UNIVERSITY OF HULL

The Effect of Leadership on Corporate Governance through the Integration of Corporate Social Responsibility

Perspectives from the Boards of Directors and Chief Executive Officers of the Libyan Commercial Banks

Being a Thesis Submitted in Partial Fulfilment of the Requirements for the Degree of Doctor of Philosophy in the University of Hull

by

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بِسْمِ اللَّهِ الرَّحْمَٰنِ الرَّحِيمِ

In the name of Allah, most Gracious, most merciful

Dedication

I dedicate this achievement to the people, who have never ceased from the encouragement of me pursuing my studies,

My parents.

I also dedicate this dissertation to my beloved country,

Libya.

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First, I am thankful to Almighty Allah for all the help and blessings he has bestowed upon me, including the abilities to finish this work. Certainly, many individuals deserve a special gratitude because without their supports, assistances, and encouragements, I would surely have not arrived to this point and accomplished this thesis. However, due to constraints of space, it is impossible to mention all the names.

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Abstract

Corporate Governance (CG), Corporate Social Responsibility (CSR) and leadership have become such related concepts that each concept is a supplement and/or a complement to the other. CG, for example, has come to govern the principle-agent relationship and ensure the satisfaction of various stakeholders' interests. CSR demands organisations to provide economic, social and environmental justice where they operate. Leadership is the ability of those with power to influence and guide followers to achieve common goals and simultaneously comprehend and respond bravely and constructively to the most critical economic, social and ecological challenges. Thus, once employed altogether effectively, these concepts establish healthy relationships with various stakeholders, gain competitiveness and generate corporate profits.

However, these concepts have been recently under investigation in Libyan society. Scholars and private and public institutions have commenced examining the possible resolutions CG, CSR and leadership can arrange to alleviate the economic, social and environmental concerns the war has produced. Thus far, levels and efforts to apply CG codes have varied in Libyan companies. CSR is a new organisational culture that still designs its route within the Libyan commercial banks (LCBs). Leadership in the LCBs requires transformational and transactional styles to detach itself from any notion of dictatorship and autocratic traits. Therefore, this study tried to link the three concepts CG, CSR and leadership by exploring the impact of the board and executive leadership on CG framework to integrate CSR strategies in the LCBs.

To achieve its goal, the study relied on three main questions to examine: First, to what extent does the board and executive leadership involve in the formation and application of CG structure? Second, to what extent does the board and executive leadership, through TSL and TFL styles, facilitate the application of CSR activities in the LCBs in light of the current Libyan crisis? Third, how does the board and executive leadership influence CG regulations to include CSR agendas in the LCBs to manage the issues caused by the current Libyan crisis? To answer these main questions, it was necessary to create a group of sub questions that investigated: First, the meanings, the current situations and challenges of CG, CSR and leadership? Second, the nature of relationship between CG and CSR in the LCBs? Third, the position of the TSL and TFL styles in the LCBs?

In regard with the methodology, *the study adopted the qualitative approach and conducted semi-structured interviews to collect the required data from 21 BMs and CEOs in 12 public and private LCBs. Then, the data was analysed by using grounded theory approach and thematic analysis method.*

The study provided some findings that answer the sub and main research questions starting with the sub question the findings showed that CG has narrow and wide definitions in the LCBs. Besides, the findings indicate that CSR is mainly encouraged and directed by religion and is centred on the notion of charity, and hardly touch upon achieving sustainable development. CG and CSR have a mutual relationship. Moreover, the findings demonstrate that Leadership features in the LCBs are under the influence of three factors, including the legacy of the previous regime, the Islamic culture and the Western perspective of leadership. Nonetheless, the leadership's attempts to *make economic and social changes seem difficult due to some challenges such as the weak of knowledge in regard with CG and CSR in the LCBs, the weak CG Enforcement system in addition to the Confusion between CSR and the notion of philanthropy, the transformation from traditional to Islamic banks and the impact of social and tribal culture. Concerning the main researcher questions, the findings revealed that the BoDs and CEOs involved in the establishment of the Libyan Corporate governance code (LCGC) by compromising the CG international guidelines with national laws and regulations, in addition to their crucial role in the application and development of CG policies within their banks. The findings also indicated that BoDs and CEOs applied TFL and TSL styles. Both styles work together as continuum to enable the implementation of CSR activities within and outside the banks. Finally, the finding confirmed that the BoDs and CEOs influence the CG regulations to include the CSR practices in the LCBs to meet the interests of both shareholders and other stakeholders.*

The study has some limitations, including the lack of literature regarding to the concepts of CG, CSR and leadership in Libya. Additionally, the study did not include leaders from the middle and lower management and also did not cover other stakeholders' entities. Moreover, this study did not distinguish the differences between the public banks from the private banks. Female participants are absent in this research due to engendered Libyan environment. Finally, the Libyan crisis experienced during the conduct of this research influenced, somehow, the findings of this research.

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List of Abbreviations

AGM	Annual General Meeting
BoDs	Board of Directors
BM	Board Member
CBL	Central Bank of Libya
CEO	Chief Executive Officer
LCBs	Libyan Commercial Banks
LCGC	Libyan Corporate Governance Code
LSM	Libyan Stock Market
TFL	Transformational Leadership
TSL	Transactional Leadership

Research Introduction

Introduction

Organisations have radically changed their strategies and revised their values with the emergence and development of concepts as Corporate Governance (CG), Corporate Social Responsibility (CSR) and leadership, to recreate working surroundings that manage the concerns of rapid economic, social and environmental changes (Filatotchev & Stahl, 2015). Moreover, these concepts have rendered the unacceptable traditional view of profit maximisation as the sole aim of the modern corporation, especially with the mobilisation of societies and non-governmental organisations (NGOs), which put huge pressure on corporations to adjust their policies and become more accountable, transparent and ethical towards all stakeholders. Therefore, the more corporations invest in these constructs, the more they ensure competition and survival (ERIM, 2016).

First, the interest in CG has recently increased in both developed and emerging economies due to a series of global financial crises and collapses that hit prominent companies (Kirkpatrick, 2009). These incidents have encouraged investors to invest in companies with effective CG (Isaksson, 2012). In general, CG intends to ascribe the roles and responsibilities for all the parties that affect the performance of corporations (Filatotchev & Stahl, 2015). Second, CSR has emerged to stand against the profit maximisation idea (Mujtaba & Cavico, 2013). This attitude has actually mobilised the public opinion and media, demanding *"corporations to demonstrate a socially responsible stance"* (Bichta, 2003: 9). This pressure enforced corporations to play a greater role in regard with society and environment where they operate. Thus, CSR is the organisation's contribution to sustainable development and social well-being through the provision of diverse services to alleviate, if not to enhance, the economic, social and environmental issues. Finally, leadership has been brought back to the forefront as businesses search for the best leadership styles that ensure their continued existence and success in the changeable and interactive business world (Tice, 2007). This has helped leadership to go beyond the traditional pyramid structures to adopt flexible and efficient organisational designs (Sabri, 2010). Hence, leadership is the relationship in which the leader influences and inspires followers *"to work together willingly on related tasks to attain that which the leader desires"* (Terry, 1977: 410).

In Libya, the understandings of CG, CSR and leadership have recently attracted attention, particularly in the financial sector. For instance, the Libyan commercial banks (LCBs) have applied these constructs to mitigate the difficulties they face while assisting in the development process (Iswaissi & Falahati, 2017). However, CG, CSR and leadership still require an in-depth study and re-examination in order to redefine and understand how these concepts interact with each other to improve their status and how they ensure the success of the LCBs locally and globally. Leadership is considered a building block. It is responsible for matching CG standards with national laws and regulations, developing practicable CSR policies, remodelling organisational systems, and initiating the required culture change to facilitate the acceptance and implimentation of CG and CSR and, thus, achieve the intended results (Velsor, 2009). Therefore, this chapter presents the research background, significance, the questions this research raises and the objectives it endeavours to attain. The chapter also shows the justification of the methodology used. Moreover, it displays the key findings reached, the contribution the research intends to add. Finally, the chapter concludes with the thesis structure.

Research Background

Conventional economic thought believed once that the goal of businesses was to maximise profits, which in turn led to the development of societies (Friedman, 1962). However, the Organisation for Economic Co-operation and Development (OECD) indicated that as the predominance of personal interest over the public interest spread among executive managers, massive economic crises hit the most famous corporations (OECD, 2009). The anticipated outcomes of profits first to generate developed societies arose critical economic, social and environmental concerns that negatively affected individuals and communities. These issues worsened with the wave of moral scandals that led to the loss of shareowners and stakeholders' confidence in management (Corporate Watch, 2006). This distrust has led to a reconsideration of the roles of corporations and the notion of profits first.

With the emergence of stakeholder theory, trade unions developed and called for the improvement of the working conditions of employees. It has also helped in the rise of organisations that observe the extent to which businesses apply specific industrial and environmental standards. Therefore, in the midst of these events, the business community has reshaped the perception of its objectives towards the micro and macro environment. For instance, businesses adopt CG standards to ensure the respect of all stakeholders' interests, as well as *"making those stakeholders accountable for acting responsibly with regard to the protection, generation, and distribution of wealth invested in the firm"* (Filatotchev & Stahl, 2015: 8). Moreover, as the perceptions of stakeholders have taken on new and more complex dimensions, corporations have had to change from traditional economic growth to sustainable economic growth that considers social and environmental matters together with financial factors by embracing CSR philosophy.

In reality, academics, regulators and policy-makers have restudied CG to reconsider its effectiveness in avoiding the reoccurrence of other financial problems. In addition, they have studied the CSR in order to enable businesses to move forward and create a value that is even more significant for both corporations and society. Furthermore, the academic works on these constructs have shown that there are strong relationships between CG and CSR (Bhimani & Soonawalla, 2005; Davies, 2006; Elkington, 2006; Gill, 2008; Hancock, 2005; Ho, 2005; Jamali et al., 2008). Moreover, a large number of studies have shown that effective leadership is really required for yielding productive outcomes of CG (Davies, 2006; Harker et al., 2004; Soludo, 2007) and CSR (Elkington, 2006; Ho, 2005; Waldman & Galvin, 2008; Henderson, 2018) and reconciling the critical functions of these two concepts to satisfy all diverse stakeholders.

In Libya, academic works on the concept of CG have recently increased. These studies have largely focused on the evaluation of CG practices (See, e.g. Larbsh: 2010; Zagoub: 2011), the disclosure and its influence on companies' performance (See, e.g. Halal et al., 2014; Mahmes, 2016), the roles of Audit Committees and the challenges of implementing CG (See, e.g. Abdulsaleh et al., 2014; Iswaissi & Falahati, 2017; Magrus, 2012). Still, this concept needs strong support to impose itself in the Libyan financial arena, given the increasing risks and challenges the LCBs face in this chaotic nation state. The emphasis on CG is crucial within financial services and, most of all, in the banking sector (Romero, 2003). Put forth, the banks' operations depend on the principles of good CG *"to improve their performance, protect their stakeholders' interests and improve compliance with laws and regulations as well as the code of conduct"* (Wakarmamu, 2015). However, only few studies have been conducted on CSR that aimed to investigate the environmental disclosures of CSR in the annual reports and its influence on the organisation's performance. These studies mainly reflected the views and perceptions of the accounting community towards CSR (See, e.g. Ahmad, 2004; Alghodban et al, 2015; Bayoud, 2013; Benomran et al, 2015; Elmogla et al, 2015; Pratten & Mashat, 2009). In regarding with leadership, the previous research on this concept have described its relationships with some other factors such as job satisfaction, employees' performance and corporate corruption. (See, e.g. Akeel & Subramaniam, 2013; Al-Sayah, 2011; Amgheib, 2016; Domoro & Agil, 2012). Hence, based on the above previous literature review, the current studies have only examined the CG, CSR and leadership concepts individually or through their mutual relationships. Instead, this study attempts to link the three concepts together to explore the impacts of leadership on the establishment and the implementation of a Libyan CG regulations, on the facilitation of CSR practices through the application of TFL and TSL styles and, thus, on the incorporation of CSR strategies within the Libyan CG guidelines of the LCBs.

Research Signifacance

The significance of conducting this research, however, can be seen in several aspects, including:

1. Filling the gap in the existing pool of literature. Prior literature reviews have not yet examined the relationship between the three concepts of CG, CSR and leadership all together and their implications. Therefore, this study tries to combine these constructs together by exploring how to benefit from the influence and roles of leaders in achieving effective CG and CSR implementation to insure the success

of banks and the sustainability of Libyan society. Consequently, this study is so far a unique work.

2. Enriching the existing Knowledge and providing more explanation for some matters of debate in the mutual relationships between the three concepts CG, CSR and leadership such as the nature of the relationships between CG and CSR, the impact of TSL and TFL on CSR, and the individuals in charge of enacting and employing CSR practices.
3. Studying CG and CSR in the Libyan context as non-Western environment to understand similarities and differences they have in comparison with developed countries. Besides, given the current situation of Libya after the revolution of 2011. Leadership and its influences on CG and CSR are at stake, especially that this new phase is characterised by volatile changes and economic, social and political crises. Therefore, navigating such a situation successfully has become one of the most concerning issues for this country.
4. Helping the LCBs realising and facing the key challenges resulting from internal problems and conflicts that prevent the effective applications of CG, CSR and leadership concepts to enable them manage the current crises and become risk avoiders and achieve a cohesive society.
5. Applying qualitative methodology and interviewing senior leaders. Most of prior studies in Libya have instead and largely focused on quantitative approach and reflected the views of the accounting community.
6. Enhancing the professional and research skills of the researcher and enabling him to develop an in-depth knowledge of these three concepts, which is going to increase his chances of success as an academic.

Research Objectives

This study has primary and secondary objectives. The primary objective is to explore the effects of leadership on the policies of CG to integrate CSR strategies in the LCBs, through the perceptions of the Board of Directors (BoDs) and Chief Executive Officers (CEOs). Whereas, the secondary objectives are into:

1. Exploring the understandings of CG, CSR and leadership in the LCBs.

2. Discovering whether CSR is a part of CG, CG is a pillar of CSR, or CG and CSR are Complementary within the LCBs.
3. Inspecting the reality of CG effectiveness in the LCBs.
4. Investigating the current CSR practices in the LCBs.
5. Examining TSL and TFL styles employed in the LCBs.

Research Questions

This study relies on the following main and sub-questions to accomplish both the primary and secondary objectives.

Main Research Questions:

Q1. To what extent does the board and executive leadership involve in the formation and implementation of the CG guidelines in the LCBs?

Q2. To what extent does the board and executive leadership, through the employment of TSL and TFL styles, facilitate the application of CSR activities in the LCBs in light of the current Libyan crisis?

Q3. How does the board and executive leadership influence CG policies towards the integration of CSR strategies in LCBs to manage the issues caused by the current Libyan crisis?

Sub-Research Questions:

Q1. What are the meanings of CG, CSR and leadership in the LCBs?

Q2. How is the relationship between CG and CSR in the LCBs?

Q3. What is the current situation of both CG and CSR in the LCBs?

Q4. What is the position of TSL and TFL styles in the LCBs?

Q5.What are the challenges limited CG, CSR and leadership application in the LCBs?

Research Methodology Overview

The nature of the research objectives and questions demands that this study relies on a comprehensive literature review to trace the historical development of CG, CSR and leadership both in the West and Libya. Besides, the study depends on interpretive qualitative research methods, in addition to an inductive approach and grounded theory strategy to explore the actual meanings and various aspects of these concepts, their mutual relationships and the challenges they face, as well as TSL and TFL implementation in the LCBs.

Therefore, this study interviews ten BMs and eleven senior executive managers, selected from both public and private Commercial Banks of Libya, to understand their attitudes towards these concepts and their effects on CG policies to incorporate CSR practices. These interviewees' insights and perceptions are useful being leaders responsible for decision-making on CG and CSR in the LCBs. This is to finally reach the conclusion as to whether the phenomenon of leadership has any influences on CG, CSR and, henceforth, on the attitude of CG towards CSR in the LCBs.

The Findings of the Research Questions

The research questions of this thesis have yielded significant findings in regard with the set of sub-questions, including the meanings of CG, CSR and Leadership, the current situation and challenges of these concepts, in addition to the relationship between CG and CSR and the position of the TSL and TFL in the LCBs. Moreover, the findings of the main questions comprise the effects of the board and executive leadership on the establishment and application of CG, the influence of TSL and TFL leadership on implementation of CSR, then, follows. Finally, the extent to which the board and executive leadership influences CG policies to contain CSR practices.

- **The findings of Sub-Research Questions**

First, CG is a modern concept in the LCBs and has narrow and broad definitions. The narrow definition corresponds with the Cadbury report (1992), which perceives CG as a set of laws and regulations that direct and control the corporations, as well as organizing the relationship between the management and shareholders. whereas, the broad definition reflects the OECD (2004) that revolves around the various relationships between the management, shareholders, the boards and diverse stakeholders. However, due to its modernity, the term "*Al-Hawkamah*" is in use as an expression of CG to avoid the confusion in CG perceptions that these two definitions create. Moreover, the findings suggested that the status of CG in the LCBs is superficial. This is due to key barriers limiting CG implementation. One example is ownership concentration. The majority shareholders use their dominant positions to control the LCBs and unequally influence the choice of BMs and top management to obtain benefits at the expense of minority shareholders, leading to a lack of transperancy and accountability. Weak legal enforcement also hinders CG institutionalistion. Further, CG culture in the LCBs is somehow low. The Libyan political situation and social norms are also big challenges for CG. Finally, transforming the LCBs from conventional banks towards Islamic financial institutions curtail an effective CG application.

Second, CSR is a relatively new institutional concept in the LCBs. Its definitions concentrate on a voluntary commitment to include the social and environmental dimensions in the banks' core business operations. However, CSR is embedded in Islamic culture, and its legitimacy is derived from Islamic texts that motivate individuals towards giving and benevolence. Still, CSR does not correspond with the social issues prevailing in the Libyan context due to its involvement around philanthropic actions. Therefore, CSR in the LCBs is still in its infancy. This is due to the key challenges impeding CSR application in the LCBs. For example, shareholders dominate CSR culture in the LCBs by emphasising profit maximisation. The ongoing war in Libya is a critical issue for CSR development and implementation. In addition, due to confusing CSR with philanthropy, the current CSR practices in the LCBs are undersized or unorganised and far from sustainable development.

As for the relationship between CG and CSR, the findings confirmed that both concepts have a reciprocal connection. First as indicated by the definitions provided by the interviewees. There are two models of CG. One works for shareholders by defending profit maximisation belief. The second works for stakeholders to provide social justice to all entities within and around the LCBs. Still, the boards and CEOs look at the second model as CSR because it intends to serve all stakeholders ethically, including shareholders. Therefore, CSR relates to and overlaps in some respects with CG and ethics. For instance, CSR influences the decisions of CG given the current Libyan situation that demands responsible and ethical leadership. Hence, the boards and CEOs demonstrate that ethical behaviour side when treating the social concerns towards stakeholders. Besides, CG has a positive effect on CSR because of the internal mechanisms that demonstrate determination in practicing and following CSR initiatives. The boards and CEOs look at CG as a tool that maintains the balance between the economic and social goals in the LCBs, as well as the individual and communal objectives. Simply put, CG runs around the narrower and broader definitions to go beyond managing ordinary activities into playing bigger roles in which economic, social and environmental aspects are in prominence. Consequently, the concept of CSR has a base in the LCGC as it is increasingly being merged into the LCBs' core operations.

Finally, the definition of leadership in the LCBs revolves around the influence and motivation that a leader inflicts on his followers to act towards achieving a common objective. However, the practices of leadership in the LCBs remain under the influence of the overthrown regime, Islamic teachings and Western conventional theories. Accordingly, the board and executive leadership join forces to eradicate the old regime's legacy and push the LCBs to keep pace with development and openness to the outside world. Therefore, leadership in the LCBs is in a transition phase to navigate change. Furthermore, the findings indicated that leaders utilise TSL and TFL styles for an effective performance. The reliance on TSL and TFL styles is the answer to overcoming the hardships that the LCBs face, and are tools for the effective application of both CG and CSR. Moreover, TFL operates on the boardroom and senior executive management, whereas the application of TSL occurs in the relationship between the senior executive managers and their subordinates in lower positions. Nevertheless, the impact of legacy of old regime is one of the challenges in the LCBs. In addition, the socio–political instability limits the effectiveness of TSL and TFL leadership. Leadership in the LCBs lacks the skills and experiences to handle and manage the issues caused by the ongoing crisis created by the civil war. Crisis leadership and crisis management are inexistent in the strategies and policies of the LCBs. Finally, tribalism still sets norms on how leaders behave and recruit employees.

- **The Findings of the Main Research Questions**

The following findings provide an overview on how the board and executive leadership influences the concepts of CG and CSR, in addition to its effects on including CSR practices within the LCGC.

Q1*: The effects of the board and executive leadership on the formation and implementation of the CG guidelines in the LCBs?* The findings of this question demonstrated that the board and executive leadership is an essential element for effective CG in the LCBs as it had a practical impact on the establishment of the LCGC in 2010 by compromising the CG international standards with the national Libyan regulations. Also, the board and executive Leadership has influential roles in the application and maintenance of the LCGC.

Q2: *Whether the board and executive leadership, through TSL and TFL styles, facilitate the application of CSR activities in the LCBs in light of the current Libyan crisis?* The findings of this question revealed that the board and executive leadership in the LCBs is committed to integrating social concerns into the economic activities through the employment of both TSL and TFL styles, being both facilitators of CSR applications.

Q3*: The effects of the board and executive Leadership on CG policies to include CSR practices.* The findings of this question have exposed that the board and executive leadership in the LCBs recognises the importance of CG and CSR as strategic work and institutional culture. Therefore, the board leadership and the executive leadership integrate CSR activities within the LCGC to produce economic benefits for shareholders and simultaneously provide social justice to other stakeholders.

Contribution of the Study

This research endeavours to understand the concepts of CG, CSR and leadership, provide more clarification for some matters of debate in the mutual relationships between these themes and identifying their implications on the commercial banks in Libya being a non-western context. Moreover, previous literature reviews have not yet reconsidered the impact of leadership roles on accomplishing effective CG and CSR application. Thus, this study intends to enrich the existing knowledge on such constructs. Moreover, the study helps realising the main challenges the LCBs face in attaining an effective implementation of CG and CSR to make the Libyan corporations prosper economically while ensuring a sustainable society. Finally, this study also provides an interesting contribution in relation to the influences of volatile and crisis context on the roles of leadership. This can help experts to tackle the issues that hinder the effective practices of leadership especially that the practices and strategies of leadership are under the influence of the outcomes of war or peace. Leadership in peace is totally different from leadership in war. Leaders in the latter stance tend to develop outstanding skills to lead their organisation to survive in such a volatile environment. Contextually, this can provide a set of insights for Libyan banking sector leadership to manage the issues of the Libyan crisis caused by the ongoing civil war.

Thesis Structure

This thesis consists of an introduction followed by nine chapters. Figure (1) below is an illustration of the overall outline of this thesis. Introduction to the Research provides an introduction of the study. It displays the research background and Research Significance, in addition to the objectives of the research. This section also presents the research questions and a summary of the main methodologies implemented to achieve the thesis' purposes, as well as its major findings, the contribution of the study, and concludes with the structure of the thesis.

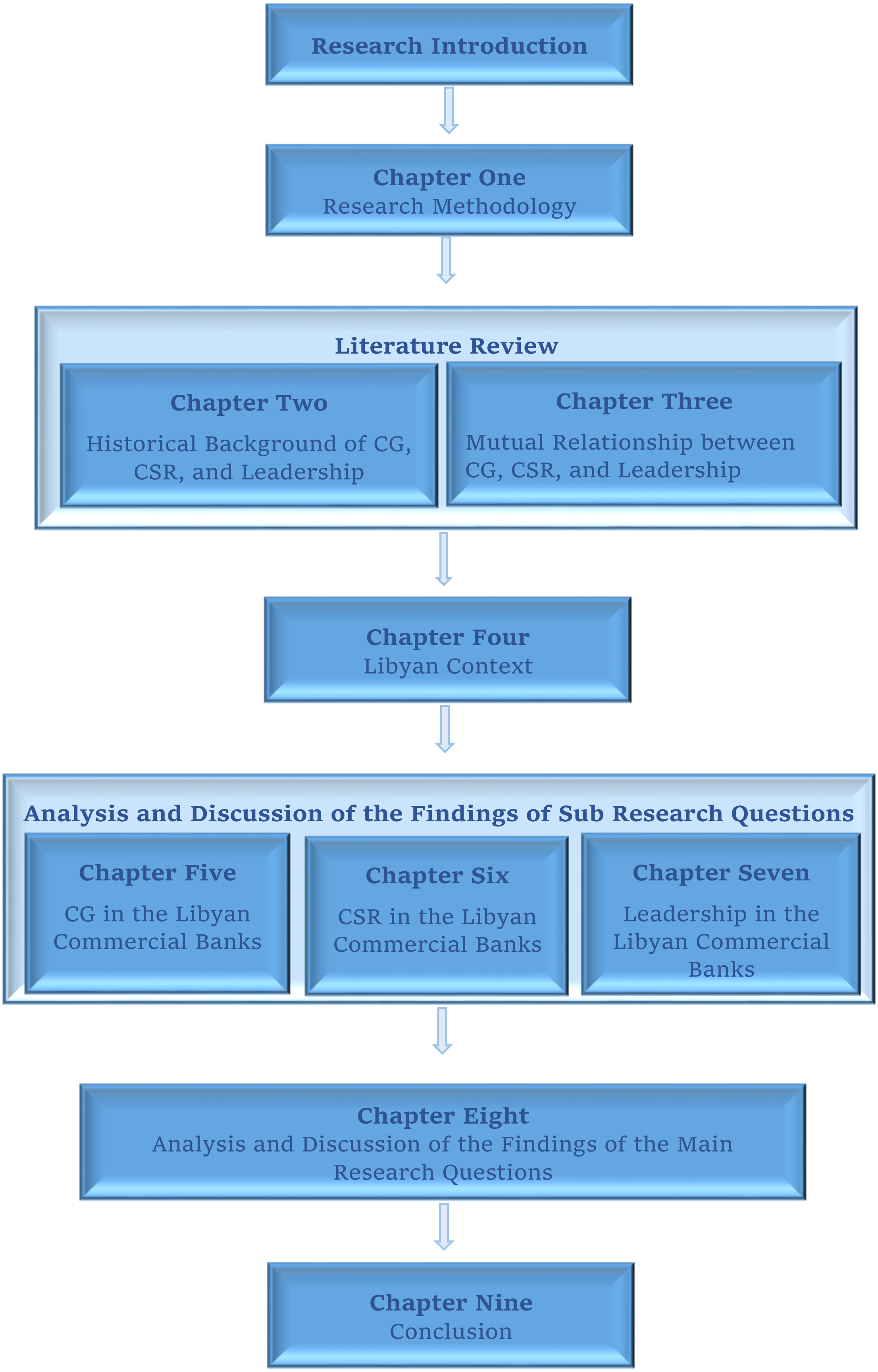
Chapter one concentrates on the methodology utilised in this study to answer the research questions and accomplish the expected objectives. Hence, to collect data, this research depended on the primary and secondary documents and qualitative research by interviewing a selection of BoDs and CEOs from the LCBs, both public and private. It used a grounded theory strategy as methodology. The next two chapters deal with the theoretical framework of the study. Chapter two digs into the historic conception of CG, CSR and leadership, in conjunction with the most prominent academic works on these constructs to understand the reasons behind their emergence and importance. This chapter consists of three sections. The first section presents the historical dimension of CG development. In the absence of a precise CG definition, this section also endeavours to provide a comprehensive definition of CG and define its basic principles. The second section addresses the emergence of the CSR concept from a historical and academic perspective. It also provides various definitions, practices and benefits of CSR. Whereas, the third section presents the essence of leadership. It provides a range of its definitions and introduces its most important theories. Furthermore, Chapter three reviews the relationships between the themes of CG, CSR and leadership and the ways by which they actively interrelate in order to attain effectively the anticipated results that corporations intend to achieve. This chapter also contains three sections. The first section studies the mutual relationship between leadership and CG. The second section investigates the mutual relationship between CG and CSR, while the last section examines the mutual relationship between leadership and CSR.

Chapter four provides a description of Libyan context in terms of the political, social and economic aspects in order to understand the main features that characterise this country. It also gives an overview of the concepts of CG, CSR and leadership, to comprehend their composition and the factors that influence them and help in their application.

Chapters five, six and seven display an analysis and discussion of the data gathered from the interviews related to the Sub Research Questions. Chapter five contains the main CG definitions provided by the BoDs and CEOs, the current CG status in the LCBs and the challenges that block its effectiveness. Whereas, Chapter six covers the key CSR definitions provided by the informants, the facts of CSR in terms of its implemented practices and an evaluation of the main challenges that hinder the implementation of CSR in LCBs. Chapter Seven presents the actual meaning of leadership and investigates how TSL and TFL styles are applicable in the LCBs.

Chapter eight includes the discussion of the findings of the main research questions in relation to the effects of the board leadership and executive leadership on the creation and employment of CG code, as well as the extent to which their TSL and TFL leadership styles enable CSR activities and finally their leadership's influences on including CSR practices within Libyan CG code. Chapter nine is the general conclusion of the whole thesis. It considers the results of the study by providing a summary of the findings. It also presents some valuable recommendations that can help in the development and implementation of CG, CSR and leadership in the LCBs. Then, it demonstrates the contribution this study aims at achieving, the limitations encountered during the journey of this study and suggests some further research.

Figure (1): Flow Chart Describing the Research Process.



Source: Author’s own interpretation

Conclusion

This introductory chapter provided a brief summary of the thesis. It started by introducing the concepts of CG, CSR and leadership and their importance in the Libyan society, specifically in the LCBs. Respectively, the chapter delivered a summary of the research background and its significance, the key objectives, research questions it aimed at realising and the research methodology used. Then, this chapter precisely demonstrated the key findings of the study. Finally, before presenting the structure of this thesis, the contribution it intends to make was displayed.

Chapter One

Research Methodology

Introduction

Methodology, by definition, is a set of theoretical, philosophical, and political backgrounds that researchers invest in social research so that their research methods and strategies have a base, as well as a means of facilitating communication between researchers to share common experiences (Denzin & Lincoln, 2000; Holloway, 1997; Petty et al., 2012; Robson, 2011). Kothari (2004: 8) pinpoints that:

> *Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. [...], but they [researchers] also need to know which of these methods or techniques, are relevant and which are not, and what would they mean and indicate and why*.

In fact, the perceptions of, CG, CSR and leadership require a thorough and broad investigation to understand how these concepts interconnect, overlap and interplay to balance the interests of all parties in a non-western context such as Libya. This methodology, therefore, is selected to explore the meanings of these terms, the processes of their development, in addation to understand the nature of the relationships among these constructs to attain the objective of reconciling these interests. Exploratory research, then, anticipates to discover research questions and explore situations giving insights and ideas to the researcher to familiarise them with the topic under consideration for a better understanding (Saunders et al., 2000). Davies (2006: 111) maintains that *“exploratory research is a methodological approach that is primarily concerned with discovery and with generating or building theory”*. Therefore, this chapter connects the reseach objectives and questions to the appropriate philosophical paradigm and attempts to define the strategies and methods compatible with this study as explanations for their employment and usefulness in data collection and analysis. Furthermore, the chapter addresses the validity and reliability of these research methods, before it finally examines the ethical considerations.

1.1 Research Objectives

The main objectives of this study are to explore the influence of leadership on incorporating CSR agendas into the CG framework to balance the different interests of stakeholders within and outside the LCBs. Moreover, the study endeavours to realise the following sub-objectives:

1. Exploring the understandings of CG, CSR and leadership in the LCBs.
2. Discovering whether CSR is a part of CG, CG is a pillar of CSR, or CG & CSR are Complementary within the LCBs.
3. Inspecting the reality of CG effectiveness in the LCBs.
4. Investigating the current CSR practices in the LCBs.
5. Examining TSL and TFL styles employed in the LCBs.

1.2 Research Questions

Within the Libyan Context, CG and CSR are two concepts that need further investigation. The complexity of this environment requires these constructs to develop at a slow pace. Furthermore, the dearth of literature on the link between leadership and these concepts raises significant questions. Hence, the division of the research questions into two parts is crucial. The sub research questions intend to examine the meanings of CG, CSR and Leadership in LCBs being a non-Western context, understand the current situations and the key challenges facing the implementation of these concepts, in addition to the interpretation of the relationship between the CG and CSR and the investigation of the employment of TSL and TFL styles. However, the main research questions are the essential part as they dig into the roles and effects of the board and executive leadership in applying CG, facilitating CSR activities and including CSR practices in the Libyan CG code.

1.2.1 Sub-Research Questions

Q1. What are the meanings of CG, CSR and leadership in the LCBs?

Q2. How is the nature of the relationship between CG and CSR in the LCBs?

Q3. What is the current situation of both CG, CSR and leadership in the LCBs?

Q4. What is the position of TSL and TFL styles in the LCBs?

Q5. What are the challenges preventing the effective implementation of CG, CSR and leadership in the LCBs?

Based on previous studies, the concepts of CG and CSR are key elements in modern corporations. Both concepts add value to businesses and encourage the integration of all stakeholders, including the environment. However, these studies have explicitly exemplified that without responsible and ethical leadership, CG and CSR are vague. More specifically, both the board leadership and the executive leadership have great influences on both CG and CSR practices. The following section is a brief review of these literary studies that demonstrate the importance of CG, CSR and leadership. It also provides a justification behind the study of the meanings of these concepts in the Libyan context.

The meaning of CG differs from one country to another according to different factors such as the level of governance at stake, the objectives this concept intends to realise and the approach it follows to be effective (Andrews, 2008). So far, there are two main definitions of CG. The narrow definition that displays CG as a set of regulations that control the relationship between the management and shareholders. Whereas, the broad definition that revolves around organising the relationships between the management, shareholders, the boards and other stakeholders.

However, CSR is an ideological concept that encourages organisations to have business ethics or behave ethically in order to *"contribute to the welfare of society or societies – comprised of various communities and stakeholders – that they operate in and interact with"* (Planken, 2013). However, this term is difficult to define due to the tension between its different approaches. Thus, CSR has no single authoritative definition. One debate states, *"the only social responsibility of the enterprise is to create wealth, with all other social objectives dealt with by the state or other mechanisms" (*IISD, 2004). The other debate argues that CSR *"is taken to mean a balanced approach for organisations to address economic, social and environmental issues in a way that aims to benefit people, communities and society"* (IISD, 2004). Furthermore, various studies maintain that CSR is the creation of the west. Developing countries, in particular Arab and Muslim countries have a different say in this regard. One example is that CSR is embedded in Islam and Arab culture and that this concept has been in practice even before CSR is coined (Jamali & Sidani, 2012)

The meanings of Leadership vary due to the different schools that investigate the essence of leadership. Still, all these definitions have something in common. For example, Leadership provides direction for a company and its workers. Leadership influences followers to achieve a common goal. In addition, Leadership sets an example of good conduct and ethical behaviour (shodhganga, 1991). However, these definitions are western interpretations and do not represent the non-western meanings of leadership. Moreover, the nature of the relationship between CG and CSR is still a matter of debate and controversy in the business world. Three assumptions describe this relationship (Jamali at el, 2008). The first proposition states that CSR is a part of CG (Ho, 2005; OECD, 1999). The second advocates that CG is a pillar for CSR (Hancock, 2005; Elkington, 2006), and the third argues that CG and CSR are complementary (Bhimani & Soonawalla, 2005; Clarke, 2007).

1.2.2 Main Research Questions

Q1. To what extent does the board and executive leadership involve in the Creation and employment of the CG guidelines in the LCBs?

Q2. To what extent does the board and executive leadership, through TSL and TFL styles, facilitate the application of CSR activities in the LCBs in light of the current Libyan crisis?

