of board members
7.15	Factors influence selecting CEO	Controlling shareholders	Merchant families ownership	Self interests of board members
7.18	Factors affecting the protection of minority interests	Self interests of Board members	Controlling shareholders	Mutual interest between merchant families and the government
7.21	Factors affect the separation of the chairman and CEO	Self interest of board members	Controlling shareholders	Mutual interest between merchant families and the government
7.24	Factors influence having board committees	Controlling shareholders	Existing board members preferences	Chairman’s preferences
7.27	Factors influencing appointing board committees’ members	Board members’ preferences	Chairman’s preferences	Controlling shareholders
7.30	Merchant families influence	Board members	Government	Executive management

Note: this table shows the three most influential factors in each section.

In Table 7.32 the two most frequent factors are controlling shareholders and the self interest of board members, those factors are highly influential on the current governance practices of listed companies and has hindered the issuance of a Kuwaiti code of corporate governance. According to the four different group’s views, there is some convergence between them, as

Table 7.33 shows; convergence is often between the I, R, and E groups versus the BM group, or between the I and R groups versus the BM and E groups together. The BM group represents the merchant families, and clearly their views often contradict those of the regulators and individual investors.

Table 7.33 The convergence of each groups' views

Table	**I + R V BM + E** **2 V 2**	**BM V I+R+E** **1 V 3**	**Total differences**	**Total factors**
7.4	3	5	8	17
7.7	7	-	7	17
7.10	4	4	8	19
7.13	6	3	9	19
7.16	7	6	13	19
7.19	3	10	13	17
7.22	3	9	12	17
7.25	9	3	12	18
7.28	7	5	12	18
7.31	5	3	8	8
Total	**54**	**48**	**102**	**169**

Notes: this table shows the first column tables 7.4; 7.7; 7.10; 7.13; 7.16; 7.19; 7.22; 7.25; 7.28; 7.31.
The rest of factor are in some questions are agree, and in other are all different

Table 7.33 shows that in the first four tables (7.4, 7.7, 7.10, 7.13) there is more agreement between the groups specifically on the influence of the regulations. In contrast, other tables show less agreement between groups, as the I and R groups refer to the influence networks of actors on the current corporate governance practices of listed companies, whereas the BM group refers to the existing regulations.

Table 7.34 also shows that the main factors from the PCA, are networks of actor (10), coercive pressure (9), experience and qualifications (6), and symbolic carriers (4) that reflect corporate governance practices in Kuwait.

Table 7.34 The summary of PCA tables

Table	Question	The 5 most highest selected factors				
		1	2	3	4	5
7.5	**Factors influence governance practices**	networks of Actor	Coercive pressures	Ownership	Experience and qualifications	Executive management
7.8	**Factors hinder the issuance of Kuwaiti corporate governance code**	networks of Actor	Coercive pressures	Experience and qualifications	Material and symbolic carriers	-
7.11	**Factors influence selecting chairman**	Networks of Actor	Coercive pressures V material carriers	Executive management and merchant families	Experiance and qualifications	-
7.14	**Factors influence selecting BMs**	Networks of Actor	Coercive pressures and government	Board members	Merchant families	-
7.17	**Factors influence selecting CEO**	Networks of Actor	Coercive pressures	Experience and qualifications	Government and merchant families ownership	Chairman preferences
7.20	**Factors affecting the protection of minority interests**	networks of Actor	Coercive pressures	Executive management and prestige	Regulations and experience and qualification	-
7.23	**Factors affect the separation of the chairman and CEO**	Networks of Actor	Coercive pressures	Symbolic carriers	Executive management and experience and qualifications	-
7.26	**Factors influence having board committees**	Networks of Actor and symbolic carriers	Coercive pressures	Major shareholders	Merchant families	Government and merchant families ownership
7.29	**Factors influencing appointing board committees' members**	Networks of Actor	Coercive pressures	Symbolic carriers	Merchant families, government, and board member preferences	Government

Notes: this tables shows the most selected factors in tables 7.5; 7.8; 7.11; 7.14; 7.17; 7.20; 7.23; 7.26; 7.29; 7.32

In column 2 in 7.14, the meaning of coercive pressure and government refers to the government either through its regulator role (coercive pressure) or through its role as a major shareholder in Kuwaiti listed companies due to their investment arms.