Q3. How does board and executive leadership influence CG policies towards the integration of CSR strategies in LCBs to lessen and manage the issues caused by the crisis?

***Q1**. To what extent does the board and executive leadership involve in the Creation and employment of the CG guidelines in the LCBs?*

First, the adoption of the global CG codes to non-western countries was not easily accepted. While some countries accepted these principals as necessary, other countries reacted to these principles, as they were not compatible with the nature of the society where the corporations operate (ICAEW, 2013). However, as the global markets became competitive and demanded the compliance of foreign investors to the CG standards, CG codes became flexible. Ernst and Young (2012) survey maintained that with increasing globalisation worldwide, organisations brought good CG practices developed elsewhere and adopted them to their own legal and governance agendas. This made the standards and implementations of CG differ from one context to another, due to several factors that gave meanings to this concept within a given context. Casson (2013: 20) claims, *"Principles and practices of governance vary between countries and organisations but there are a number of key themes which would be widely considered as being the 'right way' to run a company"*. It is obvious that organisational leaders implement, supervise, and re-evaluate the CG system of their organisations. Smerdon (2010) highlights that it is vital to engage the company's board, senior management and perhaps controlling shareholders in this process.

The BoDs are the main engine that ensures effective CG regulations are in application. They have the right to set structures and policies that ensure changes in governance materialise to meet business requirements. Cadbury (1992) points out that the BoDs are responsible for CG of their corporations. Therefore, the boards create a sense of real commitment and a common vision throughout the company to ensure the transparency of corporations and shareholder protection. Further, the BoDs ascertain that the CG has an effective and prudent management capable of achieving long-term success (FRC, 2012).

However, the CEOs also make great contributions in providing information and advice on matters reserved only to the BoDs to ensure the highest standards of CG. In this regard, Agbim (2012) argues that management has a voice in the formulation of CG principles as it has a direct relationship with diverse stakeholders. Jamali et al. (2008) claim that the CEOs, BoDs, management, and all the stakeholders should be involved in the creation of CG to enhance its codes and encourage leaders to adhere to its principles. Therefore, this question aims to understand the roles the BoDs and CEOs play in compromising the CG international standards with national regulations to create the CG code. This provides an idea about the LCGC applied in this transition context. Further, it offers a comprehensive indicator of the mechanisms invested by the Libyan leadership to maintain effective CG in the LCBs.

Q2. *To what extent does the board and executive leadership, through TSL and TFL styles, facilitate the application of CSR activities in the LCBs in light of the current Libyan crisis?*

Various studies demonstrate that CSR is dependent on leadership (Hilton & Gibbons, 2002). According to Nazir et al. (2014: 178), *"investigators should examine managerial tendencies toward using CSR values in their decision-making, because managers are largely responsible for CSR implementation"*. Similarly, Jacobson et al. (2014: 337) indicate, *"CEOs and other organisational leaders can affect how CSR initiatives are perceived in their organisations"*. On the other hand, Angus-leppan et al. (2010: 193) contend that CSR studies have largely overlooked the position of leaders in the implementation of CSR practices, *"researchers have previously failed to examine the effect of leader values, ethics and style in regards to CSR",* even if top managers are obviously in the best place to influence CSR. Therefore, investigating the relations between CSR activities and leadership styles, Angus-leppan et al. (2010) conclude that a strong correlation exists, but as each organisation has different related CSR matters the requirement of specific leadership styles within a single organisation sometimes need to co-exist for the maintenance of the main objectives.

After studying the relationship between CSR and leadership styles, Du et al. (2013) state that both TSL and TFL motivate the design and implementation of CSR agenda and influence the outcomes of institutional CSR. However, investigating the interplay between institutional CSR practices and leadership style, Hamza (2013) contends that corporations with greater TFL style are more likely to engage in institutional CSR practices. This also corresponds with the findings of Nazir et al. (2014: 176) that TFL is in connection with CSR either directly or indirectly. Conversely, some academic works have a different interpretation claiming that TSL will increase the positive impact of CSR on organisational outcomes for several reasons (Du et al., 2013; Jacobson et al., 2014), and only few studies have displayed that companies that rely on greater TSL can hardly engage in institutional CSR practices. In this regard, Castelló et al. (2009: 4) claim, *"transactional strategies are more contingent on the organisation's abilities to meet and respond to the reactions and changing expectations of their stakeholders"*. As both leadership styles are important for CSR practices, organisations tend to implement both styles to facilitate CSR practices. Therefore, this question endeavours to explore whether the board and executive leadership in the LCBs apply TSL and TFL styles and, if so, whether these styles, indeed, facilitate the management and the delivery of CSR practices. Being a chaotic nation state in transition, Libya needs CSR projects to restore what the war destroyed.

Q3. *How does board and executive leadership influence CG policies towards the integration of CSR strategies in LCBs to manage the issues caused by the current Libyan crisis?*

This question examines the influence of leadership on both CG and CSR. Kouzes and Posner (2011) argue that leadership works when values are understandable and in line with actions, because real leaders take actions to construct the world they desire to live in and affect their groups to function alike. Consequently, the importance of leadership resides in the formulation of codes of conduct and ethics as a process for generating and encouraging ethical behaviour among internal stakeholders. Thus, companies need transformational and ethical leaders to mainstream good CG and CSR practices in the organisational culture to influence the behaviour of others within and outside their organisation (Jones & George, 2008). In this matter, Ermongkonchai (2010) highlighted that ethics develops the level of CG. For example, Peters and Bagshaw (2014) linked ethical leadership with the highest level of CG disclosures in the banking sector and found that the relationship between ethical leaders and CG performance correlates compared to other sectors. Further, the study of Zvavahera and Ndoda (2014) reveals that the attitudes of the boardroom and the executive management have an impact on the application of CG principles as well as the company's financial outcomes. When both the top management and board members demonstrated unethical behaviour, the effectiveness of CG was so bad that serious negative repercussions reflected on both organisational and employee performance.

Moreover, leadership has significant positive effect on CSR. For instance, Rasaq et al. (2013) claimed that ethical values affect the implementation of CSR practices. Socially responsible behaviour encourages businesses to manage the economic, social and environmental impacts of their operations to improve corporate and social values (Freeman et al., 2004). Additionally, Christensen et al. (2014) argue that leaders' characteristics and behaviours play an important part in the creation of CSR. Burns (2003: 172) contended that when CSR presents, its practices rely on the key distinctive role of leadership because leaders *"take the initiative. [...] The first act is decisive because it breaks up a static situation and establishes a relationship. It is, in every sense, a creative act"*. On similar lines, Guthey and Jackson (2011: 165) state that leadership, with all its approaches, *"involve[s] in some way or another the notion of taking initiative, inspiring commitment, mobilizing action, promoting legitimacy, or exerting influence"*. Finally, Jamali et al. (2008: 457) argue that corporations without *"an efficient long-term view of leadership, effective internal control mechanisms, and a strong sense of responsibility vis-à-vis internal stakeholders cannot possibly pursue genuine CSR"*. This means that the relationships between CG and CSR is under the influence of leadership decisions when formulating regulations. Cossan (2013:16) suggests that this relationship between CG and CSR *"can be regarded in terms of the board's remit in setting values and standards"*. Therefore, this question explores the importance of the board and executive leadership strategies in bringing both CG and CSR to work together and deliver desired changes within the LCBs. In general, the Libyan banking sector needs leaders who are innovative and able to embrace changes in this increasingly challenging environment. By doing so, the findings can also provide a general understanding on how leadership practices and strategies change in times of peace and war. The impact of the current Libyan crisis has had a massive impact on the Libyan economy, industries, and public and private companies. Hence, the impact of leadership actions on the LCBs to manage and handle the issues caused by this crisis is significant to understand. This contributes in knowing how the leadership of the BoDs and CEOs face and adapt to the crisis, or how they take advantage from its challenges. In this regard, James and Wooten (2010: 60) articulate that:

> *Crisis events can have associated expenses, such as lawsuits, the loss of business, decreases in stock prices, and declines in productivity. In addition, an organization has to expend not only financial resources, but also human capital to contain the crisis, rebuild the organization's reputation and for business recovery. Thus, some of these expenses are associated with the "crisis after the crisis" and used for managing the aftermath.*

1.3 Research Strategies and methods

Research strategy means the general plan researchers use to answer the research questions (Saunders et al. 2009). Therefore, it contains the stages of broad assumptions to detailed methods of data collection, analysis and interpretation.

1.3.1 Philosophical Assumptions

Philosophical assumptions about the nature of reality and the pursuit of objectivity remain controversial. This is because scientists address the phenomena based on different points of view (Rubin et al., 2005). These differing views are likely to produce different interpretations of social research. Thus, approaches to performing social research vary (Robson, 2011) and depend on philosophical paradigms employed (Bryman & Bell, 2007; Rubin & Babbie, 2005). Social scientists use a range of philosophical understandings such as positivism and interpretivism in their research. The difference is that positivism seeks objectivity and neutrality when looking for facts (Holloway, 1997). Distance is preserved and personal biases are avoided. However, the interpretive approach requires that researchers engage emotionally with the phenomena (Holloway, 1997). Thus, Positivist prefer scientific quantitative methods, while Interpretivists prefer humanistic qualitative methods.

This study has adopted an interpretivist approach in accessing the reality of the social participants' understandings and behaviours towards CG, CSR and leadership as well as their experiences of these constructs' relationships (Robson, 2011), to make a common beliefs and producing a new theory which makes the interpretivist paradigm is compatible with the implementation of the inductive and qualitative approaches, which produces reliable data and helps the emergence of these constructs' meanings towards the end of the research process (Robson, 2011; Schwandt, 2007).

1.3.2 Deductive and Inductive Approaches

The nature of the relationship between theory and research is complex. On one hand, a theory is a way through which information is organised and hypotheses are tested to see if they are legitimate or spurious. On the other, research is the instrument through which the development of the theory occurs and so does the confirmation or rejection of its test (Bryman and Bell, 2007). Brown (1977) explains that the relationship between theory and research is a transaction whereby theory defines the data collection, and research conclusions provide challenges to accepted theories. Fawcett and Downs (1986) highlight that *"research is the method used to gather the data needed for the theory. This is true whether the purpose is to generate a theory or to test one"*.

Researchers rely on two approaches, deductive and inductive, to understand this relationship. The deductive approach means that researchers begin with a general theory from which the conclusion is drawn to test hypotheses. This conclusion needs to be open for empirical investigation through collecting data from observation and analysing (Bryman & Bell, 2007; Holloway, 1997). Whereas, the inductive approach means that researchers start with the observation or study of some individual issues or phenomena and make generalities that connect them to each other through collecting data, analysing the data and producing theories (Holloway, 1997: 91). Therefore, this study utilises an inductive approach to explore participants' perceptions and intellectual responses towards CG, CSR, and leadership. Their responses help the researcher understand the parameters by which these three themes interact and the embodiment of their features in the LCBs. Further, this approach is compatible with the qualitative research standpoints.

1.3.3 Quantitative and Qualitative Strategies

Social research has been studied and analysed through various traditional strategies such as quantitative and qualitative research (Bryman & Bell, 2007; Robson, 2011). Quantitative research is an approach to examine objective theories by analysing the relationship between variables and standards, using numbered data and statistical procedures (Rubin & Babbie, 2005). Thus, the data collection process either is in the form of or expressed as numbers (Easterby-Smith et al., 2008). However, qualitative research is one of the major methodologies in social science (Bryman and Bell, 2007). It attempts to examine subjects such as *"the attitudes, behaviour and experiences of specific social groups or individual people"* by exploring social and political issues or a range of ethical dilemmas related to social work practice (Malcolm, 2013: 42). In fact, qualitative research applies intensive interviews and observations with small groups of individuals, and then correlates or compares findings with prevailing theories (Carey, 2013). Therefore, this study utilises a qualitative research strategy to gain the actual meanings (Bryman & Bell, 2007) of the phenomena of CG, CSR and leadership, which required an in-depth exploration in the Libyan context. Moreover, the research questions require the researcher to develop a strategy that explores leadership and its impacts on CG and CSR. In addition, the main consequence of this research is the production of a theory to improve the understanding of Libyan leadership concerning CG and CSR. This is one of the core values of qualitative research as it concentrates on the process rather than on the outcome (Punch, 2005). Simply put, the production process of theory is important to ensure the rationality and validity of the results. As Daly (2003: 193) maintains, meaning and context are crucial components in qualitative research in the sense that:

> *Qualitative research seeks meaning [...] and contributes to theory development by proceeding inductively. [...] Rather the phenomenon is studied in its context with the view that it is impossible to understand it apart from it.*

1.3.4 Grounded Theory

Grounded Theory founded on the book 'The Discovery of Grounded Theory' 1967 by Barney Glaser and Anselm Strauss. The constant comparative method of grounded theory, was at the forefront of what can be called a qualitative revolution because of the systematic procedures for qualitative research that presented in this critical time. Prior to this publication, qualitative research was seen as unstructured, impressionistic and unreliable, and thus the qualitative tradition was at risk of being undermined (Hallberg, 2006). The grounded theory tradition is now diverse, founding in four main types, with the emergence of a fifth. The first two types are the work of the original authors: Barney Glaser's 'Classic Grounded Theory' and Anselm Strauss and Juliet Corbin's 'Basics of Qualitative Research'. The third and fourth types are Kathy Charmaz's 'Constructivist Grounded Theory' and Adele Clarke's postmodern Situational Analysis, Charmaz and Clarke were both students of Anselm Strauss. The emerging fifth alternative is 'Dimensional Analysis' developed through the work of Leonard Schaztman, who was a colleague of Strauss and Glaser in the 1960s and 1970s (Sbaraini et al., 2011).

Grounded theory is *"a general methodology for developing theory that is grounded in data, systematically gathered and analysed. Theory evolves during actual research, and it does this through continuous interplay between data collection and analysis"* (Strauss & Corbin, 1994: 273). Therefore, the grounded theory approach is a complex repetitive process. The research should begin with generative interrogations to assist in instructing the research, yet they should not be either static or restricting. Thus, the more the researcher starts to collect data, the more key theoretical concepts are recognised and identified. Initial linkages are developed between the theoretical key concepts and the data. Strauss and Corbin (1998: 12) claim that:

> *Data collection, analysis, and eventual theory stand in close relationship to one another...the researcher begins with an area of study and allows the theory to emerge from the data ... grounded theories, because they are drawn from data, are likely to offer insight, enhance understanding, and provide a meaningful guide to action.*

The grounded approach is in line with the constructivist epistemology and ontology through *"placing priority on the phenomena of study and seeing both data and analysis as created from shared experiences and relationships with participants and other sources"* (Charmaz, 2006: 330). In addition, grounded theory relies on the conceptual thinking and inductive approaches to generate theory (Hancock et al., 2009). Inductive logic endeavours to determine a binding belief and to build generalisations, relationships and theories by analysing and assessing the data collected (Gray, 2009). However, this does not mean that the inductive process supports or denies some pre-existing theories or concepts when addressing phenomena. Instead, grounded approach tries to draw outlines, stabilities and significances by collecting data (Gray, 2009; Khan, 2014). Glaser (1978) holds that this approach also permeates and transcends estimation and preconception to understand exactly the essential processes and involves an appreciation and a prior assessment of understanding of what is going on so that researchers can interfere with confidence to assist and resolve the contributor's main concerns. In addition, this theory is ideal for exploring fundamental social relationships and group behaviour where exploration of the contextual factors that affect individual's lives is scarce (Crooks, 2001).

However, there are two styles of grounded theory; a full grounded theory as methodology is hardly used and requires the implementation of the full set of grounded theory procedures, including theoretical sampling, in order to produce a theory grounded in data. Whereas, a lite grounded theory conducted as a method of data analysis using grounding theory techniques to develop categories or concepts, and understand their relationships. The practice of grounded theory-lite is the most commonly used form of grounding theory, and is similar to thematic analysis approach as both involve coding and interpretation of broader patterns in data with some differences such as thematic analysis does not attempt to develop a theory and in terminology it uses themes instead of categories.

Therefore, as this study attempts to generate a theory to explore the effect of leadership on CG policies and CSR structures, the researcher used grounded theory as methodology that begins with generative interrogations to assist in instructing the research. The researcher embarked on a semi-structured interviews through interviewing a selection of 21 BoDs and CEOs from both public and private Libyan commercial banks. The researcher chose case study as a research method to address these phenomena in Libya as a country suffering from critical lack of literature regarding CG, CSR and leadership, in addition to that fact that Libya is in a transition stage and needs to develop its institutions to manage the changes it encounters. Moreover, the researcher clarified the boundaries of these phenomena in relation with questions posed, the data source implemented, and the background and individuals involved within the LCBs involving the how, why and what questions (Holloway, 1997; Yin, 2003). The commercial banks in Libya have vital roles in the economic development by funding projects and attracting foreign and domestic investments. Also, these banks have become the focus of attention in Libya since the revolution of 2011 and due to the fact that the LCBs are within the small number of Libyan institutions that have CG and CSR practices. Therefore, the researcher conducted his research on twelve commercial banks, six of which are public banks: namely Gumhouria Bank (GB), National Commercial Bank (NCB), Waha Bank (WAB), Sahara Bank (SB), Wahda Bank (WD) and North Africa Bank (NAB). The remainder are private, namely Commercial & Development Bank (CDB), Al-

Ejmaa Al-Arabei Bank (EJB), Arab Commercial Bank (ACB), Saraya Bank (SAB), United Bank (UB) and Noran Bank (NB).

In fact, there are some basic elements that this research should contain when using the grounded theory approach such as the theoretical sampling, the theoretical sensitivity and the comparison of phenomena and contexts. These fundamental components are covered within the steps taken during this grounded theory study, as following:

1. Initial Purposive Sampling

Grounded theory studies are generally focused on social processes or actions of phenomena and how people behave and interact. Therefore, in this study, the researcher began with open questions to understand from participants the concepts of CG, CSR and leadership and their mutual relationships to answer the strategies leadership uses to influence the incorporation of CSR agendas within CG guidelines. Hence, grounded theory studies are characterised by theoretical sampling. This requires starting with the collection and analysis of some data through purposive sampling.

Based on massive literature reviews invested and with the guidance of the supervisory team comprehensively covered CG, CSR and leadership. The researcher began with initial semi-structured interviews with some leaders who had been involved in the CG and CSR decisions from local branches of the commercial banks in Misrata. These interviews were done during a week and were recorded. The researcher then took few days for data analysis in which coding and memo-writing occurred. It took approximately forty minutes to complete the interview with each interviewee.

The following describes the process of the interviews:

- The researcher, when possible, visited or contacted all the interviewees, either electronically or in paper format, to introduce himself and ensure smooth co-operation and positive reflection, in addition to providing them with a copy of a covering letter, consent form, and interview questions and procedures before the interview dates.

- The researcher interviewed the majority of the interviewees in their offices. Only few of them preferred the interview to take place outside their offices.
- Before starting the interview, the researcher briefly reminded the interviewees of the objectives of this research, that their responses will be confidential and that they have the right to withdraw from the interview or stop being interviewed at any stage. Then, the researcher asked them to confirm their permission to record the interviews. This generated trust in the researcher and gave the interviewees greater comfort in this process.
- During this interview, the researcher clearly asked the questions and made sure that interviewees understood them and had enough time to respond without interrupting them, just when it is necessary the researcher redirected the interviewees to the main questions. The researcher finished the interview questions by giving the interviewees plenty of time to provide any suggestions or more explanation that they think would be useful to this research.
- After the interview, the researcher invited the participants to suggest or network the researcher with other key leaders within the purposed sampling whom it may be beneficial for this research to engage in. There was indeed co-operation on this matter, and few people were nominated and initial contacts established.

However, it should be noted that these interview questions were originally prepared in English, but given the nature of the language spoken in the Libyan context, Arabic, these questions have been translated into this language to avoid language barriers and enable easy interpretations of the views regarding these constructs. At some points, the original language was used when interviewees' native language was not Arabic, or they preferred to be interviewed in English, as they were able to speak the language.

The interview questions were a set of ten questions divided into four segments. The first section consisted of four main questions addressing the meaning of CG in LCBs including the structure of CG, the role of leadership in balancing international laws with national regulations, and finally the insights of these interviewees concerning the status of CG and its challenges.

The second part incorporates three questions. The primary objective was to analyse the concept of CSR to assess its resonance and the ways it operates in the LCBs. The definition of CSR was the first inquiry. The following question was about the extent to which each bank participated in CSR activities. This was achieved through examining the current situation of CSR and investigating whether the interviewees were independent in taking and implementing CSR decisions. It also addressed the main barriers encountered when making CSR decisions. The third question dealt with the inclusion of CSR activities in the CG code.

The third part contained two questions that endeavoured to evaluate the importance of leadership. The first enquiry was about the understanding of leadership. The second tackled the extent to which TSL and TFL styles are implemented in the LCBs through the provision of a cluster of definitions and characteristics of TSL and TFL. It is vital to explain the reasons behind the selection of these two types of leadership rather than allowed leadership perspectives to emerge, taking into consideration the embarkment of this research on grounded theory, which permits concepts and phenomena to emerge. First, it was challenging for the interviewees to understand how to select the most appropriate leadership perspectives for their specific situation in the LCBs. The similarities and differences among leadership styles and the interviewees' perceptions on leadership confused the researcher and put him in an uncertain state about how best to proceed in conceptualising and distinguishing the appropriate leadership styles implemented by these key professionals. Second, based on the outcomes of pilot study, the researcher had to reframe the research questions due to the fact that both the BoDs and CEOs confirmed that the prevailing leadership styles are transactional and transformational leadership. Furthermore, the engagement with existing literature prior to commencing data collection identified the researcher with the area of focus and helped in the justification of the research questions. In the bargain, the emergent concepts of leadership styles utilized in the reality of the LCBs replaced preconceptions. Put forth, the academic pre-existing categories disappeared as the data produced these two leadership categories that could never have been anticipated by the researcher. Therefore, through these iterative stages of analysis the researcher was involved in a number of cognitive and creative processes, from clustering and comparing to hypothesising and conceptual cohering that supported this selection of transactional and transformational leadership styles and theory generation. In last part of the interview questions, the researcher used an open-ended question to ask the interviewees if they had anything to add about these themes.

The results showed that this research would attain its objectives if the interviewees were from the headquarters of the selected bank institutions. This was also the suggestion of local bank managers and the boards in Misrata[1] especially that the majority of CG, CSR and leadership decisions come from the head-offices. Therefore, the researcher had to modify the plan by moving the focus of the research to the capital Tripoli in order to get direct access to these institutions. This was a hard decision, especially with unstable and unsafe situation in Tripoli and the country in general which made it very difficult to meet the interviewees because of security reasons, their busy agendas preventing them from being flexible (Atkinson & Delamont, 2010).

2. Theoretical Sampling

Theoretical sampling is essential for designing the foundations' theory. It is communicated by coding, comparison and memo-writing. The analysis highlights gaps in the current dataset, reveals what the researchers do not yet know, poses questions and suggests relationships by carefully selecting new participants and modifying interview questions, Therefore, theoretical sampling is designed to saturate each emerging category or concept, and not to increase the number of informants (Sbaraini et al., 2011). Glaser and Strauss (1967: 45) point out that *"theoretical sampling is the process of data collection for producing theory whereby the researcher jointly collects, codes, and analyses their data and decides what data to collect next and where to find it, to develop a theory as it emerges"*.

1 Misrata is the author's home city. It is located 200 km east of the capital Tripoli.

Throughout the theoretical sampling in this study, the process of participants' selection was developed few times. in the beginning, the researcher chose any leader among the BoDs or CEOs then the focus was on these leaders who are closer to CG and CSR decision making such as the leaders of finance and Human resource departments and the head of Compliance Audit Unit within the boardroom in addition to the Chairmen and CEO, especially those who experienced and played a role in the formation of CG guidelines in 2010. The researcher also gave apriority to those leaders who have another job within the CBL being crucial body connected to this study. Therefore, the study involved ten BMs and eleven CEOs within twelve public and private commercial banks of Libya. This selection helped in exploring the effects of leadership on both CG and CSR.

Based on the analysis, the researcher had to make changes in the interview questions. For example, the researcher added a brief explanation to the question of TSL and TFL styles to help the interviewees position where their leadership' style fits and to enrich the collected data. Moreover, the question about whether the person responsible for the running of the Board of Directors (Chairman) different from the person responsible for the running of the business (CEO) was disregarded after the researcher learned that since the declaration of 2005 law, the Chairman or any board member does not have any executive powers. However, the modification for Ethics considerations for these changes in the sample and interview questions had no difficulty with approval.

3. Data Analysis (Coding and the constant comparative method)

Coding is a process to bridge the collected data with developing an emergent theory to explain these data by defining what is happening in the data and what it means (Charmaz, 2006). Coding occurs in stages. In initial or open coding, the researcher read carefully the raw data line by line to generate as many ideas and insights as possible, breaking down the transcripts into pieces of these raw data and labelling them. Unrelated date has been rejected. It is worth mentioning here that researcher decided to use the manual way in the analysis of data as it assisted him to achieve deeper understanding of the data, and to become fully familiar with similarities and differences among the narratives of the interviewees. Using a software program as

Nviva just helps to store, organise, and restore data, or link data to each other especially in studies with large amounts of data. Thus, software programs do not analyse the data. Accordingly, it is possible to achieve high-quality analysis by the "manual" analysis only.

In focused or selective coding, the researcher grouped these initial codes into core and sub-categories. This requires decisions about which initial codes are most prevalent or important, and which contribute most to the analysis. The core categories reflected the three main concepts or topics of CG, CSR and leadership studies, whereas the sub categories represented some elements of these three topics such as definition, current situation, challenges. In addition, the sub categories include other three sub-categories for the mutual relationships between these three concepts.

In theoretical or axial coding, the researcher polished the final categories in their theory and specified the relationships between these categories along the lines of their sub-categories, properties and dimensions. The researcher drew up the core and the sub codes or categories and the relationships in diagram (see Appendix 4), as well as providing a clarification of these codes in the thesis structure as headings and sub-headings. However, theoretical sensitivity is an important concept in grounded theory and reflects the researcher's ability to use personal and professional experiences as well as methodological knowledge and, thus, presenting data in new ways and thinking about the data in the theory development process (Hallberg, 2006). The researcher was aware that categories and concepts and their qualities must be grounded from the data rather than being generated by the researcher's questions and preconceptions. Therefore, the researcher initially ignored all existing literature concerning the actual research area and just entered the research field with his eyes and ears open and with as few preconceptions as possible. Here, Calman (2006: 12) claims that researchers need to rely on:

> *Existing literature and theory, and prior knowledge and experience of the researcher, can also be used to inform the development of categories, but the categories should not be forced to fit the literature, and should not be used to create categories.*

Moreover, memos were written throughout the study period. These notes were about events, cases, categories, or relationships between categories. They are used to stimulate and record the analysts' developing thinking. For example, after each interview, the interviewer wrote memos reflecting what he learned from the interview. These memos contained the interviewer's impressions about the participants' experiences and the interviewer's reactions; they were also used to systematically question some of the pre-existing ideas regarding what was said in the interview (Sbaraini et al., 2011). The researcher also made comparisons between data and codes to find similarities and differences, and raised questions to be answered in ongoing interviews.

4. Theoretical Saturation

Theoretical saturation means that all of the concepts in the substantive theory being developed are well understood from the data. Saturation is a critical concept in grounded theory and is based on a subjective decision. The researcher repeatedly applied the previous processes (the theoretical sampling and data analysis) until the categories or concepts are saturated and there is no new data provided that can improve these categories. Here, the researcher stopped conducting new interviews.

5. Theory Generation (Substantive theory)

There are two kinds of theories that can be generated from grounded theory, substantive and formal theory. Substantive theory concerns, and is applicable to, a delimited and specific area or context. Formal theory concerns a more general process or phenomena with a broader application area. However, the results of this grounded theory study are expressed as a substantive theory. That is, as a set of concepts including CG, CSR and leadership that are related to one another in a cohesive whole. Relying on the literature review and the sensitivity of the researcher, the research findings were discussed and compared with previous studies, which leads to produce a new substantive theory that answers how leadership in the Libyan commercial banks influences the CG policies to include CSR strategies. As in most science, this theory is considered to be dependent on the commercial banks in Libya and never completely final.

1.4 Validity and Reliability

Validity is the degree to which an empirical measure sufficiently reflects the real meaning of the phenomena under study (Rubin & Babbie, 2005). Therefore, validity is an important element that proves the truth and authenticity of the research (Holloway, 1997; Joppe, 2000). In this way, the research is *"valid or true if it represents accurately those features of the phenomena that it is intended to describe, explain or theorise"* (Hammersley, 1987: 69). It is firstly whether the instruments used for measurement are correct and accurate, and secondly whether these instruments or methods actually measure what they intend to measure (Winter, 2000).

This research achieved its validity by undertaking several research methods and approaches to inspect the concepts of CG, CSR and leadership in the Libyan context from different angles and academic lenses in order to strengthen the validity of the findings. For example, the researcher used various documents obtained from the case studies of public and private banks to create a constructive and comprehensive generalisation. These resources such as laws, regulations and guidelines were utilised as secondary data sources and contextualised properly in debating and analysing the findings. In addition, the interview questions were directly related to the main objectives of the study and investigated thoroughly the constructs. For example, the means through which the semi-structured interviews were conducted improved the quality, relevance and usefulness of the qualitative data. The implementation of the consent form, a copy of a covering letter and interview strategies increased the consistency and quality of the interviews, not to mention the collaboration and commitment of the leaders selected from twelve headquarters of public and private commercial banks including the four biggest public banks and smallest private ones. Those interviewees were chosen due to their important positions as senior leaders and their great professional experience in connection with CG, CSR decisions in the LBCs that enabled the findings to develop productively. Another element that ensured the validity of this research was that the researcher and interviewees shared the same cultural, social and political legacies that equipped the researcher with confidence to correctly translate, interpret and contextualise their standpoints. In the end, the transcribed data was analysed with high degrees of accuracy. For instance, once the data was transcribed, the researcher re-winded the recording and followed the conversations of the interviewees again to identify any unclear information and to revise the transcript when necessary. Then, the findings have been examined and supported by the literature review.

However, the concept of reliability requires ‘repeatability’ or ‘consistency’. The measure is reliable if it produces the same result in repetitive times, assuming that what we are measuring is not changing (Joppe, 2000). Therefore, this research depended on a set of measures to ensure the reliability. For example, the interviews followed organised and appropriate procedure including the implementation of the consent form, a copy of a covering letter and interview strategies that increased the consistency and quality of the interviews. Therefore, formulation and interrogation of the interview questions were clearly in a natural voice. In addition, the researcher repeated the question to enable the interviewees to assimilate what they were asked and ensured the presentation of the different participants’ answers or views that meet the research questions. The interviews were also recorded and the relevance documents have been safely kept in order to present reliable evidence and evade of bias, which sometimes occurs if the researcher struggles to recall the conversation. Gray (2004: 345) emphasises that *“in terms of reliability, it is fairly obvious that taped conversations will tend to present more reliable evidence than hastily written field notes”*. Furthermore, the involvement of the previous studies to support the interpretations and findings. Finally, the conditions and circumstances in which this study was undertaken is stated clearly in this thesis to enable readers and other researchers understand why some decisions and actions were taken rather than others. This has been done by providing ample information and justification for embracing particular research strategies and methodologies.

1.5 Ethical Considerations

It was essential, during this research, to consider ethical issues. The researcher considered this issue as a continuing and thoughtful part of the research process throughout the study period, and not just as the first difficulty to overcome (Morrow & Richards, 1996). Therefore, the researcher adhered faithfully to the main ethical principles (Bryman, 2016).

First, the researcher highlighted the importance of the informed consent by making the interviewees fully aware of the objective of this study. The researcher explicitly explained to the participants the research topic and its main objectives embodied in the research questions, for example that it is a PhD project that sought to assimilate the mechanisms by which leadership influences CG to incorporate CSR within its regulations; how the findings of this research would be used upon its accomplishment. The participants were also fully informed of any potential effects this research might have. Thus, this informed consent enabled interviewees to decide whether to participate and had the option to withdraw freely their participation at any time or not to participate. Second, the researcher avoided any potential effect this research could have on the participants such as exposing their reputation to danger and stress or to damage a participants' relationship with their team. Third, the researcher respected the principle of privacy by informing the participants that their information was safe and protected. For example, the information disclosed by these interviewees was not meant to be revealed to others without their consent and authorisation. When it came to this study, the information was formulated to certify the anonymity and confidentiality that there was no opportunity for participants to be recognised even if their names were anonymous. To meet this criteria, the researcher kept the identities of the interviewees confidential from the research team and other individuals.

Conclusion

This chapter provided an overview of the rationale behind the research methodology. Based on the paradigm assumption and the types of the questions this research raises and the objectives it endeavours to achieve, it has been crucial to employ a qualitative research strategy to explore the concepts of CG, CSR and leadership in LCBs. Therefore, the methods chosen for data collection were documentary analysis to explain how these structures are defined in the Libyan context. Further, the main case study is twelve commercial banks and semi-structured, face-to-face interview, to collect the required data from a sample of ten members of BoDs and eleven CEOs. In addition, Grounded theory methodology is used to answer the research questions and achieve the objectives of this research. This helped the filtration of the data and its process to gain a comprehensive understanding of how these subjects interact, and the ways leadership influences their operations. Finally, this chapter explained how the researcher dealt with the issue of generalisation, bais and respected the ethical considerations by taking into account the importance of reliability and validity to reach the findings.

Literature Review
(Chapters Two & Three)

Chapter Two

Historical Background of Corporate Governance, Corporate Social Responsibility and Leadership

Introduction

The concepts of CG, CSR and leadership are critical elements for driving corporate excellence. If employed effectively, their roles can bring wealth, in addition to providing long-term value to both shareholders and society as a whole (Nelson, 2011). Accordingly, recent and massive corporate scandals and failures have convinced academics and practitioners to reconsider the use of CG, CSR and leadership to prevent other financial crises (Jamali et al., 2008). Now, corporations are clearly integrating these constructs firmly into their core business strategies. Therefore, companies operate in an ethical and sustainable way by complying with environmental and social regulations and supporting community engagement. This chapter contains three sections that provide a historical analysis of the conceptual development of CG, CSR and leadership. The first section provides an overview of how the concept of CG has grown up and flourished to move away from shareholder supremacy to adopt stakeholder approach. The second section addresses the concept and practice of CSR historically from its inception to becoming global in scope. The last section looks at the progression of leadership philosophy, theories and approaches throughout history.

2.1. Theoretical Frameworks for Corporate Governance

Introduction

The need for the CG concept has emerged over the past few decades, as a result of economic collapses and financial crises that hit a number of developed Western countries in the 1990s, as well as the recent global economic crisis in 2008, particularly in the United States and Europe. These crises have created financial difficulties that have led to the establishment of CG rules and principles to control the functions of all stakeholders in the company. Moreover, CG has become increasingly important as many countries turn to capitalist economic systems, which rely heavily on private companies to achieve high and sustained rates of economic growth. This has contributed to the liberalisation of financial markets and unprecedented cross-border capital transfers, the expansion of companies and the separation of ownership from management. All these factors have led to weak supervisory mechanisms for the actions of managers and the fall of many companies in financial crises. Therefore, this section begins by providing the definitions of CG, before delving into its history to understand how CG has become prominent. It will re-visit internal and external CG mechanisms responsible for its effective implementation. Finally, the chapter provides the principles of CG that ensure the restoration of the lost confidence from all stakeholders due to the series of financial failures.

2.1.1 The Meanings of Corporate Governance

There is still controversy about the definition of CG. Mulili and Wong (2011: 14) claim that the differences between countries regarding *"culture, legal systems and historical developments"* make it difficult for CG to have a universal definition. In addition, this diversity in the definitions of CG is also associated with the attempts of authors to define CG according to their area of interests (Demb & Neubauer, 1992). Put simply, many academics consider it essential to examine CG in its respective country because laws, conditions and practices vary from one country to the next, making it difficult to make unified international proposals. For instance, countries that utilise civil law such as France, Germany, Italy and Netherlands embrace CG agendas that take into account stakeholders. Mallin (2012: 18) believes that these states under civil systems are opening up to more codification in parallel with *"weaker protection of rights, hence, less encouragement to invest"*. The main objective behind the utilisation of this type of CG was to equalise *"the interests of a variety of key groups such as employees, managers, creditors, suppliers, customers and the wider community"*. Mulili and Wong (2011: 15) confirm, *"This approach was known as the insider model of corporate control as it recognized that the greatest control in a firm was held by those who were closest to its actual workings"*. Conversely, countries that followed the common law including United Kingdom, United States, Australia, Canada and New Zealand advanced CG structures that encouraged shareholders' returns or interests. In this case, Mulili and Wong (2011) described this type of CG as 'the outsider model of corporate control' whose purpose was to guarantee that corporations achieved the aims set by their owners alongside profits.

By definition, CG is self-defining because of its combined words: corporate and governance. According to the Oxford English Dictionary, the term corporate is associated with *"a large company or group"*. The source of this term comes from Latin *corporatus* and *corporare*, meaning, *"form into a body"*. Then, in the late 15th century, it became part of the English language. On the other hand, 'Governance' means *"the action or manner of governing a state or organization, etc"*. Additionally, the definition of the origin word 'govern' is *"conduct the policy, actions and affairs of a state, organisation, or people with authority"*. In the late 12th century, English lexicon adopted this term. Based on this etymology, the definition of CG literally means, *"the directing of a large organisation"* (Businessballs, 2017). Moreover, many researchers, practitioners and specialised international organisations have provided narrow and broad definitions for CG, which relate to shareholder and stakeholder perspectives. Here, Braendle and Kostyuk (2007) point out that the two frameworks of these definitions are part of the ongoing dispute over whether managers exclusively run the corporation in the interests of shareholders, or they should take into consideration other stakeholder entities when making decisions.

The Narrow Definition: The exclusionary definition of CG defends the importance of shareholders at the expense of other entities. Thus, it focuses on the relationships between corporate managers and shareholders. In this regard, Shleifer and Vishny (1997: 737) acknowledge that:

> *Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. How do the suppliers of finance get managers to return some of the profits to them? How do they make sure that managers do not steal the capital they supply or invest it in bad projects? How do suppliers of finance control managers?*

This means that the definition concentrates on crediting the roles of the suppliers of finance, reducing the role of companies towards other stakeholders and thus excluding the different interests of stakeholders.

The Broad Definition: The inclusionary definition of CG bridges the interests of these diverse groups within corporations. Simply put, corporations should generate profits and meet public legal obligations and expectations. Here, the OECD (2004: 11) provides a similar definition that CG is:

> *A set of relationships between a company's management, its board, its shareholders and other stakeholders. CG also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.*

Correspondingly, Solomon and Solomon (2004:14) argue that CG is:

> *The system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity.*

This implies that the accountability and responsibility of corporations, in general, should not focus only on the notion of shareholders. In contrast, these corporations have to go beyond this principle to engage all their stakeholders. The task of these corporations, then, is to reach a compromise between the conflict of interests of all stakeholders within and around the company.

2.1.2 Emergence and Development of Corporate Governance

A specific feature of this section is to address the historical and theoretical perspectives of the CG concept to understand how this term emerged in history and academia. In addition, this section examines the developments of CG codes whose main objective is to provide companies with platforms of international and national CG standards.

Emergence of Corporate Governance

In order to understand the notion of CG, it is useful to begin with a brief historical foundation of the corporation. Mueller (2003) believes that the corporation is the outcome of the product of a process. Historically, the distribution of ownership was among a few individuals who were often managers. Larner (1966) highlights that in those days markets were not organised to transfer ownership rights; rather shares were simply transferred to family members. Moreover, control was a voice rather than an exit (Hirschmann, 1978). Simply put, shareholders dissatisfied with the corporate performance prefer the notion of patience rather than selling or transferring their shares. Mallin (2013) and Tricker (2012) reinvestigate the separation of ownership and control and both conclude that during the 18th century firms were relatively small and simple. Similarly, Braendle and Kostyuk (2007: 3) claim that:

> *Corporations in general remained small institutions for the next 200 years or so to come. Most of them were chartered for specific purposes, such as banking. Corporations could only exist for a limited time, were not allowed to make any political contributions, and could not own stocks in other companies.*

This means that corporations were small and quasi-governmental institutions rented from the crown for a particular drive. Hence, shareholders had the absolute power to run the companies. In addition, shareholders observed their corporations well and were ready to cancel charters if they were unhappy with the management of the company. Moreover, bribery and corruption easily permeated this type of corporate models because local managers endeavoured to avoid shareholders' close supervision. In such conditions, corporations deemed dishonest and revealed inherent faults in the corporate form.

More importantly, the separation between owners and managers increased the shareholder disinterest in corporate activities as far as managers maintain the principle of maximum profit at its highest level. Here, Adam Smith (quoted in Klein, 2007) explained that shareholders tend to *"know little about the running of the company, raked off a half-yearly dividend and,* *if things went wrong, stood only to lose the value of their shares"*. In fact, this relationship between the ownership and control recognised a radical change with the development of societies in the early years of the 20th century. Berle and Means (1932) assert that as countries became more industrialised and their markets more developed, the separation between the ownership and control began. In this context, Braendle and Kostyuk (2007: 4) contended that:

> *At the end of the 19th century and beginning of the 20th century, control of corporations shifted more and more into the hands of the managers and therefore ownership and control separated. As the 20th century unfolded and corporations continued to grow while the descendants of the founding families increasingly reduced their share of the ownership, the extent of the separation of ownership from control - and therefore the agency problem – deepened.*

Therefore, under the laws of agency, shareholders permitted boards to become independent and unrestrained. By doing so, managers were negligent and increasingly self-centred in their management of corporations. Conversely, this separation helped to provide good protection to minority shareholders. At the same time, the idea has prompted the most diverse shareholder bases. This argument is also expressed by Monks (2001) cited in Mallin, (2004: 12) stating that *"the tendency during this period has been the dilution of controlling blocks of shares to the present situation of institutional and widely dispersed ownership without power"*.

Theoretically, CG is a relatively new idea that has become prominent in the business world, but the theories constituting its doctrine go back to earlier dates. Between the 1950s and 1960s, that the notion of governance did not occupy a significant space in the production of knowledge in the social sciences and humanities nevertheless indicates that CG existed in some form then. The narratives produced in this decade only addressed the issue of high education and urban governance, and even if these theories embarked in a range of disciplines such as management, finance, economics, accounting law, and organisation behaviour (Mallin, 2013), their impacts on society have been minor (Levi-Faur, 2012).

To theorise the emergence of the concept of CG in academia, Levi-Faur (2012) traces the use of governance in social sciences and points out that governance has gained such a prestigious position in social sciences because it involves the meaning of change. Rhodes (1996: 652) denotes the same idea by affirming, *"Governance signifies a change in the meaning of government, referring to new processes of governing; or changed conditions of ordered rule; or new methods by which society is governed"*. In this sense, governance becomes the key concept that marks the revival of new institutionalism in social sciences. In this regard, Braendle and Kostyuk (2007: 2) believe that Richard Eells (1960) was the first to use CG in the academic literature to denote *"the structure and functioning of the corporate polity"*. On the other hand, Dill (1978) argued that CG was a new term, used by Clifford C. Nelson for the first time in 1978, and was *"a fancy term for various influences that determine what a company does and does not do or should and should not do"*. However, several debates have highlighted that the true emergence of CG existed in the publication of Oliver Williamson's Transaction Costs Economics: Governance of Contractual Relations in 1979. This implies that the academic contributions on CG go back to the late 1970s (Levi-Faur, 2012).

Development of Corporate Governance (Codes and Guidelines)

The growing interest in CG was not vague. Instead, as Becht et al (2002) explicitly puts it the question of governance has been prominent due to different reasons. Firstly, the wave of privatisation around the world paved the way to much interest. The great economies, especially the United Kingdom and Europe, have opened the privatisation process and thus have encouraged the investigation of ownership, leading to the development *"the stock markets as most OECD sales have been conducted via public offerings"* (Braendle & Kostyuk, 2007). Secondly, pension funds and other institutional investors (such as insurance companies and mutual funds) have played a gradually dynamic role in CG because of their investment in large and powerful organisations that had significant impacts on CG. As shareholders, these institutional investors monitored the performance of corporations in the application of CG and the protection of the value of the assets (Altunbaş, et al., 2007). The third reason is the hostile takeover in the United States during the 1980s and in Europe during the 1990s, along with the wave of mergers seen by some large companies. Both waves have reinforced the public dispute about CG and changed the corporate concept. Moreover, the greater integration of global capital markets, particularly in European Union after the introduction of the Euro to encourage foreign investment, has indeed promoted the importance of CG rules. Here, Braendle and Kostyuk (2007) add that growth of equity capital throughout the 1990s has increased interest in CG, especially with the fact that many companies have raised their capital from a variety of sources. The last reason lies in the economic crises of international organisations. Their involvement in corruption, the complicity of accounting and auditing institutions with senior management, the publication of unrealistic financial statements and profits stressed the importance of finding standards for best practices and procedures in management. This is to ensure the achievement of the core objectives and adherence to the internal and external regulations governing the work of institutions, especially because large companies have experienced either bankruptcy or financial scandals due to misuse of power. Therefore, the aftereffects were the formation of a set of CG codes. Malin (2013) indicates that government groups and professional bodies design these rules and guidelines.

One of the leading CG codes adopted by so many companies around the world is the Cadbury Report (1992). The Cadbury Commission was founded in 1991 following the financial scandals that shocked companies in Britain during the 1980s, leading to a loss of confidence between shareholders and banks on the one hand and companies on the other. In addition, concern raised about investments. The mission of the Cadbury Commission was to identify and implement internal control systems to prevent large corporate losses. The Cadbury Report (1992: 14) defined CG *"as the system by which companies are directed and controlled"*. It also highlighted the financial aspects of CG and then issued a code of 'Best Practices'. Moreover, the report made crucial recommendations such as the separation of Chairman and CEO roles, the appointment of three independent non-executive directors, and the establishment of the board's main committees, directors and auditors, to ensure transparent recruitment.

Another unique body is OECD in which a group of governments collaborate to tackle the economic, social and environmental challenges of globalisation. It is indeed a cornerstone of various CG codes, ensuring that businesses reconcile *"the interests of a wide range of constituencies, as well as of the communities within which they operate, and that their boards are accountable to the company and the shareholders"* (OECD, 1999: 9). Therefore, the OECD Principles are initiatives to improve the central fundamentals of a good CG system. As such, the Principles are a standard for governments to evaluate and develop their CG regulations and practices. In fact, this organisation acts as a forum for the belief of the free market system. In this regard, Tricker (2012: 14) states that, *"in 1998, OECD proposed the development of global guidelines on CG and encourage states to introduce such CG guidelines"*. It is important to indicate that in 2004 the OECD revised its CG principles and emphasised the absence of both a common CG model that fits all organisations worldwide, and a global regulatory framework that governs global financial institutions or capital markets throughout the world, because of legal differences and political factors within countries.

The topic in question is whether the utilisation of CG in corporations ensures the safety of these firms from failure. Such an investigation was the subject of debate among social scientists. Mulili and Wong (2011) confirm that the implementation of CG cannot inevitably prevent corporate failures and scandals. This assumption was based on the events of 2001. Although Enron, one of the largest companies in the United States, had adopted the CG concept, it *"collapsed on the back of heavy, indebtedness and dubious CG attitudes among the executive directors"* (Tricker, 2012: 15). This raised the question of whether essentials needed to be included in a comprehensive CG framework, such as the call for greater use of independent directors, access to outside advice for boards, review of BoDs and executive remuneration and limitations on the power of CEOs (Monks, 2002).

In 2002, a new reform was passed on in the United States. The Sarbanes–Oxley Act (SOX) seeks to protect investors from the possibility of corporate accounting fraud. Moreover, it strives to undertake rigorous reforms to improve corporate financial disclosure. Here, Mallin (2012: 50) contends that;

> *The Sarbanes-Oxley Act seeks to strengthen (external) auditor independence and to strengthen the company's Audit Committee. Listed companies, for example, must have an Audit Committee comprised only of independent members,*

> *and must also disclose whether they have at least one Audit Committee financial expert on their Audit Committee. The Audit Committee financial expert should be named and the company should state whether the expert is independent of management.*

With the emergence of the global financial crisis (GFC) in 2008, whose serious consequences still persist in Spain, Greece and Italy, the CG perceptions have been *"a critical agenda item for regulators and lawmakers worldwide"* (Kawamura, et al., 2013: v). Within the same line, Mallin (2013) asserts that the GFC showed that, regardless of the formulation of CG practices to motivate countries to restore confidence in crushed markets, CG still suffers from 'evident deficiencies'. Moreover, Mallin (2013: 59) continues to argue that this global crisis was the outcome of firms acting in their self-interest, which eventually led to the misuse of shareholder funds:

> *Powerful individuals are still able to exercise too much power without appropriate restrain; boards of directors have not taken adequate account of the risks their business may be subject to [...] and generous remuneration packages and hefty pension pots have caused concern amongst government, investors, and the public alike.*

By addressing the difference between CG's failures in previous corporate collapses and the recent GFC, Tricker (2012) provides explanations, with reference to a Harvard Business School study and concludes that the 2001 CG failure was in the "mismanagement" that triggered the US Sarbanes-Oxley Act. However, CG's deficiency in 2008 was primarily in relation to board performance. Hence, to improve the latter the BoDs are required to develop structures, processes, and practices to fit the needs of companies without government intervention.

It remains to mention that an organisation must take into account the environment, nature and working conditions when applying the CG standards. These guidelines are designed to steer companies in the right direction and do not necessarily mean that the company will comply with the provisions of these rules, but it is recommended that the company adopts those CG rules to suit the special situation of the company. In addition, these standards represent the minimum commitment to CG, and companies should take additional convenient measures and controls.

2.1.3 Internal and External Mechanisms of Corporate Governance

The CG framework is an international set of standards at the disposal of countries all over the world. These countries have the opportunity to adjust these international standards with requirements in their own national jurisdictions. The adoption of this framework encourages foreign investment and makes companies accountable to all stakeholders. In this context, Lipton (2013: ix) believes that *"the core purpose of CG is to build long-term sustainable growth in corporate and shareholder value for the benefit of all stakeholders"*. This argument prevailed after the GFC hit the major economies, resulting in the reflection of new measures capable of improving the roles of the board. For further clarification, the CG mechanism is designed primarily to protect and guarantee the rights of shareholders and all relevant stakeholders in companies through tightening systems and monitoring management performance. CG mechanisms rely on both internal and external mechanisms.

2.1.3.1 Internal Mechanisms of Corporate Governance

The internal mechanisms are concentrated on three elements: The General Assembly, board and management. The majority of controls come from these internal mechanisms, determining the processes of decision making as well as power distribution between these entities. However, each entity preserves its own set of vital responsibilities and maintains proper behaviour, which is reinforced by codes of conduct. Hence, internal mechanisms reduce the conflict of interests to ensure the business's activities are effective and take the necessary measures or corrective actions when the company's achievement fall short.

General Assembly: The General Assembly is the highest structure of the company. All powers of the company reside and concentrate in the General Assembly. Shareholders are members of the General Assembly together with the boards and CEOs. The General Assembly decides to distribute profits to shareholders in accordance with the Corporations Act, business outcomes and the financial situation of the Company. For example, Jimmy Choo PLC (2015) states that The Annual General Meeting (AGM) is an essential governance process for the members of an organisation. *"It can ensure transparency, provide updates and give members an opportunity to vote on a* *range of matters [and] with particular reference to governance, discuss the relevance, future development and challenges of the AGM".*

Board of Directors: The BoDs is the used instrument to monitor management performance and protect investors' capital from misuse through its legal powers to appoint and compensate CEOs. The BoDs should be effective by participating in the development of the company's strategy to implement sound CG policy and maximise the value of the company. Furthermore, the BoDs acts specifically on behalf of shareholders in holding managers accountable for their performance in achieving the objectives of the company and looking after the interests of investors. In order for the board to perform its oversight functions, a group of committees is formed from its non-executive members. The main advantage of these committees is that they do not carry the roles of the BoDs but rather provide a detailed report to the board (Alachhab, 2015). There are three main types of board committees to advise the BoDs and help BMs to participate more in a particular area of expertise. These committees include:

Audit Committee**:** this committee membership is limited only to non-executive members who have experience in accounting and auditing. This mechanism has received considerable international and local attention from specialised scientific bodies and researchers, especially after the failures of global companies. This is due to its role as a CG tool to support external audit bodies and increase their independence in addition to its role in ensuring compliance with CG principles including the accountability and transparency in the financial statements disclosed by companies (Bougara & Ghanim, 2012).

Nomination Committee**:** this committee is responsible for appointing the board members, nominating the best candidates by matching their skills and experience with the expertise required of the company (Bougara & Ghanim, 2012; Alachhab, 2015). The Nomination Committee has other main duties such as the induction, training and continuing development of directors, evaluating board effectiveness, monitoring the performance of individual directors and analysing how the results affect the rest of the board's work. Moreover, the Nomination Committee links the company's strategy to future changes on the board (Bischoff, 2016).

Remuneration Committee: most of CG studies and recommendations from interested parties recommend that remuneration committees should be composed of non-executive members of the Board. In the field of state-owned corporations, the OECD guidelines have confirmed that the remuneration of BMs should be reasonable to attract qualified leaders who can achieve the long-term interests of the company. The main function and duties of this Committee focus on determining salaries, bonuses and benefits for senior management (Alachhab, 2015).

Executive Management: Executive Directors are responsible for directing and monitoring the company's business and daily procedures in order to ensure the value of the company to all stakeholders. The board appoints the executive managers. The main roles of the executive managers are to report to the boards on the operations of the company and to ensure that such operations comply with applicable laws and regulations. In this matter, Fitzgerald (2014: 1) pointed out that:

> *The CEO has the responsibility of ensuring that the day-today running of the company and its performance is in accordance with the strategic goals that the board has determined. Typically, a CEO is a director of the company but this is not a legal requirement. The CEO usually reports to the Chairman.*

2.1.3.2 External Mechanisms of Corporate Governance

There is a consensus that the proper application of CG depends also on the availability and quality of external controls that revolve around the economic, legal and environmental climate. These mechanisms often affect and interact with actors that are directly involved in the CG process. The external mechanisms indicate the general climate for the investment in the state. This includes the laws regulating the economic activity such as the capital market laws, corporate laws, as well as laws governing competition and preventing monopoly and bankruptcy practices. External mechanisms also encompass the efficiency of the financial sector, particularly banks and capital market, in providing financial resources for the projects, alongside, the degree of the competitiveness of commodity markets and production elements. In addition, these mechanisms include the efficiency of regulatory bodies, such as the capital market authority and the stock exchange, to tighten control over private companies and institutions such as law offices, auditing and insurance companies, and financial and investment consultative services. In fact, the importance of external controls is that their existence guarantees the implementation of laws and regulations that ensure effective management of the organisation, thereby reducing the conflict between social and private returns (Davoren, 2017).

2.1.4 Key Principles of Corporate Governance

In fact, CG has fundamental principles that if taken fully into account become effective. The OECD (2015: 11) explained that the principles *"are evolutionary in nature and are reviewed in light of significant changes in circumstances in order to maintain their role as a leading instrument for policy making in the area of CG"*. These principles revolve around the rule of law, transparency, responsiveness, accountability, non-discrimination, predictability and participation. Kawamura, et al. (2013: v) have admitted, *"good CG is a necessary precondition for corporate culture to flourish"* because CG ensures that corporations adhere to societies' regulations and ethical principles. Therefore, by respecting these principles, businesses can easily access the global markets. However, this seems somewhat difficult because, as Ghofar and Islam (2015: 1) put it, it is necessarily crucial to recognise *"the factors that determine CG structure and eventually influence its effectiveness"*. In fact, clear fundamental principles inspire corporations to think behind the letter of laws and regulations. Therefore, this segment briefly describes the role of each principle.

Fairness indicates equal treatment for all shareholders regardless of the amount of their shares. Under this standard, this means that foreign and local shareholders as well as minority shareholders' equity are equal under CG framework. However, this does not mean excluding other stakeholders from this fairness. Instead, this principle also includes employees, communities and government officials (Trust, 2014).

Responsibility means that the BoDs should accept full responsibility for the powers they possess and exercise. The BoDs are responsible for overseeing management performance. In doing so, the BoDs is required to act in the company's best interests. This includes ensuring that corporations comply with laws, regulations and social norms. In this matter, the Institute of

Chartered Accountants in England and Wales ICAEW (2013: 3) claimed, *“an effective board should head each company, steering the company to meet its business purpose in both the short and long term”*.

Accountability requires leadership commitment to justify company actions. Simply put, the BoDs is accountable to shareholders for how the company fulfils its responsibilities. In doing so, many aspects of CG are well visualised in the culture and behaviour of BoDs. Hence, ICAEW (2013: 13) stated, *“the board is required to communicate with stakeholders at regular intervals, a fair, balanced and understandable assessment of how the company is achieving its business purpose”*.

Transparency refers that the activities and plans of the organisation and any risks taken should be disclosed precisely to stakeholders. This requires the company's openness in delivering clear information such as the declaration of the realities of financial performance, social and environmental positions of the organisation to shareholders and other stakeholders. In doing this, all diverse stakeholders within and around the company build their *“confidence in the decision-making and management processes of a company”* (Trust, 2014).

Leadership identifies and presents the organisation's agenda and strategies. The BoDs is ethically responsible for the key strategic issues and for providing leadership that creates the right culture capable of driving the corporation. Therefore, in the absence of clear policy and direction, the company will inevitably fail in achieving its long-term goals. It is crucial to notice that these principles are in connection to complement each other so that to promote CG to maintain investor confidence, and thus ensuring companies' success and economic growth.

Conclusion

This section started by providing different meanings of CG. The results indicated that CG does not have a global definition on the basis that each country defines CG according to its own criteria (Levi-Faur, 2012). However, CG has both narrow and broad definitions. The former is more about the relationship between shareholders and management. The latter takes into account all stakeholders within and outside the corporation such as employees, customers and communities as any decision or action can affect the interests of those stakeholders. Then, this section examined the inception of CG historically and academically, and concluded that governance in the literature dealt with these terms as structure, process, mechanism and strategy (Fisher et al., 2013). After that, the section provided historical overview of the development of CG's codes and guidelines from the beginning of corporations. Various aspects contributed to the emergence of CG, most notably the financial crisis caused by the CEOs who mismanaged corporations. Therefore, CG came about to reassure the confidence of various stakeholders by ensuring that the business environment is fair and transparent and that companies can be held accountable for their actions (Youssef, 2006). Finally, the section highlighted how the CG's mechanisms affect company's success. CG's internal and external mechanisms control and supervise the development and activities of the corporations. Through these sets of controls, internal mechanisms take corrective actions. In this way, its internal mechanisms ensure that stakeholders, including shareholders, BoDs, managers and employees, have their interests realised. Moreover, being the basis on which corporations flourish, the CG principles work to maintain stakeholder confidence and create a productive working environment that ensures business success and economic growth.

2.2 Theoretical Frameworks for Corporate Social Responsibility

Introduction

As the narratives on CSR multiplied, this concept began to shift from the margins to the centre of both academia and business agendas (Rosamaria et al., 2011). This is due the benefits that CSR adds to companies' financial performance (Johansson et al., 2015) and to the companies' positive behaviour towards all stakeholders (Pechlaner et al., 2006). Such conditions have made CSR an influential tradition adopted by the business world in order to achieve its economic objectives as well as to meet societal expectations (Carroll & Shabana, 2010). This section introduces the definition of CSR, investigates the historical context of its development and presents its key principles.

2.2.1 The Meanings of Corporate Social Responsibility

The definitions of CSR have undergone fundamental changes over time and continued to evolve as businesses and societies adjust their expectations. So far, CSR has neither a commonly accepted definition nor a consensus on a final list of issues addressed. Moreover, some consider CSR is voluntary (Diafi, 2009). Its essence stems from moral and ethical concerns. However, other believe CSR is more than a set of individual practices, incidental actions or initiatives justified by market relations or existing relationships with the public and others business benefits (Financier Worldwide, 2015). Accordingly, CSR is a comprehensive set of policies and programs integrated into all stages of the organisation's operations and decision-making supported by senior management (Diafi, 2009). Put forth, CSR is self-regulatory because corporations informally supervise their behaviours without the interference of government (Low, 2016). Furthermore, the current CSR's definitions vary according to different viewpoints. CSR is literally an implicit self-definition. The three words the term includes define its meaning. Bhaduri and Selarka (2016: 11) explain that:

> *The three words the phrase contains: "Corporate" which covers the large spectrum of businesses, "Social" refers to the local community with which they interact and finally by*

> *incorporating "Responsibilities" that are intrinsic on both sides of these relationships. Hence, CSR is nothing but corporate in its widest sense and on many levels, to include all stakeholders and constituent groups that maintain an ongoing interest in the organization's operations along with the society within it operates.*

The common denominator of the majority of definitions is that CSR is a concept whereby organisations incorporate social and environmental concerns into their policies and activities to improve their impact on society. Hence, CSR's function is to meet or exceed the society's ethical, legal, commercial and public expectations.

In fact, in its broadest sense, the concept of CSR covers values associated with people, profit and planet (Freeman, 1984). Its narrow meaning suggests that businesses contribute to society by creating a profit, which supports employment, wages and taxes. Therefore, CSR's broad definition has a great interest in the corporations' apparent results and impacts on stakeholders while the narrow definition concentrate on the institution's financial outcomes (Freidman, 1962). Carroll (1979: 500) claims, *"The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organisation at a given point in time"*. Dahl (1972: 18) contends that every large corporation is a social enterprise. Drucker (1984: 62) explains, *"the proper social responsibility' of business is to tame the dragon that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth"*. Ray and Raju (2014: 151) demonstrate that:

> *Companies have an impact on society and the environment through their operations, products or services and through their interaction with key stakeholders such as employees, customers, investors, local communities, suppliers and others. Corporate Responsibility means understanding such impacts and managing businesses to add social, environmental and economic value in order to produce a positive sustainable impact for both society and business.*

2.2.2 The Historical Development of Corporate Social Responsibility

Historically, it is arguable that CSR is not a new concept because corporations' responsibilities towards societies have long historical origins (Katsoulakos et al., 2004). Some scholars state that there had been a relationship between corporations and society in the Industrial Revolution. For example, Carroll (2008: 20) declares that some businesses during that period showed responsibilities towards their employees:

> *Though the roots of the concept that we know today as corporate social responsibility have a long and wide-ranging history, it is mostly a product of the twentieth century, especially from the early 1950s up to the present time. In spite of its recent growth and popularity, one can trace for centuries evidence of the business community's concern for society. To help appreciate the context in which corporate social responsibility (CSR) grew and flourished, we will consider the late 1800s, or the Industrial Revolution, as a reasonable beginning point for purposes of discussion.*

In the same vein, Lee (2008) argues that the industrialists such as Henry Ford and George Perkins of US Steel, together with the sociologists such as C. Wright Mills, have remarked on this relationship between businesses and society before CSR began taking the form in the 1950s. Rosamaria et al. (2011: 529) highlighted that, *"evolution of the CSR concept has a long history associated with how it impacts on organisations' behaviour"*.

In fact, it is important to explain the economic, social and political differences that have influenced the ways companies understand and deal with CSR. The emergence of CSR is linked to the establishment of industrial corporations and the various scientific inventions experienced during that period these inventions contributed significantly to the achievement of the ultimate goal of these institutions to maximise profits and thus extract all available resources from nature and humanity (Diafi, 2009). To that end, corporations used children and women for long hours and in harsh working conditions and with low wages, because they assumed that the responsibility of organisations was limited to the production of goods and services. Through these goods and services, corporations ensured that owners had financial returns. This view continued throughout the 19^{th} century and into the first quarter of the 20^{th} century. With the growth of institutions and accompanying economic crises, exploitation of labour, low wages and the emergence of trade union coalitions, a new phase emerged which directed the attention towards the internal social responsibility in terms of safety and security in workplaces, reducing working hours, improving health care, etc. (Ghalibi & Amiri, 2008). On the other hand, due to increasing awareness of environmental impacts, organisations have tended to pay attention to their external social responsibilities related to the environment, customers, competitors, government and suppliers (Bakri, 2001). Moreover, the dramatic changes in international political and economic arrangements have established a well-equipped platform for the concept of CSR to materialise. Prominent theoretical narratives indicated that CSR materialised and took its first form in academia during the 1950s (Abe & Ruanglikhitkul, 2013). In the same line, Wang (2015: 8) explains that:

> *Since the 1950s, CSR and its related terms, such as corporate social responsiveness, corporate social responses, corporate social performance, corporate citizenship, and corporate philanthropy have been conceptualised and mainly originated from the management area.*

In addition, being the *'father of CSR',* Howard Bowen was the first to conceptualise the interactions between organisations and communities (Carrol, 1979; Wartick & Cochran, 1985). In his book, *Social Responsibility of the Businessman*, Bowen (1953) coined SR then because modern corporations at that time hardly existed. Therefore, Bowen (1953: 6) defines SR as *"the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society"*. Bowen's idea is that businesses were under growing pressure to become more responsible, ethical, environmentally conscious, and apprehensive about unsustainable development. Hence, businesses were in demand not only to exceed the idea of profit maximisation but also to focus on the social impacts of their activities. In this regard, Shah (2008: 5) points out that corporations and executives *"are asked to consider not just shareholders but also all stakeholders – employees, suppliers, customers, the communities in which they operate, and the ecosystem from which they extract resources"*.

To attain the objective of promoting business responsiveness to the growing social concerns, Bowen (1953) introduced specific administrative and organisational changes, relying on the following two questions *'What exactly are the responsibilities of businesses?'* and *'How can society make institutional changes to promote CSR?'*. The findings indicated that CSR is, somehow, a solution to the problems of society and its development, but does not ensure a complete resolution of all those problems. Still, Bowen (1953) highlights the usefulness of implementing and encouraging CSR. In this concern, Lee (2008: 56) asserts, "*Bowen suggested CSR as a complementary and corrective measure for some social failures inherent in laissez-faire economy"*.

In the 1960s, the concept of CSR witnessed a remarkable development because scholars provided "what CSR meant" (Carroll, 2008: 27). In accordance to Bowen, Davis (1960: 70) states, *"businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest"*. From a managerial perspective, some organisations' decisions concerning CSR have economic reasons such as remaining in the competition (Davis, 1960; Carroll, 2008). In this context, Tonello (2011) points out companies are as legitimate if their operations are corresponding to the society's objectives and values in which these companies function and *"fulfils their social responsibilities"*.

Nevertheless, social, but not economic, concerns drove the concept of CSR. Vogel (2005: 20) highlights that despite the fact that substantial peer pressure enforced businesses to become more philanthropic, *"no one claimed that such firms were likely to be more profitable than their less generous competitors"*. Friedman (1962: 133) expressed a different view of CSR, arguing, "*Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible"*. This view asserts that the social responsibility of any business is to generate benefits for shareholders. Hence, for Freidman, CSR is a "subversive doctrine" that endangered the very underpinning of free enterprise society. On this point, Lee (2008) maintains that Freidman distinguishes between the roles of economic and political actors. Friedman believes that corporate managers have to focus on maximising shareholders' profits, whereas social responsibility issues should be the concerns of politicians and civil society. Analysing Freidman's position on CSR, Masaka (2008: 15) explains:

> *For Him [Friedman], the doctrine of CSR is a well-disguised bid of managerial irresponsibility. The owners (shareholders) of organisations hire managers for the sole purpose of increasing profits of the firm so that the owners can realise a reasonable return on their investment. In this regard, since corporate contribution to the alleviation of society's problems reduces the profits and consequently the return on investment of shareholders, managers who make such contributions are neglecting their fiduciary responsibility to the owners and are acting contrary to their contractual obligations. Such actions are, therefore, inherently irresponsible and a deviation from the set purpose of engaging in business.*

Friedman does not believe that corporate managers can combine CSR with financial performance in the sense that the crucial activities of managers are to accomplish the greatest levels of economic profit. Therefore, corporate managers are *"unreliable and inefficient agents of social responsibility"* because they are profit self-interested (Lee, 2008: 56). Whether Friedman is against CSR or not is still an issue of discussion, yet he acknowledges the importance of CSR in the sense that he has reasoned that politicians and social audits should employ this concept in society.

Although, entities within and around corporations began to understand the sound relations between businesses and society, the 1950s were the initiation stage of CSR, characterised by the instigation that companies and their executives should be socially responsible. This means that corporate managers' decisions were the central focus of CSR studies. It is worth mentioning here that CSR discussions until 1960s were grounded in talk and neglected any notion of action. Moreover, the common expression of CSR that businesses employed was philanthropy.

In the 1970s, the understanding of CSR was precisely defined by emphasising the societal importance of this concept and detaching any notion of economic profits from its meaning. An example is a commissioned study by the Committee for Economic Development in 1970, which identified that *"a balance between social and economic interests was a necessary factor"* (Smith, 2011: 1). Actually, this study outlined some CSR features for corporations. Consequently, CSR threw off Friedman's view that corporate managers have only one responsibility that revolves around economic gain. This CSR transition accelerated the emergence of the perception of the enlightened self-interest model because several organisations adopted this orientation. Defining this, MacDonald (2017) suggests that:

> *[The] enlightened self-interest [means] that companies will increase in value if they identify and respond to the needs of society. Enlightened self-interest increases company value by securing and maintaining market share, attracting and retaining a skilled workforce and ensuring that natural resources and raw materials are available for the future.*

In fact, the enlightened self-interest model was the consequence of a study that Wallich and McGowan (1970) conducted. They suggest that CSR is adherent to shareholders' interest. Their argument was dependent on an experiment they directed to analyse CSR in separation of the shareholders' interest. The findings proposed that shareholders in modern corporations invest in various companies instead of only one. Thus, rather than focusing on economic profits in one of these companies at the expense of the others, shareholders tend to approve the concept of CSR to generate profits and simultaneously promote social responsibility. Wallich and McGowan (1970) conclude that shareholders in the modern organisation are diversified and so are their interests (Lee, 2008). According to their new rationale concept, shareholders think that achieving benefits depends on supporting the social environment where firms operate (Davis, 1973).

In 1979, Carroll introduced a three-dimensional conceptual model of Corporate Social Performance. This significant model utilised to ensure organisations have positive impacts on stakeholders. The model consists of three dimensions that focus on social responsibilities (SR), social issues of business and corporate actions. Concentrating on these types, Carroll (1979: 497) believes that managers and firms need to know these basic questions to engage in Corporate Social Performance: *"(1) what is included in CSR? (2) What are the social issues the organization must address? And (3) what is the organization's philosophy or mode of social responsiveness?"*. Starting with the first variable, Carroll (1979) highlights four types: economic, legal, ethical and philanthropic. Corporations need to assess whether they succeed in each of these particular spaces beginning at the bottom of a pyramid, which contains the economic aspect. Corporations must gain profits before implementing the legal, ethical, and philanthropic facets. Economic responsibility is what the company does for itself, whereas the rest are what businesses do for others. Here, Carroll (1999: 284) explains, *"economic viability is something business does for society as well"*. The second variable, however, Carroll (1979) outlines social issues of business include such topics as labour standards, human rights, environment protection and anti-corruption. Finally, corporate actions have four modes of response as reactive, defensive, accommodative and proactive. Each business defines what types of corporate responsibilities are appropriate for its actions and its policies are based on the seriousness of issues prevailing in the society. Thus, managers form a clear vision of the social issues they face and this helps them plan and improve their social performance. However, Carroll (2008: 11) noted that CSR in the 1970s was still more talk than action, although acknowledging that legislative initiatives ensured that companies respected federal law standards that dealt with employment, worker safety and environmental risks.