In summary, since the government, as a major shareholder in Kuwaiti listed companies, delegates power to the merchant families, they have established a single community of practice inside the organisational field of listed companies based on beliefs and thoughts (symbolic

carriers) that have become the prevailing logics, as well as the material carriers. The single community of practice is a result of coercive, normative, and mimetic practices exercised by both the government and merchant families; the government has established a normative practice inside the field by exercising bad practices in government owned companies mentioned earlier in chapter 6, and merchant families maybe mimic these bad practices who then coerce executive management and board members to apply these practices. Other listed companies may then also mimic the listed companies controlled by merchant families hence embedding these organisational logics more deeply. Thus, any effort to introduce a corporate governance code, will raise opposition from both the government and merchant families as it is against their interests. Self interests of the actors of the field (government and merchant families) that established a network of actors have weakened the endogenous forces for the process of change in the current practices of the organisational field of Kuwaiti listed companies.

The next chapter summarises the results of this thesis to provide concluding thoughts and avenues for future research.

Chapter 8

Conclusion and Summary

8.1 Introduction

This thesis investigates the reason why there is no corporate governance code in Kuwait and the role of the merchant families in preventing any change to the companies' Act 1960 (Article 15). In particular, the perceptions of legislators, regulators, executive management and board members of listed companies, and investors, who represent the actors in the organisational field of listed companies in Kuwait, are used to identify the factors influencing Kuwaiti corporate governance practices. This chapter provides a general discussion of the empirical findings and ties them into the research questions of the thesis and its theoretical framework.

This chapter is organised as follows. Section 8.2 provides a summary of the research. Section 8.3 discusses the major findings and ties them to the research questions, followed by Section 8.4, which highlights the main contributions to our knowledge. Section 8.5 outlines the limitations and the problems associated with conducting the research, while Section 8.6 suggests avenues for future research. The final Section, 8.7, provides the concluding thoughts to this thesis.

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8.2 Summary of the Research

The thesis consists of eight chapters. Chapter 1 provided an introduction to the research topic and its focus, questions and structure. Chapter 2 presented an overview of the Kuwaiti context including general background about the country and its social, political,

legal, and economic environment in two eras: pre and post discovery of crude oil, as well as the role and influence of Kuwait's merchant families.

Chapter 3 reviewed and outlined the general literature about the development of corporate governance and the impact of legal, political, and cultural factors on this. It discusses the development of corporate governance in developing and MENA countries and how different factors have impacted negatively on the process of development, as well as summarising the prior literature about Kuwaiti listed companies' practices. Chapter 4 discussed the theoretical framework that is adopted to interpret the research findings. This thesis uses a new institutional sociology perspective to explore the community of practice and the organisational logics and actor network within the organisational field of listed companies in Kuwait.

Chapter 5 discussed the research methodology and methods, and justifies the selection of the research paradigm, methodology and methods that are adopted in this study. This thesis uses an interpretive methodological approach to provide an explanation of the factors that prevent the issuance of a Kuwaiti corporate governance code. Chapters 6 and 7 analysed and presented the findings of two pieces of empirical work, semi-structured interviews and a questionnaire survey, respectively. These methods are employed to gather the primary data for this thesis. The interviews investigate the perspective and opinions of different groups about listed companies' practices and why Kuwait has not issued a corporate governance code, whether the merchant families are preventing the voluntary application of international practices and the issuance of such a code, and whether Companies' Act (Article 15) 1960 covers all aspects of corporate governance. The questionnaire survey is used to develop

further the exploration of the current practices of Kuwaiti listed companies and to investigate whether the merchant families have prevented the issuance of a Kuwaiti corporate governance code.

8.3 Research Findings

This section discusses the major findings and ties them in with the research questions of: *Why is there no corporate governance code in Kuwait?*, *Which factors affect corporate governance practices in Kuwait?*, and *is there a single community of practice?* The following sections discuss and summarise the major findings of the thesis in order to answer these questions.