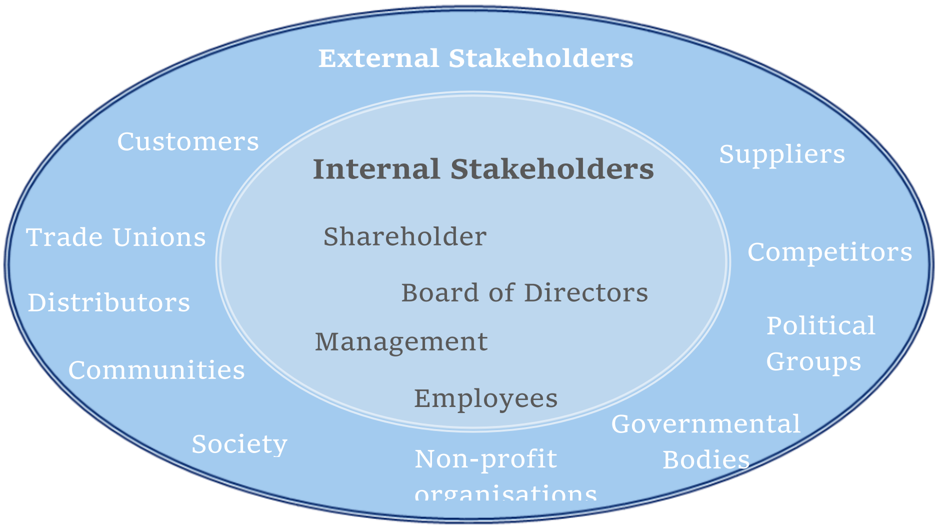
In 1984, the concept of CSR had experienced some development with the emergence of stakeholder theory by Edward Freeman. The basic idea of stakeholder theory is that corporations that succeed in managing their stakeholder connections survive longer and perform better than those that do not maintain stakeholder relationships. Freeman (1984) therefore, claims that businesses must develop certain stakeholder attitudes. In this matter, Grimsley (2015) highlights that these competencies include the following set of techniques: making a commitment to monitor stakeholder interests, developing strategies to effectively deal with stakeholders and their concerns and dividing and categorizing interests into manageable segments. Along similar lines, Raubenheimer and Rasmussen (2014: 37) state that *"organisational survival and success is contingent upon satisfying both its economic (e.g. profit maximisation) and non-economic (e.g. corporate social performance) objectives, by meeting the needs of the company's various stakeholders"*. This means any organisation should not only consider shareholders but also other stakeholder groups such as employees, customers, suppliers, environment and society in general. So, what is stakeholder theory?

Stakeholder theory is one of the most important issues of strategic management. Here, Donaldson and Preston (1995: 65) explain that, *"the idea that corporations have stakeholders has now become commonplace in the management literature, both academic and professional"*. This theory represents an environment of interrelated organisational relationships and interactions with the internal and external environment of the businesses. It also assesses how these connections affect the ways corporations conduct their activities. Hence, mismanagement can hinder the survival and sustainability of these companies. In the first phase of capitalism, when an individual or family ownership of an organisation was a common basic rule, the profits of a project were fully limited to the owners. All parties concerned were expected to demand nothing other than the financial compensation agreed in advance. Now, however, the situation has changed completely. Ownership in businesses, especially large ones, is defined by the market. Ownership is often separated among a large number of shareholders, many of whom own small quantities of shares and thus hardly have influence on their businesses' strategies. In this way, shareholders were seen as stakeholders.

In fact, stakeholders can come from inside or outside of the corporation, and include employees, shareholders, customers, suppliers, non-profit groups, government and the local community, among many others (Alenezi, 2007). Therefore, stakeholder theory recommends that the objective of a corporation is to generate as much value as possible for all stakeholders. In order to flourish and remain sustainable over time, executives should preserve the interests of shareholders, employees, customers, suppliers, and communities equally (see figure 2). Here, Freeman (2005: 56) contends, *"the basic idea is that businesses, and the executives who manage them, actually do and should create value for customers, suppliers, employees, communities, and financiers"*.

Moreover, in 1985, Wartick and Cochran (1985: 767) developed the CSP model of Carroll by adding three aspects, mainly CSR, corporate social response and social issues and then applied them to a set of principles, processes and policies. The idea behind this is they believed the Carrol model *"embraced the ethical component of SR and thought of as principles, corporate* *responsiveness should be thought of as processes, and social issues management should be thought of as policies".*

Figure (2): Internal and External Stakeholders of an Organisation.



Source: Author's own interpretation based on (Freeman, 1984).

In addition, in the 1980s, the concept of business ethics commenced as a movement under the circumstances of the corporate scandals involving senior leaders requiring the development of internal structures that incited companies, executives and employees to act ethically. These structures consisted of clear forms of responsibility, a set of ethical codes, training programmes to enhance corporate ethics. In this context, George (2015) contends that:

> *By the 1980s, many companies had started reacting to calls for ethical structures, and more and more started adopting ethical codes and instituting ethics training for their employees. Each wave of scandals, which seemed to occur every ten years or so, resulted in more pressure for companies to incorporate ethics into their structures.*

Finally, it is important to note that in the late 1980s, three major structures emerged corporate social activity reports were rising in response to growing pressure from social organizations that demand that businesses become socially sustainable and ethical. Secondly, various authors suggested conceptual models for SR accounting. The issue with these works was that they provided limited support in outlining what to incorporate in social accounting reports (Katsoulakos et al, 2004). The third feature was the frequent use of stakeholder theory as a reference to CSR.

In 1991, Wood reconfigured the models of both Carroll (1979) and Wartick & Cochran (1985) by associating the four types of corporate responsibilities with organisational institutionalism such as legal, organisational and individual. This introduced three principles of corporate behaviours and outcomes: legitimacy, public responsibility and managerial discretion (Abe & Ruanglikhitkul, 2013: 11). By legitimacy, Wood (1991) meant that a mutual relationship the society provides a platform for businesses that in turn respect society's regulations. Conversely, public responsibility means obligations towards the micro and macro environment, and managerial discretion indicates the managers' moral role regarding CSR and its application. In 1994, John Elkington (1994: 17) formulated "triple bottom line". This model emphasised that businesses were to ensure economic prosperity, environmental quality and social justice. Graafland and Zhang (2014: 35) refer to these economic, environmental and social responsibilities of corporations as "Profit", "People" and "Planet". Companies' objectives are the creation of value through the production of goods and services. Companies' strategies need to incorporate "people" socially through encompassing various aspects such as human rights, education, health and diversity. Finally, businesses should protect the "planet". Actually, this example accentuates that for an organisational success, it is necessary to align the economic aspects of corporations with the social and environmental issues. Katsoulakos et al. (2004: 16) highlight that the business *"sustainability gained ground in the boardrooms and many companies extended their existing environment reports to include wider issues, such as community, and gradually 'sustainability reports' began to appear"*. The last phase of CSR expended from the 2000s onwards. During this period, CSR movement reached its zenith as it entered an era of empirical application. This was due to the theoretical baggage of the last five decades and the process of CSR mainstream strategies launched by some specialised international organisations, such as the OECD and the World Bank, to provide a clear CSR understanding and raise the awareness of CSR's importance worldwide while linking it to management frameworks.

It is worth stating that during 2003, Schwartz and Carroll reformed the four-dimensional model (economic, legal, ethical and philanthropy) into a three-domain approach. This last was practical in analysing businesses on the basis that each category of Venn diagram has a set of organisation characteristics by collapsing the category of philanthropy into the ethical category (Carroll, 2008: 14).

To this end, the history and evolution of the CSR concept has crossed several phases. Different motivations have contributed to the emergence of CSR. Although many authors have claimed that CSR concepts date back to the 18^{th} Century, CSR activities were then a set of philanthropic acts towards the poor. However, it is clear that the initiation of CSR, both nationally and internationally, took place in the 20^{th} Century, specifically in the 1960s. During this period, the political, social and economic spheres realized the huge movements that demanded that organisations behave in ethical manners. The historical analysis of CSR in this part shows that these phases of CSR started as a CSR initiation, then CSR application and ended up as CSR mainstreaming because prominent organisations raised awareness among executives of the importance of this concept not only for shareholders but also for all stakeholders within and outside their corporations. CSR mainstreaming was through the creation of CSR principles and policies and the provision of accounting reports concerning environment and society.

2.2.3 Key Principles of Corporate Social Responsibility

Now, different corporations provide CSR framework for effective practices. Hence, CSR has three key principles (Crowther & Aras, 2008). The first one is sustainability, and it relates to the critical activities of corporations towards ecology and society. It also implies the strategies followed by these corporations to ensure the continuation of resources for future generations (Crowther & Martinez, 2004). The second principle is transparency, which means that corporations must disclose clearly their controls and social activities to all diverse stakeholders. The third principle relates to accountability meaning the recognition of corporations' responsibilities for their actions towards internal and external stakeholders and not just towards their shareholders (Crowther and Martinez, 2004).

Conclusion

The concept of CSR pushes corporations to move away from profit maximisation to include stakeholder approach as a healthy relationship that is beneficial for both corporations and society in general. The first part of this section provided different CSR definitions. CSR has two opposing groups, and their reflection is obvious in two-dimensional activity that CSR has so far, one of which is the argument that preventing corporations from profit seeking threatens the economic system. Thus, company's sole CSR is to maximize its profits within the market guidelines and it is pointless to enforce companies to assume public responsibilities of the government. The second viewpoint insists on that corporations have responsibilities not only to its shareholders, but also to all other stakeholders that affect, or being affected by its activities.

The second part provided a historical analysis of CSR development. It demonstrated that CSR dates back to the 1950s, and since then has imposed itself on the national and international economic scene as a reaction to globalisation, which prompted multinational corporations to play social roles. This concept went through an ongoing development until international organisations mainstreamed CSR in the 2000s. This is due to the considerable knowledge economy and the wealth of businesses information. Thus, CSR demanded the incorporation of social responsibility into corporate policies and the reconcilement of all stakeholders' interests. The last part of this section considered the three CSR principles, including sustainability, transparency and accountability. These principles assist corporations to assess their involvement in tackling the societal and environmental concerns arising from the results of corporate activities.

2.3 Theoretical Frameworks for Leadership

Introduction

Leadership is a vital skill in modern businesses, and without strong leadership companies tend to fail because this concept creates, evaluates and preserves policies and ensures their application within the organisation. Consequently, leadership is the foundation of institutional values that, in turn, guide the actions of organisational members (Podolny et al., 2010). At first, leadership styles dominated the debate for being crucial for the success of organisation. However, as corporations grow in size and become more complex, leadership becomes the central interest in academia and the business world to improve the corporate structures and move away from the hierarchical traditions of leadership (Bolden, 2004; Sadler, 2003). Now, it is comprehensible that the correct combination of leadership styles, subordinates and situations make leadership even more effective (Day, 2011). An effective leadership strategy directs to *"positive consequences for both the individual and organisations"* (Achua & Lussier, 2013: 3). Also, treating *"leadership deficit with real vigour"* relatively increases the productivity of societies through *"maximi[sing] the benefits of innovation, gain[ing] advantage from technological change and create the conditions for a radical transformation of public services"* (DFES, 2002). Therefore, this section examines the concept of leadership. It provides the different definitions it has assimilated. Then, it revisits the four schools that shaped its canons, before moving to explore transactional and transformational leadership styles. Finally, it investigates the importance of leadership in time of crisis to manage and handle the challenges that volatile context begets.

2.3.1 The Definitions of Leadership

Being a never-ending journey of change (Bolden, 2004), leadership is a common term that has no agreed definition. It is evident that there are various views among different researchers of leadership. In this point, Bass (1997) infers that leadership's definitions are confusing. In similar lines, Burns (1978) explains that an examination of the definition of leadership yields an estimation of 130 definitions of this concept. According to Stogdill

(1974: 259), the reason behind this issue is attributed to the diversity of individuals attempting to conceptualise the perception of leadership from their own perspectives and according to their area of interest. Furthermore, this difference in providing a universal definition of the nature of leadership is also rooted in the four '*research approaches*': trait, behavioural, contingency and integrative that have emerged to endorse the traits and practises of effective leadership (Achua & Lussier, 2013: 19). Thus, this increase in leadership literature has diluted the meaning of leadership. To advocate this view, Gill (2006: 3), pointing to Joel Kurtzman's claim, mentions that *"a consensus has so far failed to emerge with respect to what leadership is, how leaders develop, and how to become a more effective leader"*. Simultaneously, this mounting leadership studies have pinpointed the peril of ascribing mainly heroic qualities to leadership behaviours and accentuated instead to consider both the positives and negatives of particular leaders and leadership styles and behaviours.

Therefore, what are the definitions of leadership? It is useful to start with a working definition which will help delimit the areas this research is concerned with. For this reason, the definition provided by Stogdill (1950: 3) is still valuable: *"Leadership may be considered as the process (act) of influencing the activities of an organisational group in its efforts towards goal setting and goal achievement"*. This definition entails that leadership is a dynamic, interactive process taking place within a group, or across a network of organisations or actors, or mobilising a diverse set of stakeholders. Hartley and Benington (2011: 5) emphasise that:

> *There is a shift from seeing leadership as the individual traits of a particular personality, or as the characteristics attached to a particular organisational position, towards a greater interest in leadership as a set of processes concerned with mobilising action by many people towards common goals, and the framing of those goals.*

In parallel lines, Friedman (2012) highlights the existence of three dimensions of leadership. The first dimension regards leadership as a process of influence. The real leadership is not grantable or delegated because it stems from influence alone. It is a process of social interactions, where one person influences others to organise their efforts and relationships as a group (Maxwell, 2007). An Effective team leader ensures that their team morale remains high and that followers are motivated to perform well. This is through instilling a sense of confidence and trust in workers and by generating an environment of cooperation between team members so that they work together to achieve team objectives instead of only fulfilling individual goals (Joseph, S. & Nye, Jr., 2019). The second dimension lies in leadership as values. The primary role of the leader is to unite individuals around core values because followers are attracted to leaders with values that are consistent with their values. The third dimension connects to leadership as vision. The central pillar of leadership is the guiding vision. Leaders have a clear idea of what they want to do and have the ability to continue and persist despite obstacles and even failures (Bennis, 2008). In this respect, Maxwell (2007) maintains that followers do not follow the noble matters at first. Instead, they follow qualified leaders who support the issues they can believe in, followers are convinced of the leader first, then the leader's vision.

2.3.2 Theories of Leadership

This part provides instances of the different types of leadership theories, namely trait, behavioural, contingency, and integrative theories. This is to analyse the techniques each theory utilises to describe effective leadership:

The Trait Theory: Trait theory prevailed in Europe in the early part of the 20th century. The influence of the myth of the Great Man who possessed exceptional supernatural powers given to him by God manifested itself in this theory. The claim was that leaders have specific features and characteristics that distinguish them from ordinary people (Bolden, 2004). In this sense, Tead (1929) defines leadership as a set of traits that enables a person to encourage others to perform a particular task. Leaders' personalities and characters distinguished this model (Bernard, 1926). The trait approach had two schools. The first one is in favour of the assumption that leaders are born. That is, this category assumes that the leader is born with distinctive qualities and characteristics that distinguish him from other people (Sashkin & Sashkin, 2003). In this regard, Stogdill (1974) argues that the notion of leaders being born goes back to the early theorists who studied the idea of heredity of great men. Put forth; leaders have innate skills and ability to lead communities and societies. Therefore, it is believed that these great social, political and military leaders were gifted with unique qualities to captivate their followers (Achua & Lussier, 2011). Northouse (2013: 7) claims, *"The trait perspective suggests that certain individuals have special innate or inborn characteristics that make them leaders differentiate from non-leaders"*. The other school claims leaders are made. Its defenders assume the individual possesses certain traits that make him a successful leader. Such personal traits come by acquisition and learning. Sadler (2003: 11) explains that the advocates of this view pay much attention to these great leaders in history and their personalities to *"study their lives and emulate them"*. Stogdill (1974: 17) also asserts that schooling can equip leaders with such characteristics. In claiming this, the argument that leadership is an "elitist enterprise" loses its significance (Northouse, 2015: 4). The drawbacks of trait theory are that its defenders have not specified the importance and weight of each leadership characteristic to meet the requirements of modern organisations and their complexities. In addition, this theory ignored the influences of both subordinates and environmental factors upon leadership (Terman, 1904). Being unable to provide a real explanation of leadership, this paradigm lost its importance and scholars have reoriented their focus on leaders' behaviour.

The Behavioural Theory: The objective of academics searching this pattern was to find with ways or methodologies that might simplify the understanding of leadership (Achua & Lussier, 2013). This approach is more about what leaders do in managerial surroundings. This is referred to in the definition presented by Hemphill (1949: 246) suggesting that leadership is *"the behaviour of an individual while [he is] involved in directing group activities"*. Accordingly, this method seeks to distinguish between the behaviour of effective and ineffective leaders (Northouse, 2013). In an attempt to explain the meaning of leadership from this angle, Carter (1953) indicates, *"leadership behaviours are any behaviours the experimenter wishes to designate or, more generally, any behaviours which experts in this area wish to consider as leadership behaviours"*. Therefore, such an approach tends to investigate the distinctive type of relationships successful leaders use towards their followers. Here, Fiedler (1967) recognises leadership behaviour as follows:

> *The particular acts in which a leader engages in the course of directing and coordinating the work of his group members. This may involve such acts as structuring the work relations, praising or criticising group members, and showing consideration for their welfare and feelings.*

The behavioural leadership model has two categories. The first is task-oriented behaviours that stimulate followers to perform their tasks through a well-defined agenda (Northouse, 2015). Yukl (2013: 64) introduced this category as 'initiating structure'. It requires subordinates to implement precise procedures or to intensify the importance of meeting deadlines for activities and tasks. In this point, Bellows (1959: 14) determines that *"leadership as the practice of ordering a situation so that various members of the group, including the leader, can realise common goals with maximum economy and a minimum of time and work"*. The second category is people-oriented behaviours, or as Yukl (2013: 64) calls it 'consideration'. Leaders allocate time and consult their followers on important issues. This stimulates within followers a sense of accountability and responsibility. However, good leaders tend to combine these two categories (Northouse, 2015; 2013).

In fact, there is a contemporary debate that evaluate the extent to which the concept of self-managing teams (SMTs) can replace the duties and responsibilities executed by managers. The main idea is to empower teams to plan and manage their own day-to-day activities without the help of managers. The employment of SMTs in organisations increases the levels of autonomy, responsibility, freedom, and variety, which are main factors of motivation (Goodman, 2009). Furthermore, SMTs requires greater levels of coordination. Thus, instead of relying on a leader, the group become in charge of making effective coordination. This helps the member control their environment and become cohesive. Finally, the concept of SMTs keep the process of development continuous. The more the members of the group are open to learning, the more they develop new repertoires to enhance performance. Nevertheless, to install SMTs in an organisation, Bos-Nehles (2018) highlights that it is never a simple or linear process. This is in association to the fact that a culture of using self-managed teams in an organisation is. Therefore, it needs time and four stages for an effective implementation. The initiation phase focuses on the importance of having a functional leader to direct the teams. This helps members of the team gain new skills and competencies to reduce uncertainty and ambiguity before teams become self-managing. Both the adoption and adaptation phase encourage the managers to become coaches instead of directive leaders. Hence, directive leaders give space to team members to work autonomously while reserving full decision making. The use phase reduces the involvement of leaders in the daily work activities of the team. Accordingly, the team take full charge of their own work schedules, determine budgets, order and allocate resources and monitor service quality. Leaders may play roles as external supervision and supporters. Finally, in incorporation, teams become fully self-managed. Team members take over the role of managers by becoming internal leaders (Fogelson, 2017).

The Contingency Theory: While researchers focused on trait and behavioural theories to understand leadership effectiveness, in 1967, Fiedler presented contingency theory, which *"suggests that a leader's effectiveness depends on how well the leader's style fits the context"* (Northouse, 2013: 123). This theory's basis is the inexistence of specific qualities in leaders. Rather, the effectiveness of the leader depends on the proper compatibility between the leader's personality and the variables in the situations. Hodgson and White (2001: 18) claim, *"Effective leadership is finding a good fit between behaviour, context and need"*. Therefore, it is assumed that this paradigm gives importance of the situational factors such as the nature of the work achieved, the relationship between the leader, the characteristics of followers and the external environment.

So what does this situation deem to be important? The variables of leader-member relations, task structure and the position power of the leader are important when analysing the specific conditions under which the leader operates (Northouse, 2013). The existence of these factors determines the positiveness of several situations in organisations. The contingency theory confirms that a best style of leadership does not exist. Instead, good leaders are the ones who can employ several styles in accordance with the nature of the situation. Nevertheless, after investigating the different common styles used by leaders, Fiedler (1967) contends that there are circumstances where given style is effective in a certain situation whereas it is ineffective in other stances. This is what Achue and Lussier (2013: 20) conclude by saying that *“some cultures prefer autocratic leaders while others prefer participative leaders”*.

The Integrative Theory: This theory combines the previous theories. In this context, Achue and Lussier (2013: 20) claim that this theory came into existence by linking the theories together, arguing *“integrative leadership theories attempt to combine the trait, behavioural, and contingency theories to explain successful influencing leader-follower relationships”*. According to this theory, successful leadership depends not only on the characteristics of the leader in a particular situation but also on the leader's ability to integrate all members of the group. The attributes possessed by particular leaders are not sufficient to make of them effective leaders. Instead, the group must be convinced of their qualities and capabilities as leaders. Simply put, the successful leader interacts and creates integration with group members. This happens when this leader identifies the problems of his group. In doing so, this leader can solve these problems and meet these requirements. In fact, this theory is more realistic and positive in its analysis of the characteristics of leadership.

According to integrative theory, leadership is a process of social interaction, whose characteristics are determined on three dimensions: the personal characteristics of the leader, the requirements and characteristics of the group or subordinates and the elements of the situation. In this regard, Nelson (2012) states that leaders under this theory shift tensions in an organization between these three elements to an inspired benefit:

> *In this creative process, integrative leaders forge new possibilities and results that are superior to what each could have secured on their own. These new possibilities and results serve to regenerate and preserve the organic balance of life, integrated social, economic and environmental systems for present and future generations.*

In fact, the organisational performance of any organisations is under the influences of various sets of factors that are projected by leaders of these organisations. According to Upper echelons theory, the managers' hart characteristics are crucial for leaders to influence the followers and succeed in promoting organisational performance (Hiebl, 2014). Upper echelons theory analyses the relationship between the characteristics of top managers and management, including age, functional background, education, tenure and ethnicity (Besar et al., 2017; Oppong, 2014). When all combined, these demographic characteristics of top managers have positive effects on the strategy and performance of their organizations.

Starting with the age, different studies have shown that manager's age influence corporate growth (Hambrick & Mason, 1984). The case studies of these studies compared the different traits between younger and older executives. The outcomes of these studies proved that older managers were less able to grasp new ideas because they were unready to adapt to new environment and hesitated in using new technologies (Child, 1974). Thus, older managers were risk averse in order not to endanger the performance of their organisations (Carlsson & Karlsson (1970). However, younger executives made risky plans and were adabtable to the unfamiliar environment.

Top managers' occupational background has also an effect on a business's growth and performance (Hambrick & Mason, 1984). This demographic characteristic has two categories which influence the decisions made by executive managers. Hambrick and Mason (1984) divide it into throughput function and output function. In this regard, Bamber et al. (2010) related throughput function when managers are more conservative in terms of the strategies implemented and level of tolerance for uncertainty. However, the output function is linked with risk and uncertainty (Gupta, 1984; Ali & Taylor, 2014). Furthermore, educational background means to the knowledge and skills that an individual possesses. Nevertheless, there are different outcomes on its influences on organisational performance. For example, the studies of Collins and Moore (1970) confirm that a management with formal education appears to be more "self-made" executives as compared to a management with hands-on experiences. Hambrick and Mason (1984) state that highly educated managers are less innovative as they are likely to pursue short-term strategies rather than long-term strategic planning.

There is a significant relationship between management's tenure and organisational performance (Hambrick & Fukutomi, 1991). For instance, short-term tenure or long-term tenure reveal different CEOs' attitudes and behaviours towards their responsibilities. Short-tenured executive managers lack concentration in evaluating significant matters and strategic risks of their organisation (Simzek, 2007). This leads to minimum contribution to organisational growth and performance. In contrast, long-term tenured CEOs may result in greater risk avoidance as they tend to maintain their status quo (Miller & Shamsie, 2001).

Finally, Hofstede (1980) relates ethnicity of a group with the cultural society. In this point, (Nishii et al. (2007) note that the upper echelon diversity is associated with the demographic diversity of the workforce, with the evidence of homo-social reproduction taking place in organizations, particularly with regard to gender and race. In similar lines, Gray (1998) points out that the linkage between societal values and institutional norms with an organisation's preference in accounting values and systems because the management is the decision-maker of a company that requires them to inculcate their cognitive bias and values in their decision-making process.

Now, it is crucial to look at the two types of leadership contained in the integrative theory: transactional and transformational. To put it in this way, what is the difference between TSL and TFL?

Transactional Leadership (TSL)

This leadership style focuses on 'the exchanges' between leaders and subordinates (McCleskey, 2014: 122). These exchanges are based on *"providing a material or psychological reward in return for followers' compliance with the leader's wishes, with no sense of any higher purpose"* (Gill, 2011: 180). In this sense, Dems (2011) defines TSL as follows:

> *The influence of a leader toward his subordinates using reward and punishment as a form of motivational medium. The style is based on the concept that a leader has to give something to his followers in exchange for performing certain tasks. In this style, a leader may offer something valuable like increased salary, incentives, and promotion to his subordinate, who in turn is expected to fulfil his or her duties well. Otherwise, the leader provides his subordinate less future opportunity and incentive or may use a demotion as a form of punishment for not projecting a good performance.*

Therefore, the TSL relies on the idea of a series of useful exchanges and communal promises between the leader and their subordinates to achieve the work standards and objectives. Usually, leaders depend on the system of rewards and penalties that affect the performance of their followers. The issue with this style of leadership is that it does not seek to develop subordinates but enhances performance (Odumeru & Ifeanyi, 2013). The role of transactional leaders revolves around assigning tasks and functions to the subordinates, understanding their needs and desires and then providing incentives relating to those needs and desires in return with their achievements. It is necessary here to comprehend that TSL has two main dimensions:

Management-by-Exception: This dimension is sub-categorised into two forms. Active management-by-exception means active intervention by the leader in subordinates' tasks by investigating mistakes and imposing appropriate procedures to prevent the mistakes from reappearing. The leader immediately rearranges and corrects the mistake to avoid problems by criticising subordinates before intervening. However, passive management-by-exception leaders establish a set of standards and objectives of work performance. The leaders then wait for problems to arise. The leader's reaction occurs when the situation worsens and deters tasks (Odumeru & Ifeanyi, 2013).

Contingent Reward: The leader here endeavours to motivate employees to achieve goals that meet the expectations by providing feedback, financial or psychological rewards. This means that this type of leadership is more about directing followers rather than consultative, participative and delegative styles. (Gill, 1997).

Transformational Leadership (TFL)

The concept of leadership recognised a remarkable shift with the emergence of James MacGregor Burns' TFL in 1978. This leadership style is a combination of inspiration, intelligence and gravity. Transformational leader has the ability to make a change, deal with the crisis and push up the institution to achieve very high levels of achievement. Here, Sadler (2003: 24) affirms that TFL is the course of involving subordinates' commitment in the case of collective values and a shared vision. TFL establishes mutual trust between leaders and subordinates, so to speak. Gill (2008: 50) emphasizes that TFL is effective when both leaders and followers raise *"each other's motivation and sense of higher purpose"*. Burns (1978: 81) expressed this belief that this paradigm concerns people's higher-order needs for achievement, self-esteem and self-actualisation, also defining TFL as *"a process which occurs when one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality"*. In fact, the emphasis, here, is to incite subordinates to transcend the concept of self-interest while striving to obtain the common objectives (Bass, 2008: 619).

In 1985, Bernard Bass reformulated the TFL by representing four elements to reconfigure the relationship between leaders and their followers to the expected organizational results (Bass & Riggio, 2006). Firstly, idealised influence refers to the way in which leaders influence their subordinates via the charismatic vision and outstanding behaviours. At the same time, followers perceive their leader as a person who has such specific qualities that they desire to match. Secondly, inspirational motivation encompasses the leader's capacity to stimulate and inspire his followers by supplying a shared meaning and a challenge to them. The key concept in this element is enthusiasm and optimism. Intellectual stimulation is the third component that means that leaders increase their followers' efforts innovation and creativity by targeting their intellectual abilities. Here, it is vital that leaders be open-minded and not in a state of criticism. Finally, individualised consideration requires that leaders behave as advisors to help followers reach their specific needs.

Despite the fact that transformational leadership has effective and tremendous benefits such as ensuring organisational success and making followers perform better and maximise their potential, different critics believe that this leadership style is not without its limitations. One example is self-efficacy bias. In this regard, Lee (2014) points out that charisma, as it is regarded one of the strengths of transformational leadership, constitutes a threat when transformational leaders see themselves in an overly favourable manner in order to maintain a high self-esteem. In similar lines, Gist (1987) and Gist & Mitchell (1992) claim that when transformational leaders overestimate themselves and regard themselves as superiour they seek to take full credit for the success of a project without recognising the efforts of their team. Thus, they reject negative feedback and only see their strengths and are willfully ignorant of any shortcomings or failures. The second is evangelical, meaning that the serious exaggeration on the achievement of visions leads these leaders to become more evangelical leaders (Lee, 2014). Hence, much of the process of developing the vision falls on the shoulders of leaders who do not listen to the views of their followers. This goes against the recommendation of Yukl (1999) and Northouse (2001) that to create visions transformational leaders must listen to all viewpoints to develop a spirit of cooperation and use people in the organisation because to build up a challenging and striking vision transformational leaders necessitate to mutually work with the followers (Sultana et al., 2015). On that point, Lee (2014) explains that:

> *At a distance, leaders are often idealised which leads to "blind trust" in the leader. The blinkered obsession of the leader exaggerates the heroic leadership bias. The dangers can be considerable. Consider the case when the leaders' vision is intentionally deceiving or unethical; where would it direct the organisation?*

Moreover, transformational leadership model suffers from the issue of *"conceptual clarity"* (Northouse, 2013: 202). It contains a wide range of activities and characteristics. However, it is hard to define them exactly because it lacks a clear specification of the distinction between transformational leadership and transactional leadership. Hence, this lack of conceptual clarity leads to ambiguity in measuring and explaining the effectiveness of transformational leadership (2005; Northouse, 2013; Pawar, 2003; Yukl, 1999). The final criticism resides in the fact that transformational leadership is considered as elitist and antidemocratic if transformational leaders act alone and apart from the group (Avolio 1999). Lee (2014) claims that if transformational leaders encourage followers to sacrifice their self-interest unreasonably, they become antidemocratic and solitary. In this way, transformational leaders become either directive or participative, and either authoritarian or democratic (Bass & Riggio, 2006).

Hence, form this it is obvious that leadership now goes beyond the traditional emphasis on the individual and contends that leadership must be understood as grounded in an analysis of entire compound adaptive systems. This means that leaders must be seen not only as individuals, but also as leadership teams and groups because leadership is often distributed and shared across a group of people with different sources of authority, legitimacy and expertise.

2.3.3 Leadership in Times of Crisis

A crisis implies both unpredictable and unavoidable happenings that can happen at any time and any place. In this contemporary era, companies are under constant threats, be they scandals, terrorist attacks or revolutions (Klann, 2003). Such new contexts forced by a crisis situation alters both the social environment in which leadership is entrenched and the cognitive processes, resources and strategies required to terminate the effects of the crisis (Osborn et al, 2002). Due to this complexity or insecurity, business leaders are required to have certain skills to lead the organisations through these serious crises and ensure their survival (Garcia, 2006). Here, Braden et al. (2005: 1) explain that *"the application of a leadership strategy during a period of organisational crisis resulted from an unexpected, dramatic, and often unprecedented event that force an organisation into chaos and may destroy the organisation without urgent and decisive action"*. Hence, the effectiveness of leadership is contested, especially that the regional variables caused by the crises bring repercussions on the administrative leaders and institutions in the public and private sectors. Put forth, how leaders correspond to threating situations and enact effective leadership behaviours in times of crisis become critical as the decisions made highpoint the central role of leadership when organisations are under the type of pressure that crises induce. Accordingly, to lead under pressure requires a broader mind set and a different set of capabilities than what might be required when one is focused solely on the tactical aspects of crisis handling. In this point, James and Wooten (2010: 5) highlight the following reasons that make crisis leadership crucial:

> *Crisis leadership matters because leaders of organisations and nations can make a difference in the extent to which people are affected by a crisis. Crisis leadership matters because in its absence, the stakeholders who are adversely affected by the crisis cannot truly recover from the damaging event. And crisis leadership matters because despite the damage that is caused by a crisis, effective leadership is the one factor that creates the potential for a company to be better off following the crisis than it was before the state of affairs existed.*

Therefore, companies necessitate crisis management. An effective crisis management includes decreasing potential risk before a triggering event. If the crisis hits, then crisis management works with all stakeholders to reconstruct roles and lessen the effects of the crisis. Finally, an effective crisis management intends to readjust the personnel and organisational structure to recover following a triggering event. Thus, Pearson and Clair's (1998) definition of crisis management is based on the multidimensional view of crisis and how the factors involved are managed in effective and collective manner. In similar lines, Tafra-Vlahović (2013: 89) explains that:

> *Companies cannot fully plan for crises they can, and many do, use numerous scientifically based management processes to install crisis management routines into operations and to include potential risk and vulnerability assessments into strategy debates and planning process. In these processes roles of leaders need to be given special emphasis and consideration for various reasons, the renewal after crisis as an opportunity and the revival of company's reputation being one of the most important.*

Actually, the best manifestation of effective crisis management is documented in the recent global crises that hit big corporations. These changes have a weighty influence on leadership effectiveness when dealing with such crisis situations (Probert, 2011). The outcomes were that companies adopted crisis leadership as mainstream management. Thus, businesses created concepts such as CG and CSR and moved from shareholder dominance to stakeholder dominance and endeavoured to have noticeable societal roles.

Additionally, the ability of leaders to be resilient and promote resiliency in the organisation closed that phase of traditional bureaucracies. The BoDs and CEOs work collectively and monitor public perceptions and at the same time engage in constructive dialogue with different stakeholders to foster a shared understanding of the priorities and of difficulties (Olafsson, 2014). Leadership of the boardroom and executive encourages members of teams to actively engage in knowledge acquisition and the formulation of strategies to resolve the crisis (Dutton & Jackson, 1987; Wooten & James, 2004). Nevertheless, James and Wooten (2010: 39) point out that:

> *Most executives are not prepared to handle a crisis. They generally have neither the formal training nor the experience that would allow them to develop the knowledge, skills,*

> *abilities, and traits, or more simply the competencies, to engage in crisis leadership.*

Consequently, the ever-shifting environment in which business operates requires exceptional leadership qualities that can restore stakeholder trust and confidence in an organisation and is able to formulate and implement strategies to manage threat and to handle disruptive organizational change.