8.3.1 The reasons why there is no Kuwaiti code of corporate governance

This section discusses the evidence collected from the empirical work to help to answer the first research question: "*Why is there no corporate governance code in Kuwait?* Group perceptions were sought on the issues that have influenced why there has been no issuance of a Kuwaiti code of corporate governance.

First, legal factors have impeded the issuance of a code, as such legislation is in the hands of parliament and in the hands of the government. However, there is a strong actor networks between the merchant families in the parliament and the government. Hence, the symbolic carriers of international practice are absent as the government "rewards" the merchant families by not enforcing laws or charging them with illegal transactions and bad practices in payment for their support of the government. The merchant thus families exercise coercive pressure

over: (i) the government not to exercise its regulative role and issue a corporate governance code; and (ii) over legislators in parliament to oppose any changes to the 1960's companies' Act (Article 15). The interviewees and questionnaire respondents suggested that the reason for the merchant families' opposition to the issuance of corporate governance is to protect their own self-interests and maintain their control and power over listed companies.

Another reason why there is no corporate governance code in Kuwait is related to government-owned companies that have bad governance practices that contradict global corporate governance principles and hence the government does not make any effort to bring in a code that will change their practices. The merchant families also mimic government owned companies' practices as it satisfies their own interests and hence they do not lobby for any code.

Third, the political and cultural situation of the Kuwait has given the power to the merchant families which enables them to oppose the issuance of a corporate governance code and coerce the government into not issuing the code. This has neutralises the power of regulators and legislators and strengthen of the merchant families' political and cultural power and influences corporate governance practices in listed companies, as outlined below.

8.3.2 Factors affecting corporate governance practices in Kuwait

The second question is: "What factors affect corporate governance practices in Kuwait?" institutional factors such as the cultural, political and legal background all affect Kuwaiti corporate governance.

Cultural factors are the symbolic carriers of corporate governance practices epitomised by the material carriers representing in merchant families networks with the government, resulting in close social and personal relationships between the merchant families and the government, such that corporate governance practices have become embedded through mimetic and normative isomorphic processes.

Moreover, another symbolic carrier of practices is the beliefs and traditional thinking of the merchant families who manage and control listed companies; bad corporate governance such as no separation of the role of the chair and CEO and no independent directors means that there is no real monitoring or evaluation of company strategy or decisions.

As well as the cultural factors that influence corporate governance practices in Kuwaiti listed companies, there are also the symbolic carriers in the regulations and laws that are affected by political factors. The interviewees illustrated that the role of parliament is to issue laws and acts, such as a corporate governance code, as a symbolic carriers but it is weak due to the large representation of the merchant families in parliament. More specifically, the monetary and financial committee of parliament that is responsible for studying and presenting the economic and financial regulations and acts is dominated by merchant families to protect their own interests and make sure that no codes are issued that threaten their interests and control. Also, the interviewees criticized the role of the government as a regulator that obtains political support from the merchant families when facing questions from the opposition party in parliament and then pays them back by not enforcing the law.

The above factors strengthen the merchant families influence and the networks of actors between the merchant families and the government facilitates them having established their own preferred practices that become immune for any endogenous forces to change the current practices, as shown below.

8.3.3 A single community of practice

The third research question is: "*Is there a single community of practice?* In order to answer this question, the interviewees and questionnaire respondents were asked about listed companies' current practices in the organisational field of Kuwaiti listed companies. They clearly stated that there is just one single community of practice whereby boards are controlled by the merchant families, even in government owned companies.

For example, board committees do not exist since the symbolic carriers, represented by the 1960 companies' Act (Article 15) are not mandated. The regulators and legislators stated that an audit committee is compulsory for banks and investment companies as the central banks forces them to establish one, but even in banks the other committees do not exist. Further, audit committee members include family board members and executive management, contrary to normative practices around the world.

Another practice is the existence of CEO and chair duality, where separation of the roles is rare since the 1960 companies' Act (Article 15) as a symbolic carrier does not make listed companies separate the chairmanship from the CEO position.