In summary, the first part of this section indicated that the meanings of leadership embark on various theoretical frameworks, diverse personal perspectives and areas of interest that examine this concept. However, the question of what is leadership is such a long debate that is still in continuously development. The second part delved into the key theories and schools of leadership. The trait theory of leadership explores the personal characteristics of great leaders to recognise their effective roles as leaders. Two opposite trends dominate this theory. One trend is that leaders are born, while the other believes that leaders are made; yet each claim different sets of personality traits or qualities that outline effective leaders according to varied situations (Sadler, 2003). Conversely, the behavioural theorists say leaders' behaviour is an important indicator of their leadership influence, being the best reason for their leadership success. However, this approach determines the difference in the behaviour of effective leaders versus ineffective leaders (Achua & Lussier, 2013). Furthermore, the contingency theory highlights the significance of leader's styles and the situation. Leaders exercise their influence according to the situations. Sadler (2003: 124) argues, *"once the nature of the situation is determined, the fit between the leader style and the situation can be evaluated"*.

However, integrative models emerged to challenge *"leader-centric leadership theory"* (Day, 2011: 26) and thus include leaders, the situational context and followers as crucial components in this dynamic interaction. The integrative theory contains TSL and TFL styles. TSL reserves the principle of self-interest and believes in values that appeal to the needs and desires of people. The best interest, therefore, is to do what the leader wants for material and psychological rewards or to avoid punishment (Kuhnert and Lewis, 1987). Whereas, TFL aims to regard the charismatic and effective elements of leadership (Day, 2011). It is a *"process that changes and transforms people"*

(Northouse, 2013: 185). TFL intends to stimulate and raises the awareness of followers to go beyond their self-interest by achieving common goals and tackling the higher-level needs for the team or organisation. Therefore, TFL prioritises end-values such as liberty, justice and equality. In this regard, Kanungo and Medonca (1996) argue that TFL is morally a prosocial orientation, associated vision and has values that mirror a concern for others.

The final parts looked at the importance of leadership in crisis contexts. An effective leadership tends to develop new skills that enable it to manage the consequences of the crises. Leaders involve in the creation of crisis management to make their companies resilient before, during and after the hit of these crises. Therefore, modern businesses now have crisis leaders that work in cohesion with all diverse stakeholders. Nevertheless, as crises are transboundary leaders still need to enhance their intervention and their crisis management to make positive decisions that ensure the continuation of their businesses.

Conclusion

This chapter demonstrated that the concepts of CG, CSR and leadership are three essential components of organisations' success. Nowadays, corporations are facing economic, social and environmental challenges. Therefore, the business world needs to invest in these constructs to regain the trust that is lost due to unethical and corrupt practices in organisations. The first section is a historical examination of CG. This concept has emerged as a reaction to the conflict of interests between shareholders and managers. It was, therefore, necessary to find a new concept that would govern these interests to ensure the profitability for shareholders and at the same time meet the expectations of different stakeholders.

The second section investigated the development of CSR. As corporations grew in size, and become transnational, CSR materialised as a rejection of the concept of profit maximisation. Hence, communities, NGOs and Media allied to demand corporations to play social roles. Consequently, corporations remodified their conviction especially that the reputation and financial performance of corporations are at stake if one interest is favoured at the expense of the others.

The third section explored the concept of leadership from a historical perspective to recognise the meanings of leadership and the schools that form its key theories. Therefore, the presentation of four key schools of leadership respectively traits, behavioural, contingency and Integrative theory was necessary to detach leadership from its conventional meanings for the benefits of economic, social and environmental aspects.

Chapter Three

The Relationship between Corporate Governance, Corporate Social Responsibility and Leadership

Introduction

Various studies have indicated strong links between CG, CSR and leadership. One example is the argument of Mitchell (2007) that both CG and CSR are complementary and interact to achieve each other's goals, although their arrangements are different. CG works within well-defined and accepted structures, whereas CSR functions in a free-form routine. Moreover, Velsor (2009) highlights the intersection of CSR and leadership. The latter informs the development and successful implementation of CSR strategies. Accordingly, leaders promote CSR, which positively affects CG (Tuan, 2012). Cheung and Jang (2008) underlined the control mechanism, embodied in leaders, as a tool that manages and measures the performance of all stakeholders.

This chapter seeks to explore the mutual relationship between CG, CSR and leadership to understand how they relate, interact and influence each other to meet the expectations of all diverse stakeholders through three sections. The first section addresses the relationship between leadership and CG. The second section examines the relationship between CG and CSR. While the last section investigates the linkage between leadership and CSR.

3.1 The Interdependent Relationship between Leadership and Corporate Governance

Introduction

The concept of CG gained momentum worldwide because the conflict of interests between personal gain and shareholder primacy caused the failures of attaining a 'state of grace' (Davies, 2006: 4). These failures encouraged governments and other financial institutions to develop systems that direct and control the different processes in corporations to improve the CG. Davies (2006) pinpoints CG's failures as the outcomes of leadership and the conflict of interests in these corporations. Green (1995: 145) clarifies that *"corporate failures are due to market conditions, incompetence, [and] lack of integrity or misconduct"*. This section presents a discussion of the relationship between leadership and CG to understand how they interact effectively and enhance corporate performance by balancing the diverse interests of all stakeholders.

3.1.1 Symbiotic Relationship between Leadership and Corporate Governance

The relationship between leadership and CG, as conceived by Davies (2006: 40), is marred by reign and control, and both concepts are practically effective when they are *"symbiotic"*. Within similar lines, Soludo (2007) demonstrates this assumption by saying that leadership and CG are correlated in that one delineates the other. On the one hand, leadership provides an incentive to make CG effective. CG thus becomes a "self-generating process" and its performance depends on leadership, which in this context plays a vital role in the completing process. The attributes of effective leadership with respect to CG reside in that leadership contributes to CG by emphasising inter-agency cooperation. Accordingly, encouraging inter-agency relations and focusing on local concerns and outcomes are therefore key concepts that effective leaders take into consideration when initiating and applying CG regulations within their organisation. This proposes that strong leadership is a precondition to *"manag[ing] the difficult task of bringing all parties to the table"* (Lord et al., 2009: 3). In the same lines, Harker et al. (2004) maintain that leaders possess a key role in CG by providing direction and regulations for effective governance. This is supported by developing a common understanding of group roles in the company (Brookes, 2006), which stimulates alliance and teamwork and inspires commitment at all levels (Robinson et al., 2008). In this regard, these leaders are required to have a general *"responsibility for interagency governance"* (Lord et al., 2009: 3).

On the other hand, as managers make investment decisions that include an element of risk attached. CG emerged to monitor and, thus, restrain these *'animal spirits'*, unlimited self-interests and uncontrollable behaviours, to ensure well-balanced and effective leadership. In this sense, CG supervises leadership to ensure its effectiveness. Therefore, CG provides leadership with effective arrangements and frameworks (Utting et al., 2008). These governance guidelines support leaders to create accountability as an essential element for the *"purpose and function of governance and this is important for effective leadership"* (Lord et al., 2009: 5). This is crucial as it *"driv[es] management, and [changes in] culture, structure and process"* (White, 2005: 28). In this respect, CG seems to promote vision and contracted purposes, which contain an articulation of roles and responsibility (Brookes, 2006). In parallel lines, Macey (2008: 1) explains that *"CG is about reducing deviance by a corporation where deviance is defined as any actions by management or directors that are at odds with the legitimate, investment-backed expectations of investors"*. Similarly, Jamali et al. (2008: 446) confirm that with regard to CG:

> *It is observed that good governance mechanisms reconcile the interests of owners, managers, and all those dependent on the corporation, allowing corporations to secure long-term capital, retain the confidence of financiers and use the obtained capital proficiently.*

3.1.2 Ownership Structure and Corporate Governance

Ownership structure is an *"alignment of interests between managers and shareholders"* (Hatem, 2014). It influences the businesses' agency cost. Berle and Means (1932) argue that the increasing dispersion of ownership potentially decreases companies' performances and aggravates the conflict of interests between owners and managers because owners became unable to control management's behaviours. Besides, Kaur and Gill (2008) claim that ownership distribution created a large number of shareholders. Thus, even if an inverse relationship between the diffuseness of shareholdings and corporate performance happens, a conflict between majority and minority shareholders surfaces. The vast majority of shareholders own a small number of shares and very few own a large number of shares.

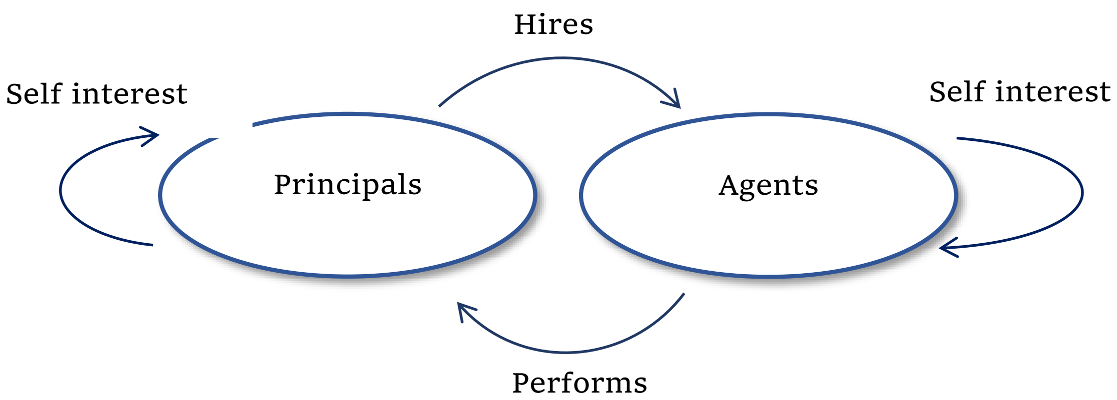
Nevertheless, Demsitz (1983) notes that ownership structure is an internal result of decisions that reflect the influence of shareholders and market measures. It is under the influences of profit maximisation, company value and the allocation and usage of resources. So, when private company shareholders decide to trade the company's shares, or when public company shareholders agree to a secondary stock distribution, these shareholders actually decide to change the ownership structure of their companies and make it more prevalent. The subsequent trading of shares reflects the desire of current and potential owners to change ownership structure in their companies. Shareholders' interests in profit maximisation affects the emerging equity structure, whether concentrated or prevalent. Consequently, a systematic relationship between changes in ownership structure and changes in the company's performance does not exist (Alamri, 2018).

Nevertheless, it is stated that there are two trends of engagement policies affecting ownership structure and CG. International viewpoints differ on the primary of the BoDs' responsibilities, *"with [the common law countries] that emphasize the protection of shareholders' assets and return on investment, while [in civil law countries] many feel that the board's responsibility is to protect the employees first, and shareholders second"* (*Eckbo et al., 2013: 44)*. Correspondingly, Fligstein and Choo (2005: 14) emphasise that *"some scholars have identified the most important feature of the common law systems for CG to be the protection of minority shareholder rights"*. Therefore, these factors have a significant impact on CG, ownership structure as well as the organisation's performance (Laiho, 2011). Companies with inefficient CG have earned poorer returns to shareholders while companies with efficient CG have achieved higher values (Von & Rosenberg, 2003). However, Larcker and Tayan (2013: 1) maintain that it is necessary to pay attention to *"contextual issues"* such as company's leadership, instead of focusing on CG features, meaning the idea of making both the BoDs and management more responsible and accountable for corporate interests is the key answer.

3.1.3 Agency Theory and Corporate Governance

The Agency theory is an intellectual framework that is used as a research tool to explain the phenomenon of contractual relations (Kiser, 1999). An agency relationship arises when a party (person or a group) called the agent is allowed to perform work on behalf of another party (person or group) called the principal (Ross, 1973). The idea of agency theory is that a conflict of interest arises between the parties involved in the company when each party endeavours to maximise its benefit at the expense of other parties due to the separation of ownership and control. Therefore, agency theory focuses on *"the ways principals try to mitigate this control problem by selecting certain types of agents and certain forms of monitoring their actions, and by using economic incentives"* (Kiser, 1999: 146).

Figure (3): Agency Theory Model



Source: (Abdoullah & Valentine, 2009)

Over the years, shareholders had mastered the power of their companies and had the absolute control over decision-making. Their sole objective was to increase profits at the expense of other entities (Kroszner, 2009). Friedman's theory (1970: 1) confirms that the exclusive responsibility of corporations is to increase profits, stating that corporation conform to *"the basic rules of the society, both those embodied in law and those embodied in ethical custom"*. Freidman's statement is based on the idea that management acts as *"the agent of the shareholders to run the company for their benefit, and therefore they are legally and morally obligated to serve their interests"* (Admin, 2013).

In addition, this dominance of shareholders was reduced by the supremacy of managerialism controlling corporations. Bainbridge (2008) confirms that these manager-controlled corporations materialised because of the distribution of share ownership among various shareholders. Thus, none of them has sufficient share to influence corporate management. This situation of companies witnessed a significant change in shareholder primacy. Thus, this idea deviated to focusing on managerialism as the most influential body in directing the corporations. Bainbridge (2008: 1) claims, *"a team of senior managers runs a corporation with little or no interference from other stakeholders. Shareholders were essentially powerless and typically quiescent. BoDs was little more than rubber stamps"*.

With the spread of financial scandals due to *"the potentially damaging effects of undue managerial autonomy"* (Wright et al., 1995: 161), a set of modified rules was reintroduced as legislative adjustment to restore the balance of power in favour of owners. Bainbridge (2008: 1) claims that:

> *The Imperial CEO is a declining breed. Some classes of shareholders have become quite restive, indeed. Most important for our purposes, boards are increasingly active in monitoring top management rather than serving as mere pawns of the CEO.*

All these counter-arguments with regard to the principles of ownership and control paved the way for the agency theory, which addressed, problems that emerged when the desires of the shareholders and managers conflicted on the basis of information flow conveyed by management. Sometimes, it is difficult for principals to access and verify what the agent actually does because of unaccountability and the lack of transparency.

Moreover, this theory addresses the issues that arise when the owners and their agents have different approaches to risk assessment that may require diverse actions (Bamberg & Spremann, 1978). In similar lines, McColgan (2001) argues, *"within the agency framework, agency conflicts arise from divergences of interest between any two parties to a contract within an organisation"*. This perspective describes the relationship between the principals and agents of a corporation. This relationship can be summarised as follows: the owners employ or delegates an agent to achieve tasks. In turn, this agent acts on behalf of the owners. Berle and Means (1932) contend that the separation of ownership from control leads to a situation in which the interest of the owner and ultimate manager may, and often do, diverge. Here, Green (1995: 143) confirms that because of manager's interests that might pose a threat to the company, *"the distinction between ownership and managerial control become inevitable"*. Simply, the interests of managers are not the same as those of shareholders (Wright et al., 1995: 162).

Conclusion

This section addressed the relationship between leadership and CG. It is obvious that both leadership and CG are crucial to the success of each entity within corporations. Leadership delivers the incentive to make CG effective through building the CG culture in the corporation. Moreover, the application of CG principles is a response to the conflict of interest crisis. CG establishes the role leadership must play in forming structures that can effectively govern each entity. Thus, CG assists shareholders, boardroom and management to cooperate with confidence. Therefore, leadership and CG are effective when they are in a symbiotic relationship.

Furthermore, it is clear that shareholders have traditionally been the primary stakeholders due to the share they possessed (Bainbridge, 2008), but the separation of ownership and control has weakened their power (Fama & Jensen, 1983). Ownership structure is one of the main CG mechanisms affecting the agency relationship. Berle and Means (1932) propose that ownership concentration has a positive result on corporate performance as it lessens the conflict of interests between shareholders and managers. Hence, concentrated ownership structures go beyond the classic agency problem between managers and owners to become a conflict between majority and minority shareholders (Shleifer & Vishny, 1997; Porta et al., 2000).

Accordingly, CG simply demands responsibility and due regard to the interests of all key stakeholders to ensure that companies are accountable (Jamali et al., 2008). The role of the BoDs is to ensure the business's wealth by collectively directing its affairs, whilst serving the needs of shareholders and other stakeholders. The role of executive management is to run the corporation by applying strategies and managing the appropriate service delivery. Walters (1995: 213) maintains, *"the relationship between Chairman and the CEO is crucial. Get it right and the benefits will flow throughout the whole organisation. Get it wrong and dissent, demotivation and even corporate failure will quickly follow"*. Now, CG directs and controls management activities, with good business practice, objectivity, accountability and integrity, whilst ensuring the equitable treatment of all shareholders regardless of their share contribution.

3.2 The Reciprocal Relationship between Corporate Governance and Corporate Social Responsibility

Introduction

The growing interest in the concept of CSR has questioned the reasons that encourage corporations to abide by this responsibility, especially in view of the financial and material burdens it involves. Moreover, the general framework of CG relates to not only the economic side, but also to the development and growth of society as a whole. Recent arguments overlook that traditional understanding that CSR and CG are two contradictory constructs. The point that CG is for profit maximisation and for protecting shareholders, whilst CSR is against profit maximisation as it supports the gains for external stakeholders is over. Many assumptions look at the relationship between CG and CSR. For example, CSR as a part or dimension of CG (Ho, 2005; OECD, 1999), CG as a pillar for CSR (Hancock, 2005; Elkington, 2006), and CG and CSR as Part of a Continuum (Bhimani & Soonawalla, 2005; Clarke, 2007). Both CG and CSR emphasise ethical actions in companies and the responsiveness of these companies to their stakeholders and the society in which they function. Therefore, this section aims to highlight the relationship between CG and CSR, and the ways by which they are integrated to meet the needs of all stakeholders within and outside companies.

3.2.1 The Distinctions between Corporate Governance and Corporate Social Responsibility

The evaluation of corporations, as well as their reputation, is no longer dependent solely on their profitability or on their financial positions. Rather, modern concepts have emerged to help create a working environment capable of dealing with rapid developments, most notably CG and CSR concepts that impose themselves on the national and international economic scene. However, CG and CSR are relatively different business terms (Jahdi, 2014), especially when considered from the agency's point of view. The agency theory does not recognize any fundamental responsibility of management to any stakeholders but shareholders (Sacconi, 2012). In other words, it gives a supreme primacy to shareholders. Kokemuller (2015) claims that CG traditionally seeks to ensure that processes are set to produce effective financial outcomes for shareholders along with other corporate financiers. Therefore, corporate governance operates within clear and acceptable structures.

On the contrary, CSR intends to recognise the centrality of corporate stakeholders (Hopkins, 2012). Not including all stakeholders in decision-making can inevitably endanger the company's success and reputation (Davies, 2006). Therefore, CSR is a tool through which stakeholders' interests are clearly considered. In fact, stakeholders is a huge term that includes shareholders, the BoDs, management, employees, customers, suppliers, community and governments, unions, NGOs and the media. All these entities can destroy companies (Davies, 2006: 10). In this sense, for corporations to be socially responsible, they ensure that their activities meet and even broaden the expectations of all internal and external stakeholders. It is said that stakeholders have contributed to economic and political benefits of organisations. However, stakeholder co-operation needs to be developed and effective, especially at decision-making levels. Therefore, as the increasing demands for more inclusion of stakeholder needs with the ones of shareholders, the boards have sought to integrate social and environmental responsibility into CG guidelines (Bagi et al., 2004). Furthermore, Winberge et al. (2004: 72) demonstrate that *"governance programmes tend to be internally focussed and generally retain heavy rules based favour. In contrast, CSR tends to be more value-based and externally focused"*. In addition, CSR works in a free form way (Rahim 2013). Actually, CSR is now the mainstream after being charitable activity in the past. In this point, Alam and Hasan (2016: 15) state that, *"CSR is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders"*.

3.2.2 The Convergence of Corporate Governance and Corporate Social Responsibility

The emergence of many variables associated with socio-economic processes, which determine the relationship between organisations and their stakeholders based on market products such as consumerism and corporate scandals has stimulated the overlap between CG and CSR (Shleifer & Vishny, 1997). In this aspect, Davies (2006: 32) confirms so that CG benefits the communities, organisations have to *"take their CG into the public arena through CSR activities"*. In doing so, CG and CSR, become more effective. Gill (2008: 462) believes that the main goal of such fusion between CG and CSR has served the CG involvement situation with the interests of shareholders and stakeholders by reconciling this interest conflict. As for CSR, Gill (2008: 463) goes to confirm that:

> *Business strategy to make the ultimate goals of corporations more achievable as well as more transparent, demonstrate responsibility towards communities and the environment and take the interests of groups such as employees and consumers into account when making long-term business decisions.*

Thus, CG has achieved ethical standards and accountability, whereas CSR has been adopted to corporation practices (Rahim, 2013). Muralidharan (2016) contends that this convergent relationship refutes the traditional view of the company as a 'shareholder value maximiser' and simultaneously accepts the view of a company as a 'stakeholder value maximiser'.

Moreover, it is worth reconsidering the arguments presented by Jamali et al. (2008:443) that a *"two-way relationship and increasing overlap between CG and CSR"* happens. Therefore, these concepts should be studied in conjunction with each other. This is in similar lines with the statement of Bhimani and Soonawalla (2005: 167) that CG and CSR have grown up as separate areas that cannot unify their models, guidelines and standards, whereas these two topics cannot be completely separated:

> *Poor CG and misleading financial statements are one side of the corporate coin the other side being poor CSR, The two cannot be completely separated yet their reporting standards and accountability issues have developed independently.*

In this way, this convergence encourages CG to act ethically and be accountable and facilitates CSR in adapting with the prevailing business practices. Simply put, while CG implies being held 'accountable for', CSR means taking 'account of' (Jamali et al., 2008: 446). Hence, firms regulate their operations by increasingly using both mechanisms.

3.2.3 Stakeholder Approach in Corporate Governance

Corporations have recognised that their success is not just a consequence of that effective relationship between the management and shareholders, as well as the boardroom's efforts. Through its definitions, CG described as a set of relationships between not only a company's management, board and shareholders, but other stakeholders as well. In this sense, CG moves beyond the relationship between shareholder and manager into a wider net of relationships that comprises other stakeholders (Tuan, 2012). Attention to these important and relevant segments improves the company's reputation and attracts investment. On this matter, OECD (2004: 46) holds that the effectiveness and success of businesses depends on concept of teamwork that represents contributions from different *"resource providers including investors, employees, creditors, and suppliers. [...] it is, therefore, in the long-term interest of corporations to foster wealth-creating co-operation among stakeholders"*. Businesses need to implement the most appropriate approaches that lead to effective engagement and an improved understanding of the impact of their decisions on their key stakeholders. Rathod (2018) explains, *"a governance structure which encourages information disclosure will obviously be vital in generating these types of long-term relationships, or 'implicit contracts', between stakeholders"*. Hancock (2005) highlights that investors, boardroom and management have to reconsider four principles, those being strategy governance, human capital, stakeholder capital and environment, when formulating regulations within organisations.

From now on, internal CG mechanisms ensure the delivery of precise information to owners, to determine whether to continue their contracts with management, as well as the mitigation of the conflict of interests between managers and diverse stakeholders (Wheeler, 2002). Similarly, Jamali et al. (2008: 457) conclude that a firm without *"an efficient long-term view of leadership, effective internal control mechanisms, and a strong sense of responsibility vis-à-vis internal stakeholders cannot possibly pursue genuine CSR"*. Consequently, CG has an impact on stakeholders in the corporate environment. An organisation that implements good CG in this globalised world can restore stakeholder trust (Marsiglia & Falautano, 2005).

Conclusion

It is clear that there is a recognised relationship between CG and CSR. This relationship is not easily identified because of the way analysts preceive it. However, CG and CSR are increasingly converging because of different global forces (Strandberg, 2008). This convergence improves the corporation's performance towards its diverse stakeholders. Needless to say there are different debates about this infusion between CG and CSR, but both concepts work together to make businesses organisations consciously responsible for their actions and non-actions and their influence on stakeholders. Doing so, corporations gain strong competitive advantages over other companies, which do not apply CG.

It is obvious that corporations are moving beyond the traditional notion that CG is an essentially part of an investor relationship that does nothing, instead emphasising its importance to potential investors and publically claiming the possession of well-defined governance policies. That is, the connections between CG and CSR has replaced the shareholder model with stakeholder doctrine. Thus, both constructs are important for companies and society at large and have either a positive or a negative influence on corporations and societies. Therefore, the implementation of CG and CSR practices indicates the inclusive approaches these corporations adopt in *"addressing its various interrelated elements"* (Bhimani and Soonawalla, 2005: 172). Therefore, internal CG mechanisms are important for effective stakeholder participation and must ensure that direct and indirect stakeholders have priorities once their interests are in balance.

3.3 The Mutual Relationship between Leadership and Corporate Social Responsibility

Introduction

Leadership is certainly the key element in successful organisational change. This importance comes from its ability to overcome institutional inactivity and provide proper directions for organisations (Northouse, 2007). However, leadership has recognised new understandings in modern societies due to the *"global socio-political context for businesses"* (Smith, 2006). Responsible leaders have transcended leader-owner relationships and become more stakeholder oriented (Waldman & Galvin, 2008). Henceforth, leaders utilise leadership styles that advocate and prioritise CSR principles to increase their corporations' financial performance and enhance their social image in the public arena (Davies, 2006; Van Tulder & Van der Zwart, 2006). This section explores whether the boardroom and executive management are in favour of CSR application. Then, it moves to investigate the relationship between both TSL and TFL and the concept of CSR.

3.3.1 The Boardroom and Corporate Social Responsibility

By tradition, the BoDs regards CG from its narrow definition and thus concentrates on maximising profits for shareholders. Any endeavours to implement CSR is against this goal (Nwafor, 2014). The contemporary argument is that CSR needs to start at the top, mainly from the BoDs, and expand through the entire organisational structure (Argandoña, 2015). In doing so, the BoDs ensures that the company's CSR practices are implanted at the boardroom, executive management and lower levels. On this matter, Knudsen et al. (2013) explain that:

> *The mindset of those at the top of the organization is critical for driving any strategy or initiative inside an organization. If boards do not consider CSR important, the organisation will catch on and employees will not devote much attention to CSR. The degree of interest in CSR by boards will also be reflected in an organisation's HRD [Human Resource Development] initiatives. If a board mindset emphasises CSR, then the board will need to ensure that the composition of board competences reflects an understanding of CSR.*

In recent years, BoDs have realised that CSR activities are an important strategy for business success. This awareness has encouraged CSR to move beyond operations and acquire a place in the boardrooms. Thus, the boardrooms are involved in building CSR programs to counteract the traditional claim. Strandberg (2008: i) contends, *"some boards create CSR committees to provide more focused oversight and review"*. On similar lines, Elkington (2006) highlights that CSR is now the responsibility of corporate boards, meaning CG is a foundational requirement for sustainable CSR.

Leaders now recognise how problematic it has become to prioritise the primacy of shareholder value when social and environmental difficulties affect the operations of their businesses. The BoDs visualise new strategic directions and provide oversight of the companies' social and environmental performance, but in a manner consistent with their businesses' values and strategic priorities. Moreover, as responsible for CG structure, the BoDs support the programming of CSR within the corporations' cultures and recognise leadership in general is critical to CSR's continuing success (CSR, 2018). In this regard, Ho (2005) confirms that CSR is the responsibility of the BoDs due to their experiences and qualifications. In addition, as the BoDs apply strategic leadership roles and strong stewardship, as well as the management of capital market pressures, these different features, when joined, establish the trademarks of good CG and CSR. This ensuring that CSR implemented at the core of corporate policies (Levi-Faur & Comaneshter, 2007).

Therefore, the traditional responsibilities of the BoDs have changed to comprise CSR considerations. Now, the BoDs generally concentrate on core activities of their businesses, while explicitly and implicitly engaging in the integration of CSR. This means that the boards take into account stakeholder perspectives, oversee the management of CSR and approve CSR reports. Implicitly, the BoDs perform informal activities towards CSR through *"setting agendas, raising questions and shaping mindsets within their organisations"* (Cramer, 2011).

3.3.2 The Executive Management and Corporate Social Responsibility

The executive management endeavours to maintain compliance with the guidelines of CG while acting sincerely with respect to various stakeholders. On this basis, wide ranges of narratives demonstrate that stakeholder engagement and CSR application are the responsibility of executive management (Bhimani & Soonawalla, 2005). Furthermore, Bonner and Friedman (2012) consider that top management can effectively implement and manage companies' CSR efforts. On one hand, executive managers have great contacts with internal and external corporate bodies. CSR achievement becomes more solid and effective when managers build strong connections with the all stakeholders within the micro and macro environment (Maak & Pless, 2006). On the second hand, they have greater understanding and awareness of CSR compared to the BoDs (Sacconi, 2012). This signifies that executive management plays crucial roles in defining and implementing CSR practices (Waldman & Galvin, 2008). In examining the determinants of the executive managers' attitudes towards CSR-related matters, Ismail (2009) points out that effective CSR depends on internal and external factors. The internal drivers encapsulate CSR managers' skills. The executive managers have recognised the constant change in stakeholder needs and rising expectations for companies to take action toward solving social and environmental issues both in nationally and internationally. Simply put, the more the executive managers have competencies in understanding community development, building capacity, questioning business beyond profit-making, stakeholder relations, strategic business and community partnership, and harnessing diversity, the more they become more aware of the importance of CSR. In this matter, Bal et al. (2014: 127) determine that stakeholders' inclusion in CSR viewpoint makes it *"compulsory to interpret the behaviours of organisational leaders to better understand how they organise and manage their relations with those critical stakeholders"*.

However, external factors delineate the legal status of CSR. CSR management and practices have become a statutory duty and obligation in accordance with binding governance regulations. The legal requirements and national culture in regard to CSR practices have developed codes of conduct policies and ethical values that guide the CEOs to take consideration of internal and external stakeholders' concerns. (Swanson, 1999). The involvmenet of the executive management in the creation of formal policies to achieve effective CSR results is an example. The adoption of management incentive arrangements *vis-a-vis* CSR practices is another instance to ensure that the CEOs execute the economic obligations in society while dealing with stakeholder concerns (Swanson, 2008). McElhaney (2009: 32) emphasises that solid CSR visions must be inserted within and mirror the company's core values, and be in line with *"the mission, vision, and values of the organisation recognising that it creates not only social or environmental value, but that it creates business value as well"*.

Therefore, the engagement of CSR strategic practices has become a leading principle of top management, after being regarded as another source of pressure. Executive and senior managers are now more aware of the key challenges their companies face when it comes to environment and society. This made CSR activities become a creative opportunity to contribute to society and strengthen fundamentally the businesses' economic performances at the same time (Keys et al., 2009). Hence, as CSR is now mainstream, top management possesses the skills that lead to the development of diverse strategies and practices when dealing with this intersection of societal needs, natural and cultural environment, and local and global stakeholders (D'Amato et al., 2009). Simply put, CEOs take social responsibility seriously, through thinking more about the long-term, considering social context, and integrating CSR practices into their businesses (Henderson, 2018). In similar lines, Székely and Knirsch (2005: 12) claim, *"most large multinational companies are discussing CSR today. Their CEOs admit [that] their organisation's full commitment to the idea of social responsibility"*. This also required that top management disseminate CSR culture within its organisation. This ensures that employees adopt and implement CSR practices delivered by their executives (Maon et al., 2009). Simply put, CSR practices transitions from the top to the bottom through communication and attitudes of those responsible for CSR decided vision and CSR implementation.

3.3.3 Transactional and Transformational Leadership Styles and Corporate Social Responsibility

Being responsible for shaping visions and implementing effective strategic arrangements, organisational leaders become proficient when they communicate with diverse stakeholders about their companies' commitment to CSR (Amogoh, 2009; Blake & El Mansour, 2012). Specific leadership styles are in use in this case to facilitate effective CSR practices. Leadership styles contribute significantly to the development of sustainable innovation processes (Bossink, 2007). Within the same lines, D'Amato et al. (2009: 9) contend that such leadership styles make leaders successfully *"transitioned toward and achieved more socially responsible behaviours"*. With these styles, leaders use CSR practices to change the rules of their broader business environment. Here, Van Tulder and Van der Zwart (2006: 1) hold that leadership styles have largely progressed from *"autocratic, to more democratic, consultative, motivating, participative leaders or a more permissive style characterized as laissez-fair"*. However, in the global corporations, ethical and visionary leadership styles seem more successful, which indicates the growing interest of leaders towards the issue of CSR. Therefore, arguments state that TSL and TFL utilise distinct sets of rational arrangement and forms of engagement with the stakeholders. In this regard, Kuhnert and Lewis (1987) maintain that TSL strategies rely on the ability of the organisation to respond to its stakeholders' reactions and changing expectations. Conversely, Castelló et al. (2009: 4) claim that *"transformational strategies refer to the moral based and inspiring way of taking CSR through the organisation"*.

In general, Wabitsch (2014) claims that value-driven and strategic driven CSR are two conflicting opinions. For instance, value-driven CSR revolves on integrity and personal ethics that produce positive results for companies and CSR strategies. This includes ethical leadership, authentic leadership or moral leadership. Conversely, Waldman and Siegel (2008) argue that Strategic-driven CSR does not involve any integrating personal values. This contains transactional and transformational leadership. Moreover, several studies have found that transformational leaders are more effective in managing CSR than transactional leaders (Du et al., 2012; Groves & LaRocca, 2011a; Shahin & Zairi, 2010). For instance, Gantasala et al. (2016) contend that TSL embodies a supervision behaviour over employees' performance, *"rather than adopting social and cultural concepts such as CSR"*. Other studies have displayed that combining TSL and TFL styles generates positive influences on CSR strategies (Nazir et al., 2014). Thus, TFL is not a substitute for, but complementary to, TSL. Additional findings have demonstrated whether used individually or together, both TSL and TFL styles have positive influences on CSR.

Transactional Leadership and Corporate Social Responsibility

Significant findings have suggested that TSL has an impact on strategic objectives of CSR practices. Transactional leaders rely on a *"form of leader-member exchange to cultivate economic CSR and legal CSR"* (Tuan, 2012). Similarly, Chen & Hung-Baesecke (2014: 212) highlight that:

> *The transactional leader who focuses on exchanges with the follower contributes to the company's limited CSR engagement and explicit CSR activities as well as the employee's teleological attitude, stakeholder attitude to CSR, and perceived extrinsic motive of corporate CSR engagement.*

TSL increases awareness of others' needs and expectations and ensures fair exchange that occurs when both leaders and employees act in manners that strengthen the effective influences of CSR on organisational results. Consequently, transactional leaders recognise the benefits of the implementation of CSR practices in raising their companies' productivity, improving their competitive position and increasing their market share. Hanson (2013) points out transactional leaders motivate employees and departments to ensure their commitment to CSR policies and behaviour to maintain the goals set by the corporation. Besides, Du et al. (2013: 14) confirm that TSL is one of the drivers of CSR practices because it *"positively moderates the relationship between institutional CSR practices and organisational outcomes"*. In addition, this *"relationship is more positive for firms with higher transactional leadership"*. Therefore, transactional leaders implement their transactional style to enact CSR practices that commit to the maximisation of community impact. According to Du et al. (2013: 13), this step's outcome is to outline CSR-related objectives to achieve *"the greater societal impact of institutional CSR* [that] *may lend credibility to the firm's CSR engagement, boosting its socially responsible image and strengthening its stakeholder relationships"*.

Furthermore, transactional leaders take into consideration the effective measures to monitor business competence to maximise social and institutional revenues from CSR practices. This continuous monitoring of CSR guarantees the achievement of desired social, environmental and individual results. Simply put, transactional leaders ascertain the execution of CSR activities as defined policies and procedures. Deviations mean immediate correction. In this way, leaders ensure the accomplishment of the desired outcomes of undertaking CSR (Thomas, 2011).