Another practice is the weak level of disclosure and transparency also associated with the 1960 Act (Article 15) that does not force listed companies to disclose information and to be transparent in their transactions.

Hence, the merchant families through actor networks and coercive normative and mimetic isomorphic process have established one single community of practice within the organisational field of Kuwaiti listed companies to satisfy their own self-interest and maintain their control and power. These practices contradict normative principles of corporate governance such as the OECD code. The isomorphic pressures that have led listed companies to having just one community of practice is a result of (i) coercive pressure represented by the existing regulations in the country and that embedded symbolic carriers of the merchant families' beliefs and traditions that pressurise the government; (ii) normative pressure from the merchant families over all listed companies and; (iii) mimetic pressure by merchant families that have established a community of practice that other listed companies mimic and by the merchant families mimicking the practices of government owned companies.

8.4 Contribution to Knowledge

This thesis contributes to our knowledge in a number of ways. First it is a preliminary study that investigates corporate governance practices in Kuwait, and the factors that prevent the issuance of a Kuwaiti code of corporate governance.

Another contribution made by this thesis is the use of a new institutional sociology perspective as theoretical framework for interpreting the findings. In this regard, the thesis

provides a general understanding of how different types of institutional pressure, coercive, normative and mimetic influence and shape the community of practice within Kuwait.

Also, the present thesis contributes to the literature about corporate governance practices in Kuwaiti listed companies and the role of the merchant families in establishing one community of practice that has been influenced by the political, cultural and legal situation of Kuwait. The findings also contribute to our knowledge by focusing on the perceptions of different stakeholders groups regarding corporate governance in Kuwait as there is a dearth of such research from this perspective in the corporate governance literature. In this regard, it provides an understanding of the factors and role of the merchant families in preventing the issuance of a Kuwaiti code of corporate governance.

This thesis therefore contributes to our knowledge by examining the community of practice within the organisational field of listed companies in Kuwait and sheds light on issues related to board structure, board committees, the presence of independent board members, the separation of the chairmanship from the CEO position, the level of disclosure and transparency, as well as exploring the impact of the legal political and cultural system in Kuwait and how all of these factors block the process of corporate governance development.

Additionally, this thesis finds that the material carriers such as networks of actor and relationships play a significant role in developing the symbolic carriers of existing codes and law; the network of actors, between the merchant families and the government, is dominant and highly valued in the culture of Kuwait. This is a major contribution to our knowledge.

Finally, the present thesis contributes to our knowledge by finding that the executives in Kuwaiti regulatory bodies lack the experience and qualifications to do their jobs and, is one of the main reasons why Kuwait does not have a corporate governance code. Thus, this thesis has a number of new insights into corporate governance and contributes to our knowledge.

8.5 Limitations and the Problems related to Conducting the Research

There are some important limitations to the findings of this thesis that should be taken into account. The first limitation is related to the small number of respondents on which the study focuses. This thesis conducted 23 interviews with different groups of actors within the organisational field of Kuwaiti listed companies. It also analysed 192 questionnaires, focusing on the current practices of the listed companies and the impact of legal, political, and cultural factors on the issuance of a corporate governance code. Moreover, only a small number from the merchant families participated in this thesis (interviews with 2 members, questionnaire completed by 6 members). Such research methods and the small number of participants, specifically from the merchant families' group, might not reflect the perceptions of all of the actors inside the organisational field with regard to the current practices and the factors preventing the issuance of a corporate governance code.

Other limitations are concerned with the research methods used for this thesis. For example, some of the participants in the interviews or questionnaire survey may have misinterpreted or misunderstood some of the questions because they are unfamiliar with the concept of corporate governance as a result of the code not having been discussed in Kuwait, and may be

unwilling to reveal their lack of knowledge and understanding and so they may not have provided realistic answers.

In addition to the above limitations, researchers who are doing a PhD thesis in a new area face many challenges which have to be addressed, and researchers should be aware that some topics and research phenomena are more difficult than others. Some of the problems that were encountered while conducting this research are noted below.

The first problem was the empirical phenomenon itself, which was the concept and practices of corporate governance in Kuwait. A review of the literature on corporate governance in Kuwaiti listed companies has not been undertaken previously and knowledge of their current practices is very limited. Although it was very difficult to deal with this problem, it encouraged the researcher to study this phenomenon and so make a valuable contribution to the literature.

To deal with this problem, the researcher adopted a different structure to address the literature review in this thesis. First, the appearance and development of corporate governance in Western countries such as UK and USA and internationally such as OECD were explored. Then, the factors that encourage the development and effectiveness of a corporate governance code were outlined before the available research on the MENA region was reviewed. Then, an attempt was made to link the development of the corporate governance code in MENA countries and the impact of the factors on the development of the code and its effectiveness. To incorporate the Kuwaiti context in the absence of any prior literature, the thesis focused on the impact of the legal, political, and cultural factors that had prevented the issuance and development of a Kuwaiti corporate governance code.

The second problem was that the empirical phenomenon itself is a new phenomenon. In Kuwait, specifically in the regulators' bodies, the level of participation in the study was very low and some rejected it without giving any reason for this. In general, the motivation to participate in this study was very low. Therefore, the researcher used his personal relationships, specifically among the regulatory bodies and listed companies, to raise the participation level for this thesis.

The last research problem, finding a theoretical framework, was difficult, as again there are no prior studies on corporate governance in Kuwait to follow. My knowledge of the country itself and many lengthy discussions with my supervisors and other Kuwaitis eventually led to a useful theoretical framework of a New Institutional Sociology theory.

8.6 Future Research Avenues

Studies on corporate governance in Kuwait are rare. Indeed, there is a vast gap in the literature about corporate governance in Kuwait, and thus there is a significant need for further studies about the development of this by overcoming the factors that are preventing the issuance of the code.

Future research might focus more on the role and ability of the legislators in developing a corporate governance code in the country since they have the power to issue acts in Kuwait. Another important proposal for future research is related to the role of professional associations as a normative influence in motivating listed companies to voluntarily adopt better corporate governance practices.

Another important proposal for future research is related to the role of the regulators in developing corporate governance in Kuwait. Future research should consider how to motivate the regulators to become more active with regard to issuing codes and forcing listed companies to apply them. Also, it should set a limit for government interference in the selection of executives on the regulatory bodies and separate them to give the regulators independence with regard to acting and issuing codes.

Another important avenue for future research should be how to motivate the process of change in the organisational logics of current practices from depending on material carriers to be based more on symbolic carriers governed by regulations and laws rather than actor networks and personal relationships (material carriers).

Future research should also concentrate on the cultural impact to improve Kuwaiti listed companies governance practices.

Also, future research should compare listed companies with unlisted companies, to find out whether the practices of listed companies are mimicked by unlisted companies. Overall, there are a number of interesting avenues for future research.

8.7 Concluding Thoughts

The issuance of a corporate governance code in Kuwait has been affected by the political, legal, and cultural context of the country. Groups with political, legal power and cultural norms in any society can influence corporate governance practice.

Merchant families in Kuwait are very powerful and have influence in political life, over the regulatory system, and a large cultural influence in the Kuwait context. They gained this power and prestige through their financial contributions befor the discovery of oil, which in turn facilitated them to become well connected with the government and other decision makers in the country establishing a network of actors. This has facilitated the merchant families being the dominant actor inside the organisational field of listed companies; and become the sole actor in the field. This allows them to oppose new regulations that threaten their self interest and control over listed companies.

The community of practice of Kuwaiti corporate governance shows contradicts normative practices around the world. This is a result of the 1960 companies' Act (Article 15) being outdated that prevents normative practices, such as the existence of independent board members, becoming established.

A corporate governance code faces opposition in Kuwait since it contradicts with the symbolic carriers of the merchant families' beliefs and their current practices in listed companies. Hence, in order to overcome the merchant families' resistance a massive effort is needed from groups such as investors and regulators, to change the existing culture inside the organisational field by raising awareness and calling for change. Educated staff who work in regulators are currently the only drivers for change to bring in a code of corporate governance.