Another form that connects the relationship between TSL and CSR are both the proactive or reactive enlightened self-interest approaches (O'Dwyer 2003). Transactional leaders implementing the proactive enlightened self-interest model include in social responsibilities for the reason of economic and strategic benefits. However, leaders adopting the reactive enlightened self-interest approach intend to apply CSR practices due to the pressures coming from external stakeholders. On this matter, Van Tulder and Van Zwart (2006: 2) pinpoint that *"transactional and team leaders are mainly good at specifying in-active and re-active CSR goals, clarifying roles and responsibilities and motivating their followers or subordinates to achieve group or organisational goals"*. In short, in-active relies on a *laissez-faire* approach. Leaders provide little support and guidance to their subordinates (Bradford & Lippitt, 1945). *Laissez-faire* approach is inactive as corporate self-responsible replace it and comes from inside-in (Van Tulder & Van Zwart, 2006). Re-active focuses on using rewards and punishments to deal with problems in a reactive manner by waiting for something to go wrong before worrying about a solution. In this lines, Castelló et al. (2009: 31-2) contend that *"transactional strategies consolidate change. Change agents adopt transactional strategies in response to stakeholder demands when they feel that sensitivity to the issues is enough to move the organisation towards change"*.

Transformational Leadership and Corporate Social Responsibility

It is stated that TFL has massive influences on CSR practices and is the most appropriate among all leadership styles in perceiving CSR (Cossin, 2013).. On similar lines, Du et al. (2013: 10) display that businesses with TFL are more involved in institutional CSR practices compared to companies with TSL. Thus, TFL is *"more likely to realize the complex interconnections among a firm's various stakeholders and view the firm as interdependent with, rather than isolated from, its community and natural environment"*. Put forth, transformational leaders highlight the companies' common goals in a way that underlines the social dimensions of the activities, such as the influence of one individual's actions on the greater group beyond the firm. In this regard, Groves and LaRocca (2011b) determine that a strong relationship between TFL and followers' beliefs materialises around CSR. As transformational leaders believe that CSR can make social change, their followers also believe that CSR practices or engaging stakeholders is critical for the success of their company. Du et al. (2013: 9) maintain that:

> *Transformational leaders are more effective at driving change, or transcending the status quo; they inspire followers with their vision and create excitement through use of symbolism and imagery. By questioning, the tried and true, transformational leaders seek to reframe the future.*

Besides, TFL encourages more institutional CSR performances because it relies on the idea of non-selfish morality. Here, Bass and Steidlmeier (1999) demonstrate that transformational leaders are greatly ethical and largely consider norms and values (Mendonca, 2001). By doing so, transformational leaders develop an image that equally takes into consideration the various demands of their stakeholders. Transformational leaders, therefore, reach higher levels of moral improvement. This is in line with the studies of Pless & Maak, (2011) and Angus-Leppan et al. (2010) proposing that transformational leaders are likely to display ethical and responsible behaviours in regard with the interests of secondary stakeholders. In addition, TFL intellectually stimulates and inspires subordinates to reconsider the conventional assumptions of leadership and problem solving to construct new concepts, which can tackle troubles and issues in creative ways (Bass, 1997). Correspondingly, Waldman et al. (2006) argued that transformational leaders, through a lens of intellectual stimulation mechanisms, are trying to socially examine and widely think of responsible ways about the environmental situation and the schemes that support a wide range of organisational stakeholders. In this regard, Van Tulder and Van der Zwart (2006: 3) claim that:

> *Transformational leadership is the most outward oriented type of leadership and directed at formulating and implementing a new organisational vision that is embedded in a broader vision of society and the active involvement of external stakeholders. The key to real transformational leadership lies in the effectiveness of their action.*

The components of TFL play important roles in inspiring managers for CSR practices. These components become effective when combined (Wabitsch, 2014). In this way, it is vital that transformational leaders demonstrate determination to achieve CSR objectives and transcend self-interest to realise idealized influence among their followers. Additionally, transformational leaders need to communicate their goals and visons *vis-à-vis* CSR to inspire their followers. As for intellectual stimulation, Wabitsch (2014) points out that enabling participation and stimulate rethinking and problem solving can help in intellectual stimulation. Intellectual stimulation makes transformational leaders have a comprehensive vision of the corporation in which they seek to stimulate organizational learning and encourage institutional CSR practices that consider the needs and challenges of both primary and secondary stakeholders (Vera & Crossan, 2004).

In an attempt to understand the potential relationship between TFL and CSR strategic decisions, Waldman (2006) has investigated charisma and intellectual stimulation as components connected with business-level CSR. This analysis shows that intellectually stimulating leaders prioritise CSR actions as well as strategic concerns of their organisations, mainly in product quality and environmental performance. Put simply, leaders' intellectual stimulation is significantly associated with the organization's tendency to participate in strategic CSR (D' Amato, 2009). Moreover, transformational leaders are supposed to have a strong belief that their companies exist in an environment where other elements such as communities exist. Thus, under the influence of transformational leaders, followers consider *"the issue of integrating strategy and CSR from a different perspective such that CSR will be viewed more as an opportunity, rather than a threat"* (Waldman et al., 2013: 15). Therefore, followers feel that they are personally considered when involved in providing their individual feedback concerning CSR outcomes.

In summary, leadership is one of the most important pillars that influences corporations' CSR implementation. Their visions and innovative decisions for major issues and problems integrate the micro-level behaviour with the macro-level phenomena (Veríssimo & Lacerda, 2012). As corporations face economic, social and environmental challenges, leadership really has to find creative and innovative solutions to cope with diverse stakeholders, whose interests, needs and requirements can sometimes be in conflict or destroy the reputations of businesses. In this case, leadership has a crucial role in promoting ethical and moral behaviour. Hence, both leadership and CSR have a coherent connection.

The boardroom and the executive management leadership has the capacity of understanding the environment where their businesses operate. The BoDs and CEOs engage in CSR practices for the benefit of their stakeholders. The competencies they develop on a daily basis concerning meeting the expectations of both shareholders and stakeholders help in the restoration of *"one of the most critical resources for businesses' sustainability: trust"* (Ismail, 2009). Accordingly, the BoDs and CEOs have critically important roles in adopting and practicing CSR in their companies. In doing so, the boardroom and executive management leadership fosters radical changes and high-performance expectations because they can generate high levels of subordinate confidence, motivation and emotional appeal (Brown et al., 2005).

The initiation and dissemination of CSR in businesses depend on specific leadership styles mainly TSL and TFL (Waldman et al., 2006). The TSL style is effective when CSR-related matters are prompted, and necessitate intervention. Transactional leaders then become effective at providing CSR practices to implement and expect the accomplishment of these activities through simplifying the financial motivations (Reeves-Ellington et al. 1997). Moreover, the TFL style has a positive impact on the company's strategic orientation towards CSR through its components. Transformational leaders are able to change the existing objectives and form shared aims, which foster responsible business practices by engaging all diverse stakeholders (Castelló et al., 2009). Therefore, TSL and TFL are facilitators and crucial for the implementation of CSR practices.

Conclusion

This chapter analysed the mutual relationships between Leadership, CG and CSR. The literature review has displayed that strong correlations between these constructs exist when balancing the needs of stakeholders. Each concept affects and is affected by the other, and sometimes they complement each other. The first section addressed the relationship between leadership and CG. Both concepts have a consistent relationship. Leadership ensures that CG principles are effective and utilised in a manner that establishes CG culture in the corporation. In turn, CG creates the missions of leadership in order to go beyond self-interest while creating a confident environment where shareholders, boardroom and management jointly cooperate with each other to meet the economic objectives of their companies as well as those objectives of stakeholders. Thus, leadership and CG have a symbiotic relationship. The second section investigated the relationship between CG and CSR. Both CG and CSR converge or become a continuum in order to make businesses consciously responsible for their actions and non-actions and their influence on stakeholders. Thus, this convergence between CG and CSR has substituted the traditional shareholder model with stakeholder doctrine. Thus, corporations are more aware of the importance of engaging all stakeholders in their strategic decision making and CSR initiations.

The third section studied the relationship between leadership and CSR. Both concepts are important and interact to provide solutions to corporations due to the modern economic, social and environmental challenges. The boardroom and the executive management leadership are responsible for implementing CSR practices and dissiminating CSR within the culture of their organisations. The implementation of TSL and TFL is crucial in managing CSR strategies as these two styles support CSR practices. Moreover, CSR also influences leadership to be ethical and responsible towards all stakeholders to ensure fair treatment to all individuals interested in the corporation and the environment where it operates.

Chapter Four

The Libyan Context

Introduction

The Libyan situation is still fraught with a plethora of local, regional and international issues. The absence of a unified and organised Libyan government has immediately produced a power vacuum unable to contain prevailing violence, human rights violations, migrant crisis, tribalism and racism, and aggravated discrimination (House of Commons, 2016). These complications have led to economic instability and a serious deterioration in the social welfare systems, not to mention the huge civilian displacement, the high rate of death and arms proliferation (Human Right Watch, 2016). However, despite this state of disorder and insecurity, Libya is dynamically struggling to pave the way towards development to manage its difficult transition from war to peace.

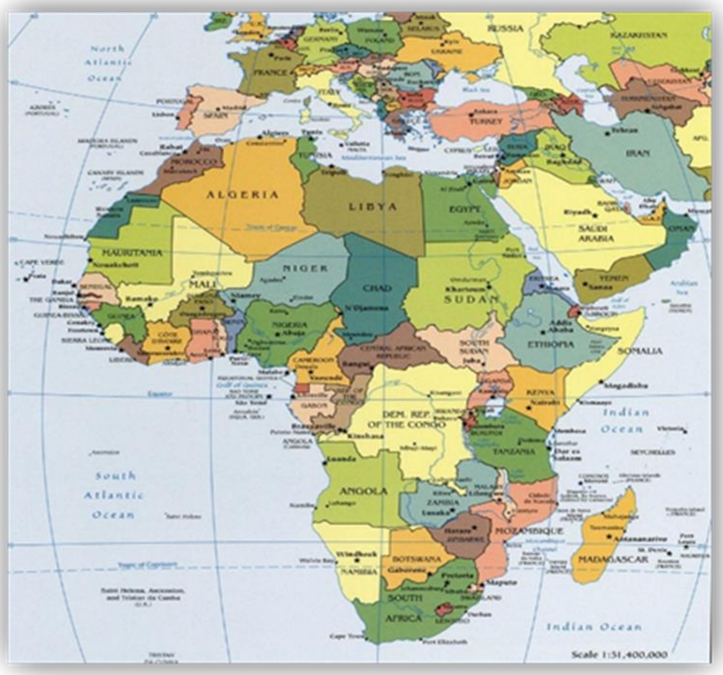
This chapter contextualises the Libyan society by examining the main features characterising this country such as its geography, social fabric composite, alongside the main issues in its political aspects and economic structures. In addition, the chapter concisely provides some significant attributes of CG, CSR and leadership and their implications on corporations. Finally, this chapter provides an analysis of the Libyan banking sector.

4.1 Libyan Society Background

This section deals with Libyan society from four angles. The geographical section highlights the landscape in which Libya is located. The social dimension reviews the social structure of the country. The political aspect represents the main issues faced by the country during its transition. Finally, the economic facet considers Libya's main natural resource.

Geographical Aspects: Libya lies on the north coast of Africa, sharing its borders with Tunisia and Algeria to the west, Egypt to the east and Sudan, Chad, and Niger to the south. It has a total area of 1,759,540 square kilometres (McCoy, 2014). The majority of Libya’s lands, more than 90%, is Sahara desert, and the rest lies within the Mediterranean coast (world atlas, 2015). Libya's climate is *“mediterranean along coast; dry, extreme desert interior”* making its terrain *“mostly barren, flat to undulating plains, plateaus, depressions”* (CIA, 2015).

Figure (4): Libya Location on the Map.



Source: (Worldatlas, 2015)

Social and Cultural Aspects: Libya is a majority Muslim country with a population of 6,244,174; Sunnis account for 96.6%; the rest is composed of Christians 2.7% and other minorities 0.7% (CIA, 2015). Therefore, it is said that Islam regulates the attitudes and behavior of Libyans (Pratten & Mashat, 2009). Similarly, Ali (1995) confirms that Islam establishes the social norms within individuals and organisations and strengthens their bonds in many aspects. Regarding ethnicity, Arabs and Berbers constitute 97% of the population, whereas 3% consists of other ethnic groups (Infoplease, 2015). The prevalent language spoken in Libya is Arabic, which is an official language, followed by Berber. The Italian language is used to some extent by elder adults who witnessed Italian colonization (Leparisien, 2016). However, English language has a significant application in some government publications. In addition, English is understandable somehow in the main cities of Libya (Ethnologue, 2015).

Political Aspects: Gaddafi[2] ruled Libya between 1969 and 2011. On the 17th February 2011, Libyan society revolted against this regime when security forces opened fire on a protest. Libyans demanded real change such as the dissolution of *"rigid economic and social systems"* (Pack, 2013: 5). Within eight months, the anti-Gaddafi uprisings witnessed the collapse of this regime, announcing *"a radical transformation of its political system, with important social and economic changes in state and society"* (Combaz, 2014:1). Nevertheless, the new Libyan political situation remains fraught with instability, difficulty and uncertainty. Doherty (2012: 10) states that *"many participants claim that the transition has yet to deliver true change, both in terms of political transformation and in terms of improvements to daily life that were promised by the revolution"*.

The elections in 2014 generated two rival governments fighting for the control of the country. The Amnesty International report of 2015-2016 states that two rival governments and parliaments requested legitimacy and battled for control, each party sustained by *"loose coalitions of armed groups and forces over which they did not exercise effective control"*. Further, the armed groups abused the absence of central authority and consolidated their power. Operation Dignity, encompassing Libyan National Army battalions, tribal militias and volunteers, backed the government and House of Representatives (HOR) founded in Tobruk and al-Bayda. *"The Tobruk and al-Bayda-based administration was the internationally recognized government until the adoption of the Libyan Political Agreement in December 2014"*. Libya Dawn, a coalition of militias from cities and towns in western Libya, supported the Tripoli-based self-declared National Salvation Government and General National Congress. Thus, in 2014 military masses split their allegiances adding to the chaotic state.

The United Nations (UN) took the initiative by opening a political dialogue between these two parties to *"achieve agreement on the formation of a government of national unity and an end to fighting"* (Occhicone, 2014). These negotiations generated a prime minister and a presidential council acknowledged by the UN as *"the sole legitimate Libyan government."* The

[2] The name of Gaddafi has appeared in several books, articles, and transcripts in different forms and typography, leading to confusion in the spelling of this name. However, this research used the name of Gaddafi being close to the Arabic pronunciation and inscription to avoid such bewilderment.

creation of this body, however, did not solve the issue because Libya's opposition was against the UN resolution and the National Accord Government (NAG). Occhicone (2014) states that practically: *"The rival authorities continued to operate parallel institutions from al-Bayda and Tripoli, effectively creating two separate administrations, with the former also creating its own national oil company, investment authority, and national bank"*. This forced the legitimate body to operate from Tunisia, because it was very dangerous to meet in Tripoli due to the threat of local militias. Nevertheless, in 2016, the NAG repositioned to Tripoli, *"where they assumed control of some Government Ministries"* (the House of Commons, 2016).

Thus far, eight years after the fall of Gaddafi's regime, Libya is still a chaotic state. The United Nations-backed government struggles to apply its control over territory apprehended by rival groups. This has intensified geographical and political divisions between the East, West, and South (USIP, 2018).

The Legal Aspects: the Libyan legal structure relies on a mixture of Civil Law and Islamic Law (*Sharia* in Arabic). The source of the Civil Law came from the French Code (Otman & Karlberg, 2007). This law organises commercial laws and civil and criminal issues. The Sharia law sets the base for personal affairs such as marriage and inheritance. During the ruling of Oaddafi, those laws underwent revision and filtration to enable Islamic law to prevail throughout the entire legal system (Zagoub, 2011). Furthermore, the current Libyan judiciary system includes four courts. These are partial courts, courts of first instance, courts of appeal, and the Supreme Court (Otman and Karlberg, 2007). The major legal codes comprise the Civil Code (1953), the Criminal law (1953), the Commercial Code (2010) and the Bank Law (2012). The formal sources of these laws as are determined in the Libyan Civil Code (1953) and include Islamic principles, custom, and principles of natural law and rules of equity. Furthermore, judicial decisions and the thoughts and doctrines of eminent jurists serve as two informal sources of law that guide judicial decision-making (Otman and Karlberg, 2007).

The Economic Aspects: the Libyan economy has crossed different stages of development. As Libya has very important natural resources, such as petroleum, natural gas and gypsum, the modern Libyan economy began with the discovery of oil in the 1959, bringing radical changes such as the adoption of capitalist prospects and opening up private ownership schemes (Bait El-mal et al., 1973). However, this capitalist trend was soon reduced at the beginning of 1969, by the succession of the Qaddafi regime. Ahmad and Geo (2005) claim that this new political system introduced socialism to oppose capitalism and communism. Thus, this economy imposed governmental interference in every domain, leading to the formation of public-owned organisations and the rejection of private and foreign companies' investments. However, with the fall of that regime in 2011, the Libyan economy began a new phase of transition. Hence, it broke free from the policies of the socialist model, but depended heavely on the energy sector, mainly petrol and gas, that contributes largely to Gross Domestic Product (GDP) and government revenue (Chami et al., 2012).

The Libyan banking sector, however, has managed to maintain its position as a key element of Libyan economic growth despite being in transition (the House of Commons, 2016). Dempsey (2013: 3) points out that Libya is *"capable of developing working banks and financial institutions"* that deliver *"an element of stability to an otherwise volatile situation"*.

4.2 An Overview of Corporate Governance, Corporate Social Responsibility and Leadership in Libya

This section attempts to provide a historical analysis of CG, CSR and leadership in the Libyan environment, to help understand how these themes came into the effect and the ways in which Libyan corporations deal with them.

Corporate Governance: Two main waves symbolised CG evolvement. The first period revolved around raising awareness about this concept. On that point, Koldertsova (2011: 224) claims, *"within the region, resistance to corporate governance as a concept has shifted from the centre to the periphery – evidence of successful awareness-raising campaigns"*. Its first emergence had a connection with the openness of these countries *"to attract[ing] foreign investment, particularly by countries with no petrochemical resources, which required substantial funds to develop their infrastructure"* (Koldertsova, 2011: 220). Additionally, the financial sector's advancement provided a real platform for CG to be an effective intermediation between corporations' investors and banks. Hence, this move towards market-based economic organisation had only highlighted the route for CG because it was unable to achieve remarkable results.

The second phase was the approval of regulators to push for the reformulation of codes that impose penalties or force corporations to take corrective actions in cases where leaders misuse their power for self-interested benefits. As shareholders were often unwilling to reveal operational or financial facts of their businesses, the application of CG had to take place for disclosure and transparency reasons. All this pushed broader governance issues onto the policy agenda, especially as these countries that adopted capital markets that needed accountability in their actions. In this respect, Koldertsova (2011: 226) maintains that *"regulators 'ability to combat related-party transactions, improve transparency and disclosure, and foster effective board outcomes will determine whether the next wave will be a powerful tide or just a splash"*.

In Libya, the Central Bank of Libya (CBL) launched the Comprehensive Banking Law 2005 that provided some articles concerning CG issues such as board structure and internal control. The establishment of the first guidelines of CG for the Libyan banking sector followed this in the same year these CG guidelines were developed based on the OECD Principles of CG and the Basel Committee on Banking Supervision (BCBS). Because this CG code was voluntary, the LCBs did not respond to most of its aspects (Zagoub, 2011). In 2007, Libyan Stock Market (LSM) launched a new initiative towards CG, which had a great belief in the importance of establishing relationships with the regional and international financial markets in the development of the LSM. It was required that any listed institutions interested in joining the LSM to respected CG principles and function according to its norms. This 2007 CG was not compulsory, however. It only played the same voluntary roles the CG of 2005 played,

In 2010, the attitude towards CG changed when the CBL redeveloped and replaced the voluntary CG guidelines with a new one that became mandatory. Nonetheless, the legal and regulatory frameworks were still weak in enforcing the implementation of CG (Larbsh, 2010). Besides, the information flow on the Libyan market was still difficult to access because Libya's regulatory system lacked transparency and clarity regarding the function and responsibilities of both the Libyan public and private sectors (Eita, 2017).

Corporate Social Responsibility: as we have seen, CSR is theoretically an agenda that encourages corporations to take into consideration economic, social, and environmental factors when decisions are made (Carroll, 1979; Dahl, 1972). This implies that CSR is involved in the relationship between corporations and the society in which they perform their activities or, simply, between corporations and stakeholders (Crowther and Aras, 2008: 10). In parallel, Nelson (2004: 3), for instance, claims that CSR is not only about the business trial. Rather, CSR has become more about the concerns of the relationship *"between businesses, society, the respective rights and obligations of various social sectors and actors to meet social needs"*.

In Libya, CSR narratives are still limited (Elmogla et al., 2011; Mashat et al., 2005). Organisations only started paying attention to CSR a few years ago due to the inadequate regulatory framework and legal instrument in the market conditions (Elmogla et al., 2011: 22). Thus, CSR has no priority in the Libyan economy. Ahmed and Mousa (2011) raised the question as to whether Libyan companies had practiced Corporate Environmental Disclosure (CED) between 1998 and 2001. The findings suggested the inexistence of any noticeable evidence of environmental disclosure. However, the level of CSR has improved in Libya since the 2000s due to pressures from stakeholders to be given the information which may affect companies' performance (Bayoud et al., 2012), alongside, the inauguration of Libyan Environmental Law in 2003 and the emergence of the LSM. Several organisations such as energy companies have started to disclose their CSR practices by providing annual reports covering the social and environmental activities because of the benefits this disclosure brings in terms of foreign investments or financial performance. Bayoud (2012: 230) maintains that:

> *Libyan companies think that CSRD is more likely to have a positive effect on the company's short-term and long-term profitability. By reporting CSR activities, these companies can increase their financial performance but not doing so leads to negative ramifications.*

Leadership: in Libya, Leadership's description was more authoritative, autocratic and akin to dictatorship. Hinnebusch (1984: 59) points out that Libya's key leader *"assumed enormous personal power to govern in the interest of substantive justice or the common good as he saw it, unconstrained by traditional or legal limits"*. This dominance made bureaucracy intense, regulated by aging rules and obsolete procedures and therefore shaped a *"society of masses and lords"* (Fathaly & Abusedra, 2006: 226). Thus, the outdated procedures created inaccessible governmental offices, which widened the gap between the government and citizens and delivered weak services. This traditional leadership made the public opinion fell into a state of discouragement and uncertainty due to its inability to change. Moreover, the absence of legitimate governing bodies negatively influenced the Libyan public and private sectors, which became immobilised. In this regard, Buera (2014) believes that leadership requires the best and effective methods to*"mobilise their bureaucracy and the management of publicly-owned firms, as well as to show commitment to their foreign partners and reduce external audience costs"*. Hence, challenging leaders who sought to change the social structure, attitudes and values was widespread. Martinez (2011: 9) illustrates that *"complete centralisation of power and the absence of civil and political liberties have provided Libyan decision makers with unlimited control over public resources and extensive opportunities for personal enrichment"*. Similarly, Armstrong and Gurung (2011: 2) contend that *"there is a critical gap in leadership due to deliberate strategies of the old regime; concepts of leadership focus on administration rather than service or management"*. Therefore, leaders lack the skills and ability to manage change in public and private sectors.

Actually, three crucial institutional transformations reshaped the national institutional arrangements in Libya. These factors created authoritarian structures. The first is the revolutionary legitimacy of leadership. The second is the rejection of pluralism and political parties and their roles in the formation of governance policies. The third is the refusal to hold elections for political institutions by the conventional way, favouring a unique local style called '*Jamahir*', or *'election by the mass'* (Mattes 2011: 57). The management process, therefore, is largely under the influence of such connections as extended family, clan and tribe, ideological and Islamic attachments. Simply put, HR recruiters still believe in nepotistic familial ties and personal relationships when selecting managers (Porter & Yergin, 2005).

In summary, this analysis has displayed that CG, CSR and leadership still need comprehensive investigations in a Libyan context. The new revolutionary stage that Libya is experiencing has recreated new economic, social, political and managerial concepts rejecting the remnants of the old regime (Ordu et al., 2011). One last matter is that leading under pressure is a serious obstacle for Libyan leadership. This requires specific skills and competencies that enable leaders to lead organisations to survive and thrive during and after crises hit. Therefore, the leadership of the LCBs is contested in light of the ongoing Libyan crisis to manage and handle the issues cause by this civil war and its repercussions on the banking sector and stakeholders.

4.3 The Libyan Banking Sector

The banking sector in modern economies is the leading sector for assessing the safety of the national economy through *"planning and implementing financial policy"* (Berger & De Young: 1997). The current economic situation forced Libya to rearrange the banking sector part of as a fundamental drive for improvement (Ordu et al., 2011). The Libyan banking sector consists of a network of sixteen commercial banks, four specialised banks and twenty-four representative's offices of foreign banks (Mansour & Rad, 2015), alongside a stock market (Dempsey, 2013). However, the focus of this study is on the commercial banks being pillars that develop the national economy through *"turning towards a global market economy, and opening the Libyan market to foreign investment"* (Elsakit, 2017). Moreover, technological progress, the deregulation of the financial services sector and international competition have all considerably contributed in the roles played by these banks (Alrafadi et al., 2014). Therefore, this section is divided into three parts. The first gives a brief history of the Libyan banking sector, the second considers the CBL, whereas the third examines the LCBs.

4.3.1 The History of the Libyan Banking Sector

The Libyan banking sector has seen many developments due to the changes in the political situation. The year of 1868 was the start of the banking activities in Libya as an agricultural bank during the Ottoman period. By 1901, Libya witnessed the opening of another bank (CBL, 2006). During the Italian occupation between 1911 and 1943, several branches of Italian banks opened in the main Libyan cities to serve its colonial objectives. This put the banking system in Libya under the regulation and supervision of the Central Bank of Italy (Kribat, 2009). After the Second World War, Libya was under British military administration, which monitored the Libyan banking activities through the two Barclays banks in Tripoli and in Benghazi, alongside the Italians banks. After Independence in 1951, the establishment of the Libyan Currency Committee materialised and enacted the Currency Law, which operated in 1952 by managing and issuing Libyan banknotes and coins. In 1955, the first banking sector law came to existence . It permitted the establishment of the National Bank of Libya that began operations in 1956 and organised commercial banking activities, and the issuance of currencies (CBL, 2006). Due to foreign dominance and competition, this bank was unsucccessful as a central banking authority. Therefore, in 1963 a law was passed to enable the National Bank of Libya to have the authority to regulate and control the Libyan banking system. This law introduced a 'Libyanisation' process by demanding that all banks' main headquarters relocate in Libya, adopt the form of a joint stock company and that at least 51 % of bank's capital be under the ownership of Libyan citizens (CBL, 2006). A few years later, in 1970, the Libyan government nationalised and bought all foreign stakes in the LCBs. As a result of this, the banks which were not owned wholly by Libyans were not allowed to practice their banking activities in Libya. In addition, the government combined all the LCBs into five banks, which were then under the following names (Hawashe, 2014):

1. National Commercial Bank (the merger of the commercial banking division of CBL, Istiklal Bank and Orouba Bank).
2. Gumhouria Bank (previously Barclays Bank).
3. Al-Sahara Bank (previously the Banco di Sicilia).
4. Al-Umma Bank (previously of the Banco di Roma).
5. Al-Wahda Bank (the merger of five banks including the Bank of North Africa, the Commercial Bank, Nahda Arabia Bank, Societe Africaine De Banque SAL and Kafila Al-Ahly Bank).

In addition to this, the Libyan government created four specialist banks, mainly the National Agricultural Bank, the Industrial and Real Estate Bank, the Development Bank, and the Libyan Arab Foreign Bank.

The private sector began a new phase in 1993 with the passing a new Banking Law (amended by Banking Law 2005 and then 2012), which allowed the founding private commercial banks such as the Bank of Commerce and Development. This new law also permitted the establishment of some branches and representative offices of foreign banks in Libya (Hawashe, 2014; Otman and Karlberg, 2007).

In 2005, a new bank law was initiated to liberalise the LCBs and permit all foreign banks to function or invest in the Libyan banks. After that, the year 2007 witnessed the launching of the first privatisation of state-owned banks. This was followed by the merging of some banks such as Al-Umma and Gumhouria Bank into Gumhouria Bank in 2008, and most of the regional banks into the North Africa Bank in 2010. In addition, the LCBs adopted strategic partnership. This increased the presence of representative offices of foreign banks. The CBL then issued the CG Code and requested that all banks in Libya adhere to it (Elsakit, 2017).

In February 2011, the uprising of Libyans as a part of the Arab spring led to the eventual collapse of Gaddafi's regime on the 23rd October 2011. This revolution brought many changes in the banking sector. For instance, Law No. 1 of 2012 replaced Banking Law 1 of 2005, and later was replaced by Law No. 46 of 2012, which addressed Islamic banking aspects (Elsakit, 2017). Moreover, several Libyan banks chose to eliminate interests from all their financial transactions or to allow the establishment of Islamic bank windows alongside conventional interest-based finance institutions, namely a dual system (Eljaaidi, 2012). The creation of Islamic banking products was the most fundamental recent reform in Libyan banking sector. Islamic banking does not pay for or receive interests from individuals and companies, but because the Libyan banking systems are still mainly traditional in practice, they are far behind international banking standards, not to mention the repercussions begotten by the adoption of Islamic banking practices. Although, the history of the Libyan banking system indicates that it has witnessed significant frequent reforms in the quality of services, regulations and supervision, it still needs more modernisation and international integration. There is a heavy presence of the public sector, a high level of non-performing loans, basic electronic banking facilities such as limited automated teller machines (ATMs) and telephone and a dependence on manual services in daily banking activities. Furthermore, the lack of banking data hinders a concrete assessment of the health of Libyan banks.

4.3.2 The Central Bank of Libya (CBL)

The operations of the CBL began in April 1, 1956 by replacing the 'Libyan Currency Committee' established in 1951 (CBL, 2018). The Libyan Banking Law No. 1, 2005 made the CBL independent and gave it authority to manage and implement banking and monetary policy, as well as supervising and monitoring the banking system's performance. Moreover, as the monetary authority in Libya, whose main task is to stabilise prices in favour of balanced and sustainable economic growth, the CBL coordinates and monitors public and private banks. The recent CBL policy states that licenses issued to any foreign banks to operate in Libya are issued on the proviso that those banks work in partnership with a Libyan bank. Therefore, the CBL's roles ensure financial stability, regulation and legalisation of financial transactions. Simply put, the role of the CBL has become more effective and enhanced confidence. The report of African Development Bank (2014: 1) maintains that the CBL *"plays a critical role in assisting Libya and its institutions on their path towards political and economic transition, which will set the stage for a viable and stable future development trajectory"*. The main objectives of the CBL (CBL, 2018) include:

- Issuance of Libyan banknotes and coins.
- The stability of currency in Libya.
- Management of reserves and control of foreign exchange.
- Regulating the quantity, quality and cost of credit.
- Having appropriate measures to deal with foreign or local economic and financial problems.
- Lender of last resort.
- Supervising the LCBs to ensure the soundness of their financial position and protecting the rights of depositors and shareholders.
- Acting as a banker and fiscal agent to the state and public entities.

4.3.3 The Public and Private Commercial Banks

The LCBs play an effective role in *"trade and industry, by helping in physical and human capital formation and by following the monetary policy of the country"* (Khan, 2012), in addition to performing the usual tasks such as controlling the banking system. The Libyan government owns public commercial banks, which serve its needs (Das, 2014). In this sense, profit is not the priority that public banks consider as they takes into consideration the welfare of citizens, the community and the society (Das, 2014). This contrasts with private commercial banks, which give priority to the interests of private owners (Goodman and Loveman, 1991).

The number of the LCBs are sixteen, which can be grouped into public and private banks. The public banks are six, namely Gumhouria Bank (GB), National Commercial Bank (NCB), Waha Bank (WAB), Sahara Bank (SB), Wahda Bank (WD) and North Africa Bank (NAB). Public Banks in Libya still control the financial system despite all the significant reforms this sector has recognised in the past decades (Chami et al., 2012). This supremacy has created a set of limitations. One example is the level and variety of financial services provided was limited. Moreover, these banks have strict working conditions. Their work methods are inflexible. The training programmes provided are ineffective and unproductive. Low pay and incentives are prevalent in these banks. The laws and work regulations restrict the process of promotions and mobility, which are more dependent on experience and seniority rather than effectiveness (Waniss & Karlberg, 2007). Mechanically, public banks used traditional methods to deliver services to their customers because of a shortage of credit cards and cash machines (Eljaaidi, 2012). Mansour and Rad (2015: 9) hold that *"Libyan public banks still lack management structures supported by skills in critical areas like credit, investment, risk management, and information and control systems"*.

Conversely, the private banks are ten, respectively Commercial & Development Bank (CDB), Al-Ejmaa Al-Arabei Bank (EJB), Arab Commercial Bank (ACB), Saraya Bank (SAB), United Bank (UB), Noran Bank (NB), First Gulf Bank (FGB), Al-wafa Bank (WFB), Al-Aman Bank (AB) and Mediterranean Bank (MB). These private banks have materialised since the 1990s of last century. The 2012 Binding Tariff Information (BTI, 2012: 14) reported that, *"in 1970, the government nationalized all banks, and private ownership of financial institutions was not officially permitted until 1993"*. However, Mansour and Rad (2015: 8) perceive that the new Companies Law in 2013 does not encourage the expansion of the private ownership in the banking sector, although the Libyan private commercial banks are seeking partnerships with foreign banks, because it is a possible step backwards for the private sector:

> *The new Companies Law allows Libyan shareholders to issue only up to 49% of a joint venture to a foreign partner (rather than 65% provided for in Decree No. 103 of 2012). As a result, many Libyan start-up ventures, which were previously funded by foreign investors, will no longer be capitalised by such partners, especially in the country's current high-risk environment.*

Still, the private sector in Libya is much more appreciated and efficient due to its most effective ways of providing services in comparison with the public sector (Masoud, 2009). For example, the working conditions are more flexible. Rewards and salaries are better. The issue with this sector is that it is not mature enough to serve the demands of new entrepreneurs (Thorne, 2010).

Conclusion

This chapter provided a brief background of the geographical, social, political, legal and economic aspects of Libya. Libya has a strategic position as it has links to various countries, whether North African countries such as Tunisia, Algeria and Egypt, Sub-Saharan countries such as Chad and Niger or European nations such as Italy, Greece and Malta. Socially, Libya has such a diverse social structure capable of promoting the systems of labour, management and professions into positive institutional agencies. Politically, Libya is torn between two political rivals, and urgent coalitions are necessary to improve its political status. The UN intervened by unifying these two parties under a new government in 2016, but the situation has not much improved. Legally, Libya has a combination of a legal system based on civil and Sharia laws, but the post-revolution situation has put the Libyan legal system in flux and under the influences of both the state and non-state entities. Economically, Libya has a wealth of natural resources, mainly oil and gas, which play key roles in the Libyan economy. These natural resources have opened up Libya to the outside world and encouraged its adoption of new regulations that contribute to its development.

This chapter also examined the development of CG, CSR and leadership themes demonstrated that in this revolutionary environment this still needs a thorough investigation. Libya, now, is in a new revolutionary stage where new social, economic, political and managerial understandings are greatly needed in order to facilitate the disposal of the remnants of the dictatorship regime and to rebuild Libya according to modern international standards. Hence, the current Libyan government has a massive task, which determines that putting Libyan economy back on track is the only way out of the hard times that are currently challenging Libya (Allurentis, 2014).

Finally, this chapter also highlighted the key compounds of the Libyan banking sector, which has experienced reforms in an attempt to detach itself from the socialist model of the previous regime. Being crucial to the economic growth of countries in transition, both the LCB and the LCBs are in the process of developing and implementing systems and standards to ensure accountability, sound ethics and necessary supervisory structures.