This thesis add to my knowledge the importance of corporate governance in general, and specifically in Kuwait, Kuwaiti listed companies are lack to normative practices and efforts from associations and interested groups are needed to force regulators and legislators issue

Kuwaiti corporate governance code. The thesis raises my knowledge of the importance of independent board members and separation of chairman and CEO positions that minimise major shareholders control over companies' board and management, and strengthen the monitoring role of board members.

It is hoped that the findings of this thesis will provide useful insights for legislators and others and pave the way for further investigation and research.

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Appendix 1

Interview questions: regulators and investors

Section (A) Corporate governance code:

1. What is your knowledge and understanding of corporate governance and how do you define it?
2. Why do you think there is no Kuwaiti code of corporate governance
3. To what extent does the companyies' Act (Article 15) cover all aspects of corporate governance?
4. What corporate governance practices are not covered in the companyies' Act (Article 15) and should they be in a code?
5. Would a Kuwaiti code of corporate governance contradict the existing Companies' Act (Article 15) and the legal and judicial system in Kuwait?

Section (B) Influence of Merchant families and other factors:

1. Are there any influences on companies which prevent them from applying corporate governance and why, and if so, what are these external influences?
2. Are there any political, economic, cultural or social factors affecting why there is no corporate governance code?
3. The KSE was one of the early stock markets in GCC countries, and has its rules prevented the adoption of a code?

4. What is the influence of the merchant families in corporate governance in Kuwait?
5. Do merchant families oppose a code, and if so why?
6. To what extent do you think that a Kuwaiti code of corporate governance would threaten the merchant families control and minimise their power in both listed and unlisted companies?
7. Do you think that merchant families and their networks exert their influence in CMA, Government, or in the parliament?
8. Who should produce a Kuwaiti code of corporate governance, the CMA, KSE, anyone else, and why?
9. Do merchant families dominate companies' boards, and if so, how and why?

Section (C) Company's practices questions:

1. How should board members elected, and why is it done this way?
2. How should the CEO be appointed, and why should the board chose this way?
3. Do companies have non-executive directors on the board, if so, who appoints them, and why do they do it that way?
4. Should chairman be separate from the CEO, and if so why?
5. Should companies have a nomination; remuneration and audit committee?, Who are the members of these committees and why?
6. Why do you think that listed and unlisted companies voluntarily adopt corporate governance practices?

7. Does the ownership structure (major shareholder and diverse ownership) have an effect on the degree to which corporate governance principles are implemented and, if so, why?
8. Are there any other factors that affect Kuwaiti listed and unlisted companies voluntarily adopting corporate governance practices?
9. Do all companies comply with the Companyies' Act (Article 15), and for those that don't why is that?
10. Should companies treat all shareholders and stakeholders equally, and why do you think that?
11. Should companies be transparent and disclose information, and if so why?

Appendix 2

Interview questions: board members and executive management

Section (A) Corporate governance code:

1. What is your knowledge and understanding of corporate governance and how do you define it?
2. Why do you think there is no Kuwaiti code of corporate governance
3. To what extent does the companies' Act (Article 15) cover all aspects of corporate governance?
4. What corporate governance practices are not covered in the companies' Act (Article 15) and should they be in a code?
5. Would a Kuwaiti code of corporate governance contradict the existing Companies' Act (Article 15) and the legal and judicial system in Kuwait?

Section (B) Influence of Merchant families and other factors:

1. Are there any influences on companies which prevent them from applying corporate governance and why, and if so, what are these external influences?
2. Are there any political, economic, cultural or social factors affecting why there is no corporate governance code?

3. The KSE was one of the early stock markets in GCC countries, and has its rules prevented the adoption of a code?
4. What is the influence of the merchant families in corporate governance in Kuwait?
5. Do merchant families oppose a code, and if so why?
6. To what extent do you think that a Kuwaiti code of corporate governance would threaten the merchant families control and minimise their power in both listed and unlisted companies?
7. Do you think that merchant families and their networks exert their influence in CMA, Government, or in the parliament?
8. Who should produce a Kuwaiti code of corporate governance, the CMA, KSE, anyone else, and why?
9. Do merchant families dominate companies' boards, and if so, how and why?

Section (C) Company's practices questions:

1. How are your board members elected, and why is it done this way?
2. How is the CEO appointed, and why has your board chosen this way?
3. Does your company have non-executive directors on the board, if so, who appoints them, and why do you do it that way?

4.Is your chairman separate from the CEO, and if so why?

5.Does your company have a nomination; remuneration and audit committee?, Who should be the members of these committees and why?

6. Why do you think that listed and unlisted companies voluntarily adopt corporate governance practices?

7. Does the ownership structure (major shareholder and diverse ownership) have an effect on the degree to which corporate governance principles are implemented and, if so, why?

8. Are there any other factors that affect Kuwaiti listed and unlisted companies voluntarily adopting corporate governance?

9. Do all companies comply with the Companies' Act (Article 15), and for those that don't why is that?

10. Should companies treat all shareholders and stakeholders equally, and why do you think that?

11. Should companies be transparent and disclose information, and if so why?

Appendix 3

Corporate governance in Kuwait

Questionnaire survey

(Regulators and Investors)

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Section A

1- Please tick all that apply to yourself:

Your position		
Regulator:	**a)** Capital Market Authority	
	b) Kuwait Stock Exchange	
	c) Central bank	
	d) Other (please state which)	
Legislator:	**a)** Member of Parliament	
Government:	**a)** Ministry of commerce	
Investor:	**a)** Merchant families	
	b) Minor investor	
Other (please specify)		

2- Please identify your age group by ticking the appropriate box.

Less than 40		**51 – 60**	
41 – 50		**More than 60**	

3- To what extent are you familiar with the following regulations, where 1= very familiar / 5= unfamiliar?

Laws and code	1	2	3	4	5
Kuwait 1960 Companies' act (Article 15)					
OECD principles of corporate governance					
The UK's combined code					

4- Please tick in which apply to the listed companies about their ownership structure?

Group	
a. Government ownership	
b. Merchant families ownership	
c. Foreign investors	
d. Diverse ownership	
e. Other (please specify):	

Section B

5- **To what extent do you agree with the following, where 1= strongly agree / 5= strongly disagree?**

Laws and code	**1**	**2**	**3**	**4**	**5**
The Kuwait 1960 Companies' act (Article 15) is adequate					
A new corporate governance code should be introduced					
Any new code should be mandatory rather than voluntary					

6- **To what extent do you agree that the corporate governance practices of various sectors of Kuwaiti companies are good and that they comply with the 1960 Companies' Act (Article 15), where 1= strongly agree / 5= strongly disagree?**

Sectors	**Corporate governance practices are good**					**They comply with the 1960 Companies' Law**				
	1	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**
Bank sector										
Investment sector										
Insurance sector										
Real estate sector										
Industrial sector										
Services sector										
Food sector										
Non Kuwaiti sector										

7- **To what extent do you agree that the following factors influence good governance practices, where 1= strongly agree / 5= strongly disagree?**

Factors	**Good corporate governance practices**				
	1	**2**	**3**	**4**	**5**
a. 1960 Companies' Act requirements					
b. KSE regulations					
c. Government monitoring					
d. Annual General Meeting of shareholders					
e. Government ownership					
f. Merchant families ownership					
g. Mutual interest between major shareholders					
h. Mutual interest between major shareholders and government					
i. Controlling shareholder(s)					
j. Executive management					
k. Experience and qualification of appointees					
l. Personal relationships					
m. Self interests					
n. Favouritism					
o. Courtesies					
p. Prestige					
q. Cultural influences					
Other (please specify)					

8- **To what extent do you agree that the following factors influence selecting chairmen, selecting board directors, and selecting the CEO, where 1= strongly agree / 5= strongly disagree?**