Analysis and Discussion of the Findings of Sub Research Questions

(Chapters Five, Six & Seven)

Chapter Five

Corporate Governance in the Libyan Commercial Banks

Introduction

The narratives on the framework of CG have recently increased in Libya. The willingness of new economic perspectives combined with mindful managers and board of directors encouraged the CBL and LCBs to move towards the adoption of CG strategies, notably through establishing the modified CG code of 2010. Nevertheless, even if the CBL and LCBs have made significant determinations to improve and reinforce CG frameworks in Libya, this construct still needs great efforts from various parties to impose itself in the Libyan financial spheres, given the current specific Libyan situation, which massively requires *"a forum for debate and dialogue between academics, legislators and practitioners, focusing on major corporate governance issues and thereby promoting best practice"* (ECGI, 2019). Therefore, this chapter highlights the current status of CG in the LCBs. It covers several questions that each section of this chapter answers in order to develop future understanding. Therefore, the first section inspects the meanings of CG through the insights of the BoDs and CEOs. The second examines leadership structure in the LCBs whereas the third division investigates the rights of shareholders and. The final section reconsiders the key challenges limiting effective CG application.

5.1 The Meanings of Corporate Governance

This section explores the meanings of CG from the angle of the boards and CEOs in the LCBs, given the geopolitical and socio-economic assumptions that influence the understanding of CG in Libya, it being a non-western country. The question *"How do you define CG"* enabled these key professionals to consider on this concept and explain its characteristics. Interviewees provided brief and understandable CG definitions.

The CG term has different interpretations that used in the LCBs. Although, the CBL embraced the Arabic term *'Al-Hawkamah',* meaning the governance, as an equivalent term for 'Corporate Governance' in the LCGC 2010 manual, other interpretations for this term are still implemented, such as *'Hawkamt*

Alsharekat' (Corporate Governance),*'Aledarah alrashedah'* (prudent management) or *'Alhokum almoasasi'* (institutional control). These diverse interpretations confuse the real meaning of CG in English. The findings of Ghali (2001), Aintablian & Al-Boustany (2008) and Zagoub (2016) support this argument. This also matches the statement of Boutros-Ghali (2002: 1) that MENA region attempted to erase this confusion by simply:

> *Find[ing] one Arabic word that translates the English word or its concept, but it was difficult. The problem is not just semantic; because when we do not have a word to express a concept, the concept does not exist in our daily life.*

Moving to CG definitions, the key professionals looked at CG from narrow and broad perspectives reflecting the economic and social perceptions. Narrowly, they saw CG as protection of shareholders' rights or as affecting the relationships between only corporate managers, boards and shareholders. Here, CEO_4 stated that CG came to protect the shareholders' interests: *"CG is a system of rules by which the shares and interests of shareholders in the bank are protected"*. Another CEO_2 defined CG as *"a group of policies and procedures that ensure the right of shareholders and ensure the functionality of the executive management"*. Further, CEO_{10} explained, *"CG explains itself, as it is a process of control, the separation of roles and responsibilities of shareholders, chairs and CEOs"*. Similarly, one BM_3 highlighted that CG is self-restrictive in the sense that *"the board of directors is separated from the executive management as each one has specific responsibilities, roles and powers which benefit owners"* (BM_3). Actually, these narrow definitions are compatible with the definition provided by Gregory and Simms (1999) that CG directs the relationships between corporate managers, directors and shareholders.

From a broader perspective, several key professionals defined CG as a system of guidelines, rules and processes that balance the interests of all diverse stakeholders within and outside the LCBs. One CEO_9 explained that:

> *CG refers to a set of policies, procedures and rules* [that] *bring harmony and balance between the interests of the different stakeholders: shareholders, depositors in terms of the bank, the customers, my vendors, other management regulators and community.*

Another CEO_1 pointed out that CG is the LCBs' commitment to all stakeholders, including shareholders, managers, BoDs, employees, clients, society and state. Consequently, these institutions have to disclose their actions and procedures, and be rational in making sensitive decisions that relate to the interests of all stakeholders. On similar lines, one BM_2 contended that CG is *"the relationship between the 'owners', the legislative party (BoDs), the executive party (CEOs), the employees and other stakeholders"*. Another BM_{10} suggested, *"CG is to achieve transparency and accountability in the Libyan banking institutions, [so that] all parties' interests are in accord and, thus, the organisation performs its role in effective and successful ways"*. This is in alignment with Millstein (1998) that CG, broadly, *"encompasses all of the corporation's relationships: relationships among capital, product, service and human resource providers, customers and even society and environment at large"*.

In summary, the findings disclosed that CG (*Al-Hawkamah* in Arabic) is no longer a term that needs explaining as the boards and CEOs showed a clear understanding of what CG is due to its clearly defined strategy and business model in the LCBs. Even if it is a relatively new term in Libya, CG has several Arabic expressions. This is in line with the studies of Al-Rabe and Radi (2011) and Abdel Moniem (2014). Finally, the definitions provided by the CEOs and BoDs confirmed an inability to agree on a unified definition because of the difference in viewpoints in relation to CG itself. Hence, some key professionals defined CG from an economic perspective that ensures profit maximisation for shareholders. However, other key professionals described CG from a social point of view that considers both the internal and external stakeholders' interests and ensures sustainable economic and social development. These definitions fall within the narrow and broad perspectives of CG. This is compatible with the findings of Fazwy (2003), Abdel Moniem (2014).

5.2 Leadership Structure in the LCBs

As the LCBs seek to compromise between the interest of shareholders and other stakeholders, the board and CEO leadership strictly abides by the governing regulations of the authorities where they operate and notice the appropriate guidelines and instructions issued by the CBL. Therefore, these leaders regularly review the CG system to ensure compliance with the best local and international practices. This section examines whether the LCBs separate the Chairman and CEO titles. It also inspects their responsibilities and authorities in ensuring the realisation of the banks' objectives and the resolution of the conflict issues. Then, it studies the relationship between the BoDs and CEOs in driving, maintaining and supporting CG.

5.2.1 Separating the Chairman and Chief Executive Officer Titles

The separation between these two positions in LCBs began in 2005. The banking law No. 1 (#70, 2005) stated that the membership of the board ceases once the appointed member becomes an executive manager of the bank. A CEO_2 highlighted that this banking law organised the banking systems, gave a new administrative and regulatory structures, and defined the roles of the boards and CEOs, but commenting on the period prior to this separation:

> *Before this decision, the executive and chairperson occupied one function, but as soon as the CG was implemented the separation took place. Therefore, with the issuance of this decision the separation was a mandatory process for the LCBs.*

In the same way, BM1 pointed out *"since the declaration of 2005 law, the Chairman or any member of the board doesn't have any executive powers. There is the CEO in one side, and there is another separate entity, which is the BoDs"*. Moreover, The LCGC (2010: 23) encouraged the separation of the positions of the Chairman and CEO by declaring, *"the members of the BoDs select the Chairman. However, the selected Chairman should not be the same person as the executive manager of the bank"*. This is in line with Jenkins who believes that *"one of the major functions of the board is to supervise management. If the Chairman of the board is also in management, then he is in effect marking his own exam papers"* (Quoted in Brickley et al., 1997).

Therefore, the LCBs apply a two-tier CG that separates the functions of the Chairman and CEO. The first tier contains the Chairman of the boards. The shareholders are responsible for the appointment of the boards. Then, the BMs select a Chairman among themselves. The second tier consists of the CEO with the management team. The BoDs employs the CEO. In this regard, BM_{11} explained, *"the organisational structure consists of the general assembly* *in the top, then the BoDs and finally the executive management"*. Another CEO_7 indicated that two major categories characterise leadership structure in the LCBs: *"the first part, which is the upper division in the organisational structure of the bank, is the BoDs, and the highest pyramid of the power is the Chairman, and the executive management comes right after the BoDs"*. In addition, CEO_1 confirmed, *"the BoDs appoints the CEO. The executive management is the board's tool in managing the institutional operations within the bank"*. In this way, it is ensured that both the chairman and CEO are two separate titles in the LCBs with different responsibilities and authorities.

5.2.2 The Roles and Responsibilities of the Boards and Executive Management

The relationship between the BoDs and CEOs is the most important in the LCBs because of its great impact on the success of these financial institutions (Murden, 2012). For the effectiveness of this relationship, both the boards and CEOs have to recognise their roles are separate, and work together to achieve the organisation's goals. The LCBs clarified the roles and responsibilities of both the boards and CEOs to ensure a cooperative and healthy relationship.

The Roles and Responsibilities of Boards

The boardroom in the LCBs consists of four committees. The Audit Committee ensures that the banks comply with regulations, and the Nomination and Remuneration Committee guarantees the board has the skills and knowledge for responsible leadership, whilst also evaluating and rewarding top management. Whereas, the Risk Committee helps the board in preparation of the organisation's risk policies and the supervision of management's performance. Finally, the Governance Committee supports the board in determining the culture and ethical values. It is important that Governance Committee includes members of the other three committees mentioned above. Board committees are essential in providing three basic specifics for the board functioning: knowledge specialisation, task-division efficiency, and accountability and oversight of executive management as well as wider board activities. Here BM_5 highlighted that according to CG system in the LCBs, four committees stem from the BoDs:

These are Governance Committee; Audit Committee; Nomination and Remuneration Committee and Risk Committee. These committees' main tasks revolve around supervision but never interfere in the operational activities of the bank. There are laws that govern these committees.

Without being involved in its day-to-day running, the BoDs draw up the key strategies and policies of the LCBs and supervise the executive management to ensure the extent to which it complies with these guidelines. Therefore, the board requests from the executive management the preparation of periodic reports about its financial performance, policy compliance and achievement of the required objectives. BM_3 also confirmed this by maintaining that;

The board of directors sets strategies and goals for the bank. They transmit the strategies and goals to the executive management. The executive management undertakes the execution of the strategy to achieve the goals set by the BoDs. Therefore, as BoDs, we are not executive members. We do not interfere in the actual operation. We set guidelines and strategies; and we monitor the implementation of these goals and targets executed by the executive level.

On similar lines, MB_6 maintained, *"some irregularities occur. We had to change the recent CEO for not abiding by the required rules to implement the strategies in spite of the provision of all necessary possibilities to execute them"*. Thus, the boardroom is a mechanism that oversees the executive management to protect shareholders' interests or intervenes in case of executive management malpractice. It is a site where key decisions take place. This is in line with the LCGC (2010: 16) that states that;

The board is entrusted with an important role in promoting the moral values in the bank, supervises its activities, evaluates its governance procedures, oversees its management, chooses its CEOs and key managers and promotes the effective monitoring and supervision of its following institutions.

Therefore, as key leaders, the boards are required to play crucial roles in ethical behaviour within and outside banks. Working ethically in a way that positively enhances the reputation of this leadership and ensures the achievement of anticipated goals. On this matter, the LCGC (2010: 16) highlights that ethical values should have significant position for all members of the board and be promoted among all stakeholders:

> *Being able to behave to such ethical standards, the board's established policies and procedures are then well respected and followed by the other entities, especially if the BoDs, indeed, reconciles the conflicts of interests between the shareholders and the executive management.*

Actually, the significance of the boards' ethical standards resides in the fact that these ethics are capable to ensuring the balance of the diverse interests, enhancing the performance of banks, and achieving long-term benefits. However, the success of these ethical standards depends on the leading ethical roles played by the boards. Hence, the more the BoDs respect these ethical standards, the more the executive management and employees follow the boards' ethical model. This reinforces the credibility of banks towards stakeholders.

The board has a responsibility for assessing CG effectiveness in the LBCs. This assessment relies on the outcomes resulting from the evaluation of the mechanisms utilised in the selection of the BMs. It also depends on the cases involving conflicts of interests and identifying the weaknesses in the CG procedures in place. In fact, this evaluation helps the board to address such issues and to implement the necessary adjustments to CG practices. Hence, the Chairman is essential in ensuring a proper CG implementation by providing platforms for BMs to discuss freely all issues related to bank activities. The LCGC (2010: 13) maintains, *"the BMs have the ability to express their opinions and independent judgments about the executive management"*. By doing this, the BMs show different views objectively and professionally and express any objection they have without restrictions. Moreover, the Chairman ensures that the BMs refrain from any practices designed to monopolise the board's decisions. Here, The LCGC 2010 claims, *"the board should not be affected by the interests of the shareholders or any specific interests of a third party"*. In fact, the Chairman has to guarantee the provision of all necessary information and data on the issues raised by the boards to ensure comprehensive and thorough engagement of all BMs in making sound decisions. This shows that the Chairman is accountable to the boards and acts as a direct link between the boards and the executive management. In this regard, the role of the Chairman is to ensure effective communication with the boards, shareholders and executive management (LCGC, 2010: 14).

The Roles and Responsibilities of Chief Executive Officers

The main roles and responsibilities of CEOs comprise making major decisions and managing the overall operations and resources of the banks. In addition, CEOs act as mediators between the BoDs and the LCBs' operations. Further, the CEO manages the LCBs' culture by actively motivating employees to adopt the bank's values and builds a team environment to realise the bank's visions. In this matter, BM_6 claimed, *"the Executive activities of the bank are the main concern of the executive device represented in its CEO"*. Therefore, the CEO is accountable for managing the bank to maximise shareholders' return and ensuring its sustainable growth. According to CEO_2, *"the CEOs are keen to make profits and to ensure the sustainability of bank"*. The reflection of the roles of CEOs takes place in the board meetings. The CEOs encourage genuine debate and challenge in the boardroom discussions to imagine their visions, management philosophies and business strategies. This presence ensures that the boards have clear and appropriate standards to increase the performance of the banks. CEO_4 explained that:

> *The BoDs meet with the CEO quarterly, four times during the year, to discuss various issues and produce a series of decisions. Often, the CEO mainly raises these issues regarding the daily operations of the bank.*

Once the BoDs approve all decisions, the CEO implements these visions and strategies in agreement with the banks' values. BM_{11} highlighted that *"the executive manager then receives the main guidance and instructions from the BoDs and begins performing the general policies of the bank under the supervision of the board"*. Therefore, the CEO must keep the boards fully informed about the bank's concerns. For this reason, the CEO circulates ample and appropriate information to the BMs throughout the year to maintain an effective assessment of the banks' strategies and performance outcomes. BM_1 stated that, *"the CEO ensures an efficient communication with the chairman and its board such that they are informed of all relevant information, which may have a material consequence on the bank and its stakeholders in general"*. Furthermore, the executive leadership encourages a philosophy of ethical behaviour in the bank inducted by the boards. By doing so, the CEO improves and sustains sound business practices, effective and productive relationships with internal and external stakeholders. As CEO_2 explicated, *“the executive management implements the board’s decisions unless they do not conflict with the laws and the core guidelines of the bank”*.

In brief, it is important that the boards and CEOs play complementary roles in the LBCs by supporting each other, while each plays distinct leadership roles. The interviewees contended that the boards and CEOs cooperate and communicate to maintain a healthy and prosperous business environment within the LCBs. For instance, BM_{11} confirmed that both departments have a real cohesive relationship, “*there is coordination and interaction between the two parties. [...] the executive management is always in connection with us, communicates with us and requests consultations and opinions from us”*. Similarly, CEO_9 maintained that an accord and coordination between the board and CEO exists and the relationship is very healthy;

> *The management and boards have well defined roles and responsibilities. Everybody works within their own boundaries. We have a good relationship. We discuss and deliberate on different issues and the decisions are based on the consensus.*

5.3 The Shareholders and Employees Rights in the LCBs

In this section, the focus is on analysing the prevailing current of CG effectiveness in recognising and balancing the interests of diverse stakeholders, specifically shareholders and employees. The first part examines the shareholders’ rights by interrogating the structure of ownership and the legal position of shareholders, whereas the second part investigates the level of LCBs' commitment towards employees.

5.3.1 Shareholders’ Rights

In Libya, ownership is complex due to political, economic and social reasons (El Issawi & Sharqieh, 2013). The prevalence of civil law system has a vital influence on the style of ownership and control structure (Fligstein & Choo: 2005). It states that ownership and control are inseparable. In 1993, the Libyan government had issued a law allowing the private sector to participate in the national economy and to own shares (Masoud, 2014). By 2006, Libya permitted foreign investors to form joint stock companies with Libyan shareholders (Creed, 2013). This permitted foreign ownership shares up to 65%. Then, this ratio increased to 100% under the Investment Law

2010. However, the Libyan government's intervention in economic activities subsequently weakened the establishment of private businesses, limited foreign investment and encouraged financial institutions to prevail in large companies (The Telegraph, 2011).

In the LCBs, the state ownership is mainly under the control of the CBL and at some extant by other state institutions. Whereas, Private ownership is the property of individuals and private enterprises. Foreign ownership contains foreign investors. Table (1) below displays the ownership structure of the LCBs.

Table (1): Ownership Structure of the LCBs in 2016[3].

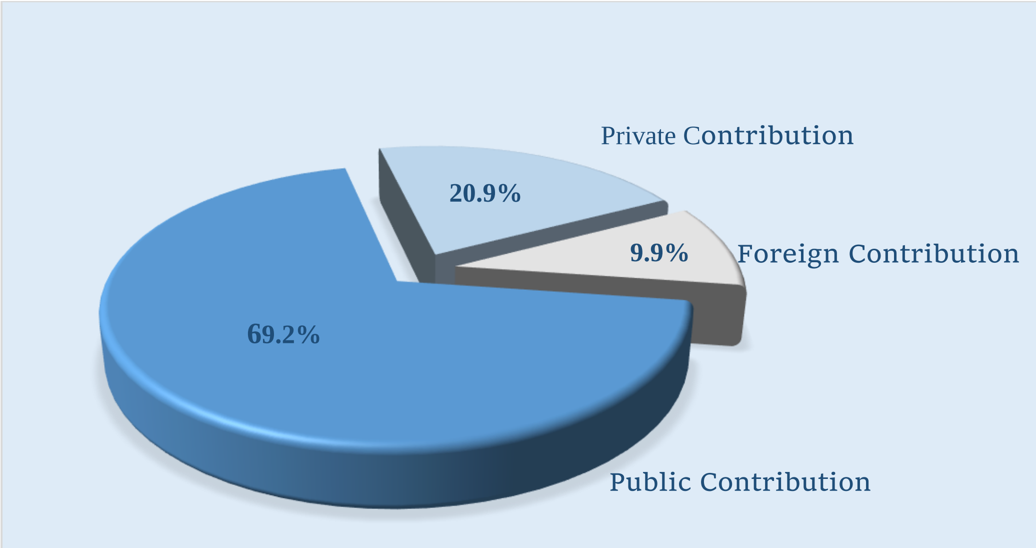
N	Bank Name	Type of Ownership			LCBs' Ownership
		Public	Private	Foreign	
1	Al-Waha Bank	100%	--	--	3.0%
2	Gumhouria Bank	86.6%	13.3%	--	32.3%
3	National Commercial Bank	85%	15%	--	14.6%
4	North Africa Bank	82%	18%	--	6.5%
5	Al-Sahara Bank	59%	22%	19% French	8.9%
6	Al-Wahda Bank	54%	27%	19% Jordan	11.6%
7	First Gulf Bank	50%	--	50% UAE	6.0%
8	Noran Bank	_	50%	50% Qatar	2.0%
9	Commercial and Development Bank	17%	34%	49% Qatar	4.6%
10	United Bank	3%	57%	40% Bahrain	2.1%
11	Al-Wafa Bank	1%	99%	--	1.2%
12	Al-Ejmaa Al-Arbei	--	100%	--	2.2%
13	Mediterranean Bank	--	100%	--	0.6%
14	Arab Commercial Bank	--	100%	--	0.7%
15	Al-Saraya Bank	--	100%	--	0.8%
16	Al-Aman Bank	--	60%	40% Portugal	2.8%
Total		69.2%	20.9%	9.9%	100%

Source: Author's own design based on the data collated from the CBL.

[3] The LCBs are divided into public and private according to the ownership contribution.

The Libyan government represented by the CBL still own and control about 69.2% of LCBs' ownership, whereas the private sector possesses about 20.9%. Foreign investors have about 9.9% as strategic partners.

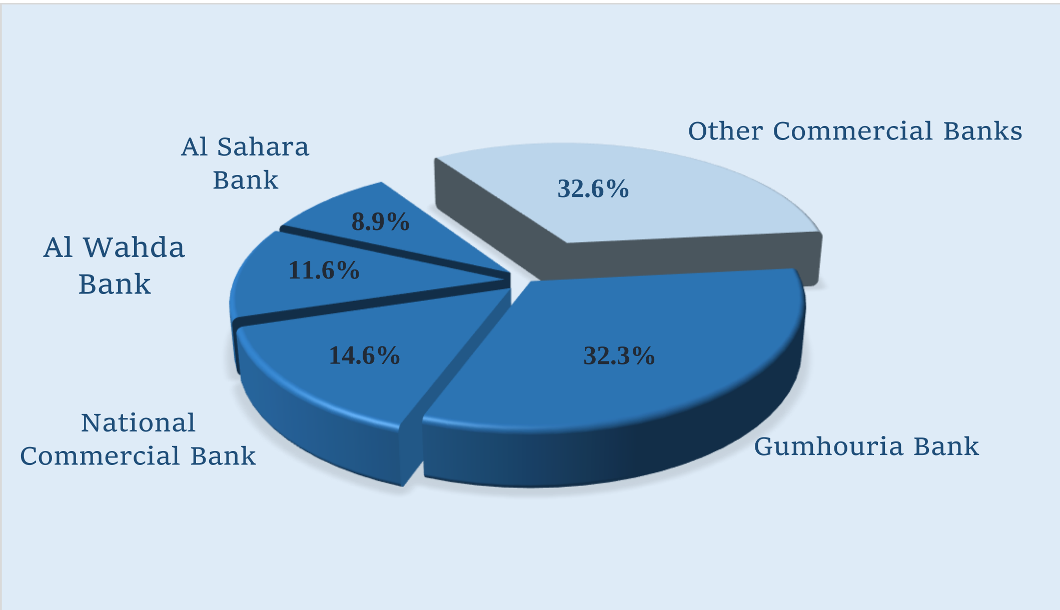
Figure (5): Public, Private and Foreign Ownership in the LCBs.



Source: Author's own design based on the data collated from CBL.

Nevertheless, four banks largely owned by the governance constitute 67.4% of the LBC's total ownership, including Gumhouria Bank 32.3%, National Commercial Bank 14.6%, Al-Wahda Bank 11.6% and Al-Sahara Bank 8.9%.

Figure (6): The dominance of four public banks over the LCBs' ownership.



Source: Author's own design based on the data collated from CBL.

This concentrated ownership means that the control of most of the LCBs is either in the hands of the state or in the hands of family-owned companies. An International Monetary Fund report of 2007 declares that the Libyan financial sector is dominated by and suffers from a heavy public sector presence. In similar lines, Wilson and Schleifer (2013) highlight that:

> *In less developed economies, capital markets are thinner, there is less equity in the hands of the population, and we often see a more active state role in the economy, as well as a greater tradition of family ownership, which all lend themselves to concentrated ownership.*

Actually, the basic CG theories arguing in favour of more concentrated ownership model also face problems, as is the case with the dispersed ownership structure, where the principal-agent problem arises and company performance suffers. With concentrated ownership, owners have the authority to direct executives to work in their interests. This dominance usually leads to conflict with the interests of the minority shareholders (Yasser et al., 2017).

In Libya, key laws such as, banking laws, the commercial laws and the LCGC 2010, support the protection of ownership rights in LCBs. One BM_6 pointed out, *"shareholders' rights are stipulated by the general rules of LCGC 2010 and the commercial law"*. Within similar lines, CEO_8 reported, *"shareholders' rights are governed by the banking laws as well as the commercial law"*. Therefore, these laws emphasise that the LCBs must develop appropriate policies and mechanisms to enable shareholders to exercise their full rights.

However, the LCGC 2010 addresses the shareholders in three sections (LCGC, 2010: 9-13). The first section is about share ownership. The LCBs are required to ensure the registration of shareholders' ownership; in addition that there should be no restrictions whatsoever if any shareholder intends to transfer their shares to another person. The registration of shareowners in the register is the sole proof of ownership. Thus, the register facilitates the identification of shareowners. By doing so, the register helps to increase transparency about who owns and controls the companies and simultaneously helps investors that are considering investing in the financial institutions. In reality, within these commercial banks it is difficult for shareholders to transfer their shares due to the ineffectiveness of the LSM. Here, BM_5 stated that;

> *The LSM is inactivated and does not operate in fully effective ways; and when all the organisations join the Libyan stock market, then the individuals have the right to buy and own shares in different organisations, but as for our bank we have not yet joined the LSM. Therefore, the private sector cannot buy shares in the bank.*

The second section details the shareholders' right to attend and participate effectively in the AGM (LCGC, 2010: 10). In this meeting, the shareholders have opportunities to revise the budget annual reports and make decisions regarding all matters that concern the bank (Commercial Law, 2010, #163). This is based on sufficient and appropriate information that shareholders can access to be able to take decisions in the AGM. In this regard, BM_6 pointed out, *"[in] the general assembly, there should be sufficient information available to the shareholder as well as the right to discuss all the provisions in the budgets"*. However, to ensure effective participation, the announcement of the meeting should be made at least ten days before the AGM and be advertised in local newspapers (LCGC, 2010: 10). Here, CEO_{11} claimed, *"these meetings are usually declared in the daily newspapers as well as this bank's website"*. Indeed, all these interviewees claimed that they are keen to select carefully the dates and places of a meeting to realise the maximum attendance of shareholders. Additionally, all information included on the AGM agenda is released ahead of time to allow the shareholders to review this before the meeting. Another BM_7 summarised the daily routine of the shareholders within these banks by stating that:

> *The shareholders' rights are to have updated financial statements, look at our books whenever they want, be able to have meetings with the general manager who can explain things to them. We have a person [organizational unit] that is responsible for shareholders. They are the ones that can provide the information. Therefore, the information is mainly balance sheets. Any other requested information needs to be put forward to the board of directors, which needs to take place within the general assembly.*

In fact, the AGM is the highest body in the banks that includes the shareholders. When the question about the shareholders' rights and control was asked, the interviewees replied that the general meeting is the best location where shareholders' voice is heard. For instance, CEO_{10} remarked, *"the influence of shareholders in decisions takes place during the AGM"*. Moreover, shareholders appoint the BoDs, auditors and the head of the Watchdog Committee (Commercial Law, 2010, #163). In this regard, CEO_9 contends that in the assembly meetings *"the shareholders appoint their representatives as the BoDs, then the BoDs supervises the management or gives the strategic direction to the bank, and the actions and results are shared with the shareholders as well in the meeting"*. Similarly, BM_6 indicated that all the banks know that shareholders are responsible for the nomination of BMs; among them is the watchdog who reflects the shareholders' views. Consequently, the Watchdog Committees attend the meetings of the BoDs and later submit their reports at the AGM. Therefore, these watchdog committees are considered as a sort of control on behalf of shareholders on the processes within the bank. Furthermore, all shareholders have the right to appoint any other person as their representative, or to represent other shareholders, at the general meeting as indicated in the LCGC 2010 (Commercial Law, 2010, #158). In this matter, BM_5 illustrated that *"there are those who attend to represent themselves as well as those attending to represent a certain group of shareholders"*.

The Libyan government continues to be the dominant contributor to the country's most important enterprises (Majdi, 2015: 267). It protects the state ownership at the expense of other shareholders. Hence, this created a conflict of interests between the minority and the majority shareholders. In this regard, interviewees distinguished between major shareholders as the government dominating the public banks and individuals taking control over the private banks. In both cases, this concentrated ownership is an obstacle affecting CG, which favours majority shareholders at the expense of minority shareholders' interests. BM_6 remarked, *"the state still owns most of the shares. For example, 85% of the shares are completely under the ownership of the CBL. Therefore, the CBL's powers control this bank and dominate the General Assembly"*.

The need to consider minority shareholders' interests raised within the LCBs. Thus, the LCGC 2010 notes that the banks must treat all shareholders, especially minority shareholders, equally. There is an emphasis on ensuring participation of minority shareholders in the AGM. Here, BM_5 held that *"shareholders have an influence on the AGM, whether they have a small or big share. All shareholders have the right to attend it"*. Moreover, minority shareholders should have full access to the information in case the banks decided to amend the rules that affect their rights. CEO_{10} claimed that the bank implements the rules enacted by the banking laws for minority shareholders thus *"their decisions are compulsory to both the BoDs and CEO in the AGM"*. In addition, minority shareholders have the right to call for an emergency meeting in the case of a risk to their shares (LCGC 2010: 12). The BoDs is responsible for calling an immediate general assembly if shareholders request the inclusion of a particular subject on the agenda of the general assembly. Here, BM_3 stated that, *"minority shareholders can put pressure on the board of directors to make decisions to ensure their rights"*. Besides, the laws of the LCBs prohibit using majority interests at the expense of other minority shareholders. In this regard, one BM_6 announced that their bank attempted to attract new shareowners. *"Consequently, expanding the capital will reduce the effects of majority shareholders in the bank's decisions"*.

5.3.2 Employees' Rights

This section examines the responsibilities of the LCBs towards employees. Several laws exist promoting the protection of the employees' rights. For instance, the article (46) of the Libyan Labour Law states that employers must manage the health and safety of their business in order to control workplace risks. However, the article (38) states that the law requires employers to ensure liability for injury to their employees that may arise from their employment:

> *The employer should arrange the necessary insurance for employees against diseases and occupational risks, and to provide health care and social protection for them and their families without contradicting any other legal system.*

Moreover, Article (39) requires all organisations to provide training programs that help employees learn specific knowledge or skills to develop their performance in their current roles. Various participants revealed that the employees in the LCBs have a healthy environment, a full insurance package and access to training and development programmes to encourage the employees to be part of the sustainable roles occupied by these banks. BM_2 pointed out that:

> *Our biggest asset is our employees. So having happy employees will have a positive impact on the bank's performance. We treat them well. Our employees have very clear career paths. Therefore, that is very important. We train our employees, and we have well-paid scheme for our employees.*

The bank is the best location for employees to have training to enhance the performance of their roles, BM_4 believed. Thus, the bank has many training courses available to its employees to develop their skills and competencies:

> *In practice, our bank has specialists and professionals capable of training and transferring their expertise to the employees. [...] However, in the first place, we depend on our qualified individuals who have the experience and who are in managerial positions to train the employees.*

Moreover, the establishment of a committee that consists of high-level leaders ensures the employees' rights within the bank. CEO_7 stated that, *"a committee was recently formed to reconsider the salary scale and the rights of employees in this bank. This committee comprised of a board member alongside two or three executive managers"*. Similarly, another CEO_{11} mentioned the existence of this committee in their bank by saying, *"the majority of the BMs are also members of the committees in the bank such as credit committees and employees' committee"*. In addition, banks provide platforms where employees can express their views on their work issues and their voice is heard. Hence, *"direct contact with our employees exists to remove the barriers between the senior management and the employees"*. In the same lines, CEO_9 indicated that:

> *In our bank, we have open door policies so that anybody can discuss their issues at the management. We also formed appropriate forums like the employee committee to look at employees' concerns. Thus, these employees' voices resonate in our bank and thus receive answers regarding their concerns. Therefore, our employees are our valuable assets and are as equal partners in making or building the success of this bank.*

In summary, the findings suggested that the LCBs is still at the early stages of introducing and applying CG, but heading towards a transition phase. This is compatible with the results of Bladen (2013) that *"the challenge is no longer the development of codes but their effective implementation"*. Whether this occurs depends on the effectiveness of regulators' power, and for *"corporations to recognise and understand the real benefits that CG brings to* *an enterprise and its shareholders"*. The key professionals recognise the benefits of CG for the LCBs in terms of integrating the Libyan economy into the global economies. In addition, the findings revealed that the code of CG in the LCBs is soft and superficial. This corroborates with the statement of El Din (2018) that many countries of MENA *"have adopted soft approaches to CG enforcement"*. Thus, regulators tend to be indulgent with investors and businesses and overlook the request of the provision of *"reports on compliance or the accuracy of information provided in these reports"*. Furthermore, ElGammal et al. (2018: 274) indicated, *"CG practices in MENA, specifically Egypt and Lebanon, have yet not reached a saturated level, and are still challenged by both external and internal factors"*.

Regarding ownership structure, state ownership in Libya grew during the period of Gaddafi regime due to his socialist strategies. Here, El din (2018) claims that corporations have become *"large as a result of nationalisation programmes that took place decades ago or for political reasons; decisions by ministers, or out of greed by owners to make more profits by getting into another profitable business"*. In spite of some changes to market economy and privatisation process, government dominance is still broadly in the banking sector (Piesse et al., 2012). In the LCBs, public banks mainly owned by government and because the ownership structure is one of the most essential foundations of the company and CG effectiveness (Denis & McConnell: 2003), this concentrated ownership negatively influences the CG practices and performance. In this regard, Harabi (2007) highlights that companies in MENA *"often have close relations with the political sphere, and have the political power to influence policy-decision making on business regulation and reform priorities"*. Therefore, the issue of corporate ownership structure is in this respect critical to the CG mechanisms.

Additionally, the presence of dominant private shareholders is heavy in the private LCBs and means *"the roles and relationships between family members, the board and its members, shareholders and the Executive are undefined, undocumented, overlapping, conflicting and complex"* (Bladen, 2013). Here, BM_6 highlighted that *"for private banks, the shareholders have great impacts; and it is such a serious issue that we seek to separate ownership from management"*. In similar lines, CEO_7 assured that *"the private sector in Libya* *suffers from the problem of the impossibility of separating ownership from management"*. Minority shareholders, therefore, do not have sufficient rights to manage the banks in contrast with the majority shareholders who intervene in the LBCs' activities by appointing BoDs serving their interests. This finding confirms Majdi's statement (2015) that:

> *In a system of concentrated ownership, the conflict exists between the majority shareholders and the minority shareholders. This means that ownership concentration transforms the principal-agent problem into a problem of conflicts of interest between the minority and majority shareholders. This is because minorities are vulnerable to exploitation by the majority. The shareholders with a high ownership share are capable of using their position to acquire private benefits by using their voting rights to consume corporate resources to their advantage.*

This signifies that minority shareholders' right to appoint the representative is largely theoretical. Ownership concentration seems to be a means of supervising the actions and having excessive control to make decisions as managers, which benefit their interests at the expense of other minority shareholders. In a similar way, Wilson and Schleifer (2013) point out that:

> *Dominant shareholders can exercise control at the expense of minority investors, diverting resources. This is especially a risk if a subset of shareholders is too close to management, or there is weak oversight due to cross-population among individuals in the management and on boards of multiple corporations.*

This implies that the majority shareholders both in the public and private banks usually dominate the decision-making process and control the banks. Thus, this *"high concentration in corporate ownership undermines the principles of good CG"* (Saidi, 2004: 75). The consequence is that the Libyan CG framework does not ensure the equitable treatment of all shareholders, including minority and foreign shareholders.

Finally, the findings demonstrated that the employees in the LCBs have healthy, safe workplaces, a complete insurance package and access to training programmes. In addition, both the BoDs and CEOs actively enhance the employee voice in the boardroom and in the executive management through the employee committees, which set workforce policies consistent with the LCBs' values and long-term sustainable success.

5.4 Key Challenges of Corporate Governance in LCBs

If introduced in unfamiliar environments, the new concepts such as CG usually face various obstacles that hinder their anticipated effectiveness. These hindrances differ from one environment to another depending on political, economic and social drives, not to mention the heavy influence cultures can impose in this regard. Hence, the concept of CG in the LCBs is not an exception. Rather, the LCGC 2010 is in great need of new operational mechanisms to disassemble the challenges that impede and block its application. This section displays the major challenges that face the effective implementation of the LCGC 2010 in the LCBs.

1. **The Dilemma of the Social and Culture norms**

Several interviewees mentioned the negative impact of social relations on CG implementation in the LCBs. The issue of tribalism and social ties noticeably affect the form of the relationships and make leaders and followers more likely to behave as society wants them to behave rather than according to what they feel is fair or moral which interrupts CG employment in terms of accountability and transparency. For example, a BM_4 declared, *"one of the difficulties we face at the moment is related to the social norms. In some instances, we are constrained by the idea of employing relatives and acquaintances"*. Another BM_7 confirmed, *"it is a cultural issue because they think that this is normal. That is, it is normal as board members to recommend somebody. It is normal as board members to be in a privileged position"*. Within similar lines, MB_1 expressed that, *"making the decision to dismiss an employee may make you retreat because of social pressures*".

2. **The Dominance of Majority Shareholders**

The majority shareholders, in both public and private LCBs, extend their power to unfairly take decisions at the AGM or through the appointment of the BoDs that defend their interests at the expense of minority shareholders, abusing the principles of good CG such as fairness, transparency and accountability. On the one hand, the government' widespread intervention in the form of the CBL has a negative influence on the implementation of CG. The participants confirmed that the CBL's domination over the public commercial banks influences the effectiveness of CG standards by exercising their ownership responsibilities through the election and appointment of the

BoDs to serve their interests. This is consistent with the findings of Iswaissi and Falahati (2017: 39) that *"the CBL intervenes in the process of appointing directors and members of the board of directors",* although the LCGC 2010 makes distinctions between ownership and management. CEO_2 announced that *"CG standards are in use in this bank, but based on the guidance coming from the CBL, which owns 85% of the LCBs, it is considered a defect as this makes the LCBs dependent on the CBL and its board, which represents the state and ministries"*. Corresponding, BM_1 assured that *"the CBL dominates 80% or 83% of shares. Thus, this bank is under the ownership of the CBL. In the AGM, the CBL presides because of its shares"*. Moreover, the power of the CBL negatively influences the private banks. Here, BM_6 indicated that the private banks are treated unfairly as the CBL takes advantage of the dominance over some public banks for its benefits: *"as a private bank, we feel that we are disregarded by the CBL as it does not own any shares in our bank"*.

On the other hand, large individual shareholders have a higher level of domination on private banks. One CEO_7 explained that in the Libyan private sector *"the owners' effects are massive, and are not yet convinced that leadership should apply the concept of ownership and control separation"*. Additionally, the Law Teachers report (2013) declared, *"large shareholders either control the board through direct representation or can directly threaten the firm's senior managers with removal from their positions"*. Furthermore, this is compatible with the study of Piesse et al. (2012: 673) that the majority shareholders' involvement in Egyptian companies has raised agency concerns because large shareholders use their dominant positions to exploit the minority shareholders. Consequently, the majority shareholders' involvement of state and individuals in the public and private LCBs typically has a strong influence in obtaining benefits at the expense of minority shareholders. Therefore, this high ownership concentration weakens the principles of good CG. In this regard, Nadal (2013: 58) stated that the state-owned corporations in the MENA region created weak and poor CG due to *"the implementation of inadequate policies serving special interest groups, the personal interests of leaders, political clientelism and not servicing the public at large"*. Likewise, The IBRD report (2014: 243) put that, *"in majority state-owned companies, governments can also behave in ways that work against the* *interests of minority shareholders".* In terms of family owned shareholdings, the principles and policies are unclear and the roles and responsibilities of the BoDs and CEOs do not seek the same visions as shareholders employ relatives in the boardroom. Thus, the conflict of interests occurs between majority shareholders who take control of the companies, and minority shareholders. This is in line with the finding of Saidi (2004: 75) confirming, *"the BoDs are dominated by controlling shareholders, while friends and relatives constitute the board of directors in many instances".*

3. Low Level of Corporate Governance culture

Within the platforms of the LCBs, there is a lack of CG culture. This weak presence is liable to create leaders and employees with bad conduct. In reality, this hindered the process of encouraging members of the LCBs to apply and promote CG in effective ways, which results in poor performance and potential crises. In this regard, CEO_7 declared, *"the problem in these banks is that there is a lack of qualified leaders to promote CG standards".* Similarly, BM_1 maintained, *"the CG culture is at its lowest level to the extent that sound CG is hardly applied. The Libyan environment does not help it to find existence by encouraging transparency and the separation of interests".* This leads to the ineffectiveness of implementing CG standards because leaders are not familiar with how to use concrete mechanisms to deliver CG standards. Therefore, the level of CG practices in these institutions is hardly improved.

4. The Repercussions of Insecurity

The ongoing instability and insecurity in Libya since 2011 are also an obstacle to CG application in LCBs. This issue pushed most international organisations that provide support in CG matters to leave the country. Moreover, this chaos also forced professional leaders in these banks to leave and perform their duties from outside Libya. On this point, CEO10 highlighted that *"most members of the BoDs have left Libya to different destinations".* This is consistent with the studies of Ghani (2011) and Zagoub (2011; 2016) that indicated that the current conditions in Libya create many issues that deter CG institutionalisation in the LCBs' governance systems.

5. The Weakness of Corporate Governance Enforcement system

The legal framework is a vital component of an effective CG structure. It outlines and enforces the responsibilities of CG's main parties. However, the legal system enforcement in the LCBs is ineffective and inactivated. This has critical influence on CG implementation. BM_4 contended, *"the standards of CG in Libya seem to be words on paper. Instead, it is important to have a compelling law that enforces the LCBs to respect CG standards"*. Similarly, another BM_5 argued that CG and the formation of its committees in some banks are only a formality because *"it is imposed by the CBL to enable foreign banks to cooperate with the LCBs. We still misunderstand the importance of CG and its committees, the role of shareholders"*.

The separation of ownership and control is an example of the legal framework that needs reconsideration. In the LCBs, although the legal framework of CG ensures that all shareholders are equal, it appears that the majority shareholders are dominant. In this respect, BM_6 stated, *"banks' processes of separating ownership from control have not succeeded one hundred percent so far"*. By the same token, CEO_2 argued, *"there must be strict internal regulations. We have an internal regulation, but its application process remains, at present, uneasy due to the prevailing shareholder concept"*. As a result, CG principles, mainly transparency and disclosure, are not a priority in most of these public and private banks, *"resulting in nepotism and corruption"* (Saidi, 2004: 76).

6. The Application of the Islamic Banking System

The idea of applying an Islamic banking system is a big challenge for the CG in LCBs. These banks are still undeveloped and need massive renovation to be compatible with the Western banking systems. The information technology and communications infrastructure are poor and the adoption of computerised systems is still in its lowest level. This discourages the managerial activities from meeting the expectations of their clients and foreign investors. That is in addition to the transformation of these conventional banks into Islamic banks. This process is still unclear and requires qualified and experienced individuals to adopt the appropriate CG to make it compatible with this system. Special standards differ from international that standards to monitor these Islamic banks do not exist. In this matter, BM_1 stated, *"so that the Libyan banks and economy achieve its success, it is important that there should be clear rules to govern the Islamic banks"*. In the same lines, another BM_{11} contended that:

> *The problem with this type of banks in Libya is that they are still in their infancy and have no laws to govern their activities. These Islamic banks require new national and local CG standards in order to be compatible with the international CG.*

However, the concept of CG becomes more complex with the adoption of new Islamic banking systems. The Islamic banking's operations differ in form and content from the banking operations in conventional banks. For instance, Islamic banks apply the principles of CG to ensure their financial performance and profitability are achievable in accordance with the provisions of Islamic law. This matches the findings of Grais and Pellegrini, (2006) and Bukhari (2013) that state the difference is the Islamic banks' obligation to assure stakeholders that the banks' activities are in execution in compliance with Sharia and that the institution values their religious beliefs as much as their financial interests.

In brief, compared with the developed Western economies whose characteristics are harmonious with the exercise of good CG, the LCBs, being undeveloped, are unprepared for a move towards a complete self-regulatory model due to their limited capacity, concentrated ownership structures and the influence of social and cultural factors. This admits the findings of Okpara (2010: 184) who summarised the barriers that delay the applications of CG practices in Nigeria, it being a developing country:

> *These constraints include weak or non-existent law enforcement mechanisms, abuse of shareholders' rights, lack of commitment on the part of boards of directors, lack of adherence to the regulatory framework, weak enforcement and monitoring systems, and lack of transparency and disclosure.*

Conclusion

For many years, the concept of CG has encouraged countries around the world to investigate many issues, including corporate sustainability, attracting investment, and boosting the international competitiveness (Amico, 2016). This attention has generated countless of narratives that evidence the significant of CG for corporations to grow economically and socially if implemented effectively. In developing countries, this concept remained invisible as a matter of undeveloped economies (CIPE, 2011). In Libya, CG was absent and ignored for decades. However, once the Libyan government inaugurated a series of reformations to strengthen its economy, some financial institutions examined other means of increasing capital, achieving managerial excellence and attracting foreign investors. This encouraged the Libyan economy to import and invest CG standards in its institutions. The creation of the LCGC 2010 is a successful example of this step as this code is in line with the competitive international economies.

The first section examined the perceptions of the board and CEO leadership towards CG in the LCBs. The findings of this section demonstrated that the meanings of CG in the LCBs correspond with the CG definitions provided by western corporations. Besides, the BoDs and CEOs are aware of the narrow and broad definitions this concept has, in addition, the BoDs and CEOs ensured their banks employ CG's instructions so that the interests of diverse stakeholders are in balance. This puts CG in the LCBs in the central focus because the boardroom and executive leadership realise the importance of CG to the objectives it seers to achieve and, which, in turn, reflect upon the LCBs' performance.

The second section studied leadership structure and concluded that the LCBs encourage the separation of the Chairman and CEO titles to reduce the conflict of interests and define the roles and responsibilities of each party. The key powers and authorities of the board and Chairman are to provide effective strategic leadership and governance to the LCBs. The position of CEO is important because they are responsible for engaging and implementing the policies approved by the boards. In addition, a cohesive and cooperative relationship between the boards and CEOs is crucial to ensure effective core structure, which enables them to share and consolidate their powers in their mutual pursuit of controlling the conduct of the bank to achieve collectively the benefits of all stakeholders.

The third section studied the current CG status in the LCBs including ownership structure, shareholders and employees' rights. The findings demonstrated that CG in Libya is still at the early stages in terms of effective application. Further, the LCBs' ownership is under the control of either the Libyan government or the large individual shareholders. This makes the ownership highly concentrated with strong state ownership in public banks and strong majority individual ownership in private banks. The LCGC 2010 ensures ownership rights and equal treatment for all owners, among other issues such as the right to sell their shares and receiving their dividends. However, the findings also showed that the majority shareholders dominate decision-making and control the activities of the LCBs through their selected boards. In reality, minority shareholders do not have equal rights as majority shareholders. This instigates the conflict of interests between the majority and minority shareholders.

The final section explored the key barriers curtailing an effective CG implementation in the LCBs. Ownership concentration limits a sound effectivenes of CG because the majority shareholders do not support the acceptance and implimentation of CG. Instead, the majority shareholders use their dominant positions to control the LCBs and inappropriately to influence the choice of BMs and top management to obtain benefits at the expense of minority shareholders. Further, weak legal enforcement hinders CG institutionalistion. In LCBs, the leaders' knowledge of CG does not help in the developing and dissemniation a CG culture in these financial institutions. Also, the Libyan political situation and social norms are big difficulties for CG. Finally, the LCBs, being unprepared, face a serious CG challenge to transform from conventional banks towards Islamic financial institutions.

Corporate Social Responsibility in the Libyan Commercial Banks

Introduction

The grand CSR narratives have brought to light that the organisations not only have to find out how to maximise their profits but also how to respond to the various rights of stakeholders when implementing their activities. The orthodox belief that corporations maximise profits at all costs has declined as ethical considerations began to rule their activities and due to their dependent upon stakeholders for survival. Therefore, the adoption of a set of CSR policies prepares organisations to integrate economic, social and environmental concerns into their operations to effectively interact with all their stakeholders and ensure their existence and success. This chapter discusses the status of CSR in the LCBs. It starts by understanding the meaning of CSR through the perceptions of boards and CEOs. Then, it considers the different CSR activities implemented in these banks. In addition, the chapter investigates the roles of the board and CEOs in making key CSR decisions. After examining the relationship between CSR and CG in the LCBs, it finally displays the key challenges that limit the development and implication of CSR.

6.1 The Meanings of Corporate Social Responsibility in the LCBs

The question of *"What is the meaning of CSR"* was to understand the interpretations of the board and executive leadership concerning CSR. The analysis showed that CSR in the LCBs is relatively a new institutional concept and is still in its infancy. This corroborates the argument of Alghodban & Ramli (2015: 35) that this concept is in the process of progressing in the Libyan corporate environment, which values the importance of engaging in responsible business practices. In addition, the answers showed that the recent Libyan instability has put pressure on the need for more economic and social support alongside the evolvement of the diverse priorities in different locations where LCBs operate. This is in line with Avina (2013) who stated, *"many companies are recognising that CSR and other forms of social* *engagement are an even more critical part of the post-Arab Spring business model than before"*.

From the beginning, CSR was generally defined as an attitude of the LCBs towards all internal and external stakeholders by providing economic and social benefits. In this regard, CEO_1 defined CSR as *"a responsible position taken by the Libyan banks towards diverse stakeholders to deliver economic and social justice in order to contribute sustainably to the development of the Libyan society"*. In the same lines, CEO_3 emphasised that *"social responsibility is not only related to employees or in relation to owners. Rather it is really related to sustainable development such as developing the country, creating jobs, and providing high quality services and products as well as improving the institutions"*. Similarly, CEO_8 maintained, *"social responsibility for our bank is inside and outside the bank"*. This indicates that the LCBs' existence depends on the interaction with not only the internal stakeholders but also with their external surroundings through the provision of social services as well as economic benefits.

In fact, there is a confusing misunderstanding between CSR and corporate philanthropy as leaders used both terms interchangeably. This confusion, results in weak CSR strategies to address both the core corporate concerns and societal expectations. This aligns with the findings of Diafi (2009) that CSR in the Algerian companies needs a well-defined framework to harmonise with the CSR levels achieved in the big economies, although Algerian institutions have made great efforts to introduce this concept, yet the definition is not really the same as in the Western world. However, the focus on only providing a precise definition of CSR to eradicate confusion does not help in delivering essential directions for the implementation of CSR, because the main issue is the application of CSR in this region. This is in accordance with the findings of Ali and Al-Aali (2012: 43) that Saudi Arabia is in a battle against time to achieve social unity and healthy economic development. The Saudi Kingdom's treatment of CSR practices is imprecise due to certain challenges such as *"the entitlement mentality, which has hardened over the years; others are structural in nature"*.

The findings also suggested that the meaning of CSR is attached to Islamic philanthropy. The philanthropic activities to individuals and society that are deep-rooted in the religious and social structures of Libya. In this regard, several interviewees emphasised that most of the philanthropic practices in their banks are reflections of religious or social bonds. CEO_{10} stated that *"despite the fact that social responsibility is a new concept in Libya in administrative and legal arenas, yet from religious and social aspects, CSR exists in conducts"*. In the same way, CEO_4 claimed, *"the religion advocates solidarity [and] the contribution to the achievement of social benefits, [which] have a positive impact such as the creation of cohesion, solidarity and national allegiance"*. This is compatible with the study of Bayoud (2013) that indicates that in Libyan society Islam has influentially increased CSR practices because Islam regulates the attitudes and behaviours of individuals. It is also in agreement with the study of Jamali & Sidani (2012: 2) that all forms of Arabic culture and its customary traditions of philanthropic giving that has flourished historically under Islamic ethics have influenced CSR practices in the MENA. Hence, *"Islamic philanthropy provides a strong foundation for CSR in the region, and constitutes a pivotal tradition of voluntary giving that falls outside the realm of presumed Western largesse"*. This implies that the philosophy of CSR in Libya has its roots embedded in the Islamic religion, which has a great influence on the Libyan tradition and culture of philanthropic giving. On the same lines, Benomran et al. (2015) stated that:

> *Islamic values in business include the fair treatment of employees, fair prices, honesty, customer service, and respect for environment, charitable donations, and complete disclosures. The essential features of Islamic religion indicate that all people should be treated with respect, care for the community and the environment be responsible, observe good conduct and be fair.*

Interviewees indicated that *zakat*[4] is part of CSR, although the difference between the two is obvious. The former is something that the individual is supposed to do for God, whereas CSR is promoted as a capitalist business tool to improve the company's reputation, and often corporate CSR success stories are shared with the media and the public. BM_5 believed that;

> *According to the Islamic laws, which we are in the process of implementing in this bank, it can be considered that zakat is one type of CSR activity. Therefore, this means that the bank carries out CSR activities from an Islamic perspective.*

[4] Zakat is obligatory giving and the third of the five pillars of Islam.

6.2 Corporate Social Responsibility Activities in the LCBs

The relationships between the organisation and its stakeholders develop because each one depends on the other in achieving the goals. Therefore, the corporation's engagement in CSR activities with diverse stakeholders ensures the positive social involvement with the society where it operates as well as the improvement of its performance. In fact, the interviewees looked at CSR activities applied in their banks from two different levels. First, the internal CSR activities consider mainly employees and shareholders as the first category that deserves more attention Here, CEO_{10} revealed that the first CSR activities address the concerns of *"employees then shareholders"*. Whereas, the external CSR activities directed to the society such as local communities and economic development. In this point, CEO_8 pointed out that *"the other side of social responsibility addresses the social issues or the Libyan society as a whole"*. In the same lines, BM_5 indicated, *"there are social responsibility activities related to employees as well as activities related to shareholders and environment in which this bank operates and for the country as a whole"*. This section inspects the main current activities of CSR that LCBs rely on to meet the needs of all stakeholders.

6.2.1 The Internal Corporate Social Responsibility Activities for Shareholders and Employees

The interviewees acknowledged that their banks have specific CSR activities directed towards shareholders. For example, BM_6 suggested, *"the bank has a role related to the profit side. This relates to shareholders*". This key professional maintained that it is important to be socially responsible to shareholders being the owners and crucial stakeholder members. CEO_{11} believed that *"the first requirement is to satisfy shareholders first and then to contribute to social matters and provide services to the community"*. Here, BM_3 underlined that:

> *Achieving profit means the continuity and development; and without it, it is impossible to compete thus the company ends up outside the market. This does not mean that the only concentration is on the profit to the extent that other things are neglected, such as the duties or responsibilities towards the society in which it operates.*

This indicates that the social responsibility towards shareholders is to improve their shares and obtain profits because after all there is a social responsibility dedicated for these owners to keep the continuity of the business. Moreover, it is an intertwined operation in the sense that there is no social responsibility if the project failed to make its profits. In the same context, BM_7 stressed that the *"objective in the bank is to enhance shareholders' equity, which is obviously, what we are here for. For shareholders we need to enhance their equity and achieve their returns"*.

Regarding to employees' rights, It is stated that the CSR activities towards employees are various in the LCBs. For instance, BM_1 explained that the bank's first social responsibility is to engage employees, as a good company is one that has well-defined social strategies to meet its employees' expectations. In the same way, CEO_5 stressed *"the bank as a social responsibility body that considers the needs of its employees"*. On this matter, CEO_7 clarified that *"some of these responsibilities exist among the regulations and policies that are written in the LCBs, and some of them are discretionary"*. On the one hand, the interviewees explained that their banks have mandatory CSR practices for employees within the legally binding legislation. Here, CEO_3 explained, "*there are regulations in accordance with the guidelines and contracts of employment. The job contracts clarify the employees' rights, salary, allowances, health insurance and social security"*. In the same lines, BM_2 confirmed that the *"social responsibility towards the employees, is governed by regulations and laws, and this responsibility is mandatory for the reason that an employee is within your bank and associated with this institution"*. Examples include labour law concerning employees' rights. In this regard, Ford and Khoja (2017) stated that the Libyan labour law includes:

> *Provisions for a minimum wage, social security and protection for participation in trade unions. The law also places notable emphasis on family and on the rights of workers, with employees being entitled to periods of leave on marriage, maternity, bereavement and emergencies.*

In addition, Libyan banking law ensures fair treatment for all employees and has strict rules that condemn discrimination against employees and deals with any complaints and violations. Thus, the LCBs recognise diversity in the workplace. Here, Eltumi and Sharif (2018) pointed out *"Libyan Labour Law provides that equality must be upheld between all Libyan citizens and between Libyan citizens and foreigners who reside in the country legally"*. Moreover, this banking law emphasises employment safety standards. The Libyan government imposes legislation to monitor and encourage organisations to ensure safety of employees. LCBs believe that working in a safe and healthy environment leads to greater job satisfaction and enhances efficiency and quality of service.

On the other hand, voluntary CSR activities are part of the LCBs strategies to meet the needs and expectations of their employees. In this matter, CEO_7 confirmed, *"the bank executes this [CSR activities] without regulations or fixed policies"*. These CSR initiatives are prevalent in the LCBs on various aspects such as competitive salaries, health insurance, and training courses for employees both nationally and internationally. Here, several professionals confirmed that their banks provide *"a full package of health insurance"* (BM_{11}). *"In terms of training and development, we develop our employees' skills, train them, and support them as much as we can financially and non-financially"* (CEO_8). In addition, they support the social wellbeing through the provision of several monetary services for employees such as crisis loans in emergencies and by covering the expenses of marriage. On this point, CEO_7 displayed that:

> *When certain events occur the bank then deals with them and acknowledges some of the policies or support to its staff. This is a kind of 'social solidarity' through social policies followed by the bank. For example, sometimes, because religious festivities such as Eid al-Adha or other social events cost the Libyan citizen or employee additional expenses, the bank interferes by helping the employees financially. The bank executes this without regulations or fixed policies.*

Similarly, BM_5 highlighted that the bank has *"a Social Services Fund [...], the bank gives the employee money from this fund as a kind of social solidarity. There is also the advances and loans to employees without interest"*. Further, CEO_6 pointed out that *"if an employee died, of course the bank waives their loan in this bank, and the management decides to cancel their premiums"*. In their study about CSR in Libya, Pratten and Mashat (2009: 321) mentioned hardship funds and other monies that one bank offered to employees:

> *<u>Social solidarity fund</u>: The principles of social solidarity, philanthropy and strengthening bonds and human relationships between staff are deeply entrenched in the bank's philosophy. [...] The bank also provides interest-free personal loans and advances to help employees in cases of*

marriage, healthcare, and the purchase of private cars and maintenance of homes.

Fringe benefits and incentives: The bank provides free medical care to the staff and employees and their families and pays for the medications. The bank also provided opportunities for abroad medical treatment for some of the cases that could not be treated locally. The bank bought a collective insurance policy providing coverage for all the employees and the directors against accidents and death.

6.2.2 The External Corporate Social Responsibility Activities for Local Community and Economic Development

The first category of these CSR activities reflects charitable roles in the community. The renovation and the equipping of public buildings such as schools and hospitals is one of the prevailing CSR activities by the LCBs for local community. Here, CEO_{10} confirmed, *"as a key factor in the region, the bank supports the activities of the maintenance for some of the public buildings in the region"*. In the same vein, CEO_9 highlighted that *"education is the tool by which the nation can change. Therefore, we construct modern schools"*. Other interviewees showed that the philosophy of their CSR activities is to rebuild or re-equip existing hospitals with the necessary equipment. BM_2 stated, *"under the current conditions of Libya, the bank intervenes in the affected areas and where problems exist to support hospitals with some medical supplies such as X-rays, computers and kidney-related devices"*. In addition, they financially support some charitable organisations that provide free services to orphans, displaced or poor people via other CSR activities. Here, BM_6 claimed that:

> *The other side of social responsibility followed by this bank is to provide financial aid to some charitable organisations, such sports clubs, orphan associations or some of the organisations that provide free services to individuals in need.*

Similarly, CEO_{11} confirmed, *"according to the bank's profits, 2% of its annual profits are distributed to known and needy charities selected by the BoDs"*. BM_{11} clarified that *"the bank has recently provided financial assistance to this local community to buy CCTV cameras to monitor the streets in this area for safety reasons"*. This is also consistent with another, BM_2, that *"some of the ideas that we adopt is taking care of a child with cancer. Critical situations are the bank's responsibility as we sponsor patients in such conditions"*.

There are other CSR actions for local communities at LCBs that funds some national events and activities such as sponsoring scientific and sports events, and educational initiatives for outstanding students. In this respect, CEO_{11} noted that:

> *The bank sponsors or participates in some activities or programs carried out by some associations and bodies such as seminars, courses and festivals [...] that discuss the matters concerning the Libyan society, such as housing, loans for young people and industry.*

However, as Libya is in a pressing need of prosperous economy, the LCBs are required to adopt effective CSR strategies and contribute to the development of national economy. In this regard, MB_9 indicated that the bank's CSR activities related to sustainable development include aspects such as *"creating jobs, providing high quality services and products as well as improving the institutions"*. BM_7 maintained that the bank intends *"to be part of the growth in the economy, be an added value to the local GDP and, therefore, be an added value to the community's reworking"*.

Furthermore, financing Small and Medium Enterprises (SMEs) is one of the CSR activities in the LCBs. On this matter, BM_8 said, "CSR *is to create small and medium enterprises. So far, we give facilities to create these sorts of projects, which in turn create jobs and foreign exchange availability"*. On parallel lines, BM_8 maintained that the bank *"invests in industrial and productive companies [...] that contribute to the internal development of the country and job creation"*. Another BM_{10} demonstrated the same idea that "the *bank grants loans to set up some productive industries. [...] and works on the idea of reviving this area socially, economically and environmentally"*. Moreover, CEO_8 held that, *"the bank provides training to new graduates whether from high schools or universities for three months"* and *"selects the top ones to work for us. Our social responsibility is to create professional bankers that can enhance the level of the financial services"*.

6.3 The Roles of the Boards and Executive Officers in Corporate Social Responsibility

In modern corporations, CSR has become a norm; and society as a whole is involved in the discussion and formulation of CSR strategies. In Libya, commercial banks are building their routes toward a CSR culture. The

General Assembly represented by shareholders, BoDs and CEOs collectively participates in CSR decisions, but the critical issue lies in its application. This section examines the importance of BMs and CEOs to CSR practices in LCBs. The question *"How much authority do you have as a leader to make CSR decisions in your bank"* explored to what extent BoDs and executive managers are autonomously independent in the creation of CSR activities.

The key professionals emphasised that leadership is the driving force behind CSR implementation in the LCBs. Both the BoDs and CEOs have two-way CSR talks, based on democratic and consultative interaction. On the one hand, CEOs provide CSR proposals and views as they are well-positioned to recognise benefits for both their organisation and the outside world. In this regard, BM_4 suggested, *"the executive management suggests CSR strategies and policies first to the BoDs in the form of proposals or agenda"*. In similar lines, BM_3 revealed that CEOs are crucial in the initiation of CSR strategies because *"the board does not engage in the bank's operational matters, which are the competence of the CEOs. The executive management submits or proposes CSR practices"*. The middle and low-level managers can suggest CSR activities for senior management. Here, BM_5 indicated, *"all executive directors are also entitled to submit their proposals to the CEOs regarding CSR activities. The CEOs can then forward these policies to the board in the event that the CEOs accept them"*. Nevertheless, the BMs can also introduce their suggestions and ideas regarding CSR. On that point, BM_5 maintained, *"any member of the board has the right to provide specific CSR proposals for approval or rejection. Usually, the board's acceptance of such activities are collective in taking decisions"*.

On the other hand, the board supports top management by guiding the process of implementing and developing CSR plans and policies that comply with the Bank's vison and values. Here, BM_4 clarified *"the board negotiates and deliberates CSR suggestions provided by management to approve or deny them. In case the board approves CSR strategies, at that point the executive officers commence the implementation"*. With regard to the implementation of CSR plans, the CEOs have certain powers delegated by the board to act within certain limits and according to CEOs' conviction, but in the case of decisions that exceed these powers, approval from the BoDs is an obligation. Similarly, BM_6 summarised that:

> *The executive management is not entitled to make additional costs, unless there is an acceptance from the board to do so, being a governing body that decides whether it is possible to increase the cost. The board is the only one who has the authority to make this decision taking into account the shareholders' reaction.*

However, both BMs and CEOs can autonomously make appropriate CSR decisions within the determined budget set by the general Assembly. At this point, BM_4 stated that:

> *The General Assembly, represented by the owners, is the highest authority in the bank, which decides the statute, the distribution of profits and contributions to social responsibility. Therefore, the board and the executive managers abide by what is in the statute and the CBL's regulations, in addition to the internal regulations of the executive management. Thus, only the board and the executive management are entitled to present a proposal, which requires approval from the General Assembly to pass into implementation.*

In short, the findings disclosed that three key bases precisely determine CSR practices in the LCBs, including executive management, the boards and the General Assembly. A two-way hierarchical relationship of power between these three entities develops when it comes to CSR initiatives. The Executive Management is the body dedicated to proposing and implementing CSR. Thus, the CEOs are in charge of proposing CSR activities. Where necessary, the CEOs seek their boards' approval for CSR employment and the board itself sometimes needs the approval of the General Assembly. This is actually in line with Segrov's findings (2014: 21) that *"the implementation of CSR cannot be put into life without the engagement of the top executives along with their inspirational and initiating role"*. Moreover, the results of Boyden's Executive Monitor report (2017) showed that CEOs play an active role in CSR and voice out the company's CSR activities because CEOs and other senior executives are involved in talks with a wider range of stakeholders.

The board's attitudes towards the CSR agenda are supportive and adoptive, and sometimes the board expresses recommendations and views on CSR policies such as potential reputational damage. The board's CSR policies are to support executive management to effectively promote key values and pursue the businesses core strategies. Thus, *"managing the concerns of stakeholders and meeting the company economic expectations must be balanced. An effective CSR programme can do just that"* (Harvey, 2011). According to JPMorgan Chase & Co (quoted in Boyden, 2017), BMs and CEOs are significant entities as they *"serve as a company's cultural centre and have great influence over the entire employee base's attitude toward the importance of corporate responsibility"*.

6.4 Corporate Social Responsibility and Corporate Governance Synergies

This section explores the links between CG and CSR in the LCBs. Extent literature has shown that these two themes have mutually influential relationship (Ben Barka & Dardour, 2015). In this regard, Nikolić and Zlatanović (2018: 39) emphasise that *"CG mechanisms can influence CSR and vice versa"* due to the external and internal CG mechanism in a given country. Further, Jamali et al. (2008) explained that there is an overlap between CSR practice and a company's CG policies. In similar lines, Elkington (2006) says that CSR strategy has become increasingly an extension of CG plan and the responsibility of the boards.

In the LCBs, many key professionals pointed to positive links between CG and CSR. For example, CEO_3 indicated that CSR and CG are two sides of the same coin "*as CG endeavours to balance between the interests of shareholders, management and other stakeholders, CSR is part of our CG because as responsible corporate citizen our CSR business decisions and traditions are not outside CG"*. In similar ways, BM_4 explained that there are direct and indirect ways to implement CSR practices. Typically, direct routes of CSR seem troublesome to owners. However, indirect CSR activities are preferable as the establishment of a bank in an area helps the community and brings benefits to the owners. This is in fact consistent with the argument of Nikolić and Zlatanović (2018: 39) that:

> *Owners can be motivated or not motivated to encourage investment in socially responsible activities for various moral or economic reasons, which is in line with the dilemma of whether CSR is seen as a cost or investment. If owners observe socially responsible activities as an investment that contributes to the achievement of certain benefits for a company, they will encourage management to make decisions that stimulate CSR activities and vice versa.*

Moreover, CEO_1 demonstrated that the oversight role of the board is to encourage management to deal with the social purpose as part of CG, claiming, *"a part of social responsibility is then disbursed in CSR activities once approved by the board within the regulations of CG"*. On this point, Kaymak and Bektas (2017: 558) revealed that:

> *The board sits at the crux of CG, as it sets broad company policy, including how to deal with stakeholders and subsequently decides on the levels of corporate transparency and disclosure. Hence, the board, along with top management, is at the forefront of CSR issues.*

Ultimately, ethical behaviours and practices of the board and executive leadership drives CG and CSR in the LCBs. This is in line with the findings of ElGammal et al. (2018) that *"ethical practices have positive impact on CG, and in turn CG has a positive impact on CSR"* in the MENA, in addition to *"a mediating effect of CG on the relationship between ethics and CSR"*. Besides, the results of Jo and Harjoto (2012) confirmed that as CG has a positive effect on CSR, then it is apparent that CG causes CSR. However, as there is hardly an inverse relationship between the two concepts, it is obvious that the growing interests in CSR influence CG decisions due to ethics that form the foundation of the leading business. Jamali et al. (2008: 457) maintained, *"CG is not entirely effective without a sustainable CSR drive because a company has to respond to the needs of its various stakeholders in order to be profitable and create value for its shareholders/owners"*.

Therefore, the findings demonstrated that CG and CSR are reciprocally in connection. In the LCBs, CSR influences CG decisions especially given the current Libyan situation that demands responsible and ethical leadership. Hence, CSR is increasingly being merged into the LCBs' CG practices. On the other hand, CG has a positive effect on CSR because of the internal mechanisms that demonstrate an endeavour in practicing and following CSR initiatives.

6.5 The main Challenges of Corporate Social Responsibility in the LCBs

LCBs recognise the importance of CSR as this concept adds value to their financial performance and reputation. However, the difficult task for these commercial banks is to apply this concept. These vital financial institutions need immediate intervention in their CSR policies if they are to be actioned in correct manner. This section addresses the most opposing forces that affect the implementation and development of CSR practices in the LCBs.

1. **Confusing the Social Responsibility with the philanthropic Activities**

The practices of CSR in LCBs are primarily philanthropic in nature. Thus, these CSR efforts are limited to non-development work and do not correspond to the actual needs of society. For example, CSR activities that focus on the financial support for charitable organisations are prevalent in these banks, compared to sustainable development projects that can change radically the living standards of the poor. Therefore, they are reactionary rather than preventative. In this regard, CEO_4 claimed that *"the BoDs usually determine the ceiling to spend on such CSR activities, and sometimes they do not accept to spending [sufficient funds] in social activities"*. Besides, the results of Ali and Al-Aali (2012) explain that CSR in the Arab world is not well developed and emphases primarily on charitable and philanthropic activities.

Moreover, it appears that the idea of *zakat* as charitable work in Islam claims the same function of CSR in LCBs; although the difference is the former is something that the individual does to God, whereas CSR is promoted as a business tool to improve the company's reputation. In this regard, BM_{10} concluded, *"shareholders prefer to receive dividends and donate a share of it as CSR contributions, not through the bank, but by doing it personally"*. Thus, the owners prefer to contribute in the form of *zakat* or donations. This is compatible with the findings of Ararat (2016) that *"philanthropy is the most common manifestation of corporations' social agenda in the MENA countries. One explanation of this phenomenon (CSR) can be the Islamic traditions of giving"*. In the same lines, the finding of Okur (2015: 61) indicated, *"CSR in the UAE is strongly shaped by its collectivism, culture of charity and tradition. [...] The understanding of CSR is strongly intertwined with philanthropy. For* *some firms there is a confusion between CSR and the religious notion of zakat"*. The LCBs, therefore, need a regulatory framework that defines CSR and philanthropic activities to enable leaders to move from purely philanthropic activities to sustainable programs that ultimately address broader development challenges.

2. **Shareholders and the logic of Profit**

Shareholders in the LCBs are an important group of stakeholders as their power noticeably influences the directions of CSR. As narrow-minded profit maximisers, shareholders sometimes request managers to ignore calls for broader social responsibility. BM_{10} explained that the reluctance of shareholders to invest in CSR practices because *"believe that they are bringing their money for investment in return for profits"*. Thus, these *"direct methods of CSR towards stakeholders are troublesome for owners"*. In the same context, BM_4 revealed that it is hard to persuade some shareholders to approve CSR activities due to the belief that it is worthless to spend money on such activities that can hardly generate any financial outcomes. Hence, the increase in profits is the reduction of expenses because "*when the BoDs consider the possibility of affording for social responsibility, the shareholders believe that such a step can reduce their profits. Therefore, shareholders often oppose spending on CSR"*. In the same way, BM_7 pinpointed the same claim regarding shareholders' mindsets towards CSR