Factors	**Selecting chairman**					**Selecting board members**					**Selecting CEO**				
	1	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**
a. 1960 Companies' Act requirements															
b. KSE regulation															
c. Government monitoring															
d. Annual General Meeting of shareholders															
e. Government ownership															
f. Merchant families ownership															
g. Mutual interest between major shareholders															
h. Mutual interest between major shareholders and government															
i. Controlling Shareholder(s)															
j. Executive management															
k. Experience and qualification of appointees															
l. Personal relationships															
m. Self interests															
n. Favouritism															
o. Courtesies															
p. Prestige															
q. Cultural influences															
r. Chairman's preferences															
s. Existing board member preferences															
Other (please specify)															

9- To what extent do you agree that the following factors affect the protection of minority interests, and having a separate chairman from the CEO, where 1= strongly agree / 5= strongly disagree?

Factors	Minority interests					Separation of the chairman and CEO				
	1	2	3	4	5	1	2	3	4	5
a. 1960 Companies' Act requirements										
b. KSE regulation										
c. Government monitoring										
d. Annual General Meeting of shareholders										
e. Government ownership										
f. Merchant families ownership										
g. Mutual interest between major shareholders										
h. Mutual interest between major shareholders and government										
i. Controlling shareholder(s)										
j. Executive management										
k. Experience and qualification of appointees										
l. Personal relationships										
m. Self interests										
n. Favouritism										
o. Courtesies										
p. Prestige										
q. Cultural influences										
Other (please specify)										

10- To what extent do you agree that the following factors hinder the issuance of a corporate governance code in Kuwait, where 1= strongly agree / 5= strongly disagree?

Factors	1	2	3	4	5
a. 1960 Companies' Act requirements					
b. KSE regulation					
c. Government monitoring					
d. Government ownership					
e. Merchant families ownership					
f. Mutual interest between major shareholders					
g. Mutual interest between major shareholders and government					
h. Controlling shareholder(s)					
i. Executive management					
j. Experience and qualification of legislators					
k. Experience and qualification of regulators					
l. Personal relationships					
m. Self interests					
n. Favouritism					
o. Courtesies					
p. Prestige					
q. Cultural influences					
Other (please specify)					

11- **To what extent do you agree that the following committees exist in Kuwaiti companies, that they comply with the OECD committee membership requirement structure, and whether all companies should have these committees, where 1= strongly agree / 5= strongly disagree?**

Committee	**Existence of committees**					**comply with the OECD committee membership requirement structure**					**Companies should have these committees**				
	1	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**
a. Monitoring committee															
b. Audit committee															
c. Nomination committee															
d. Remuneration committee															
e. Risk committee															

12- **Please specify the board committees in companies you are invest in, your membership of those committees, and whether there are independent board members on those committees?**

Board committees	**Have one**	**You are a committee member**	**There are independent members on the committee**
a. Monitoring committee			
b. Audit committee			
c. Nomination committee			
d. Remuneration committee			
e. Risk committee			
f. Other (please specify)			

13- To what extent do you agree that the following factors influence having these companies' committees and selecting committee members, where 1= strongly agree / 5= strongly disagree?

Factors	**Having committees**					**Influence appointment of committee members**				
	1	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**
a. 1960 Companies' Act requirements										
b. KSE regulation										
c. Government monitoring										
d. Annual General Meeting of shareholders										
e. Government ownership										
f. Merchant families ownership										
g. Mutual interest between major shareholders										
h. Mutual interest between major shareholders and government										
i. Controlling shareholder(s)										
j. Executive management										
k. Experience and qualification of appointees										
l. Personal relationships										
m. Self interests										
n. Favouritism										
o. Courtesies										
p. Cultural influences										
q. Chairman's preferences										
r. Existing board member preferences										
Other (please specify)										

14- To what extent do you agree that the merchant families influence the decision making processes of the following, where 1= strongly agree / 5= strongly disagree?

Factors	1	2	3	4	5
a. Government					
b. Legislators (MPs)					
c. Regulators					
d. Board members					
e. Executive management					
f. Applying laws and act					
g. The process of board committee membership selection					
h. Current company practices					
i. Others (please specify):					

15- Please add any comments that you think are related to the practice of corporate governance in Kuwait:

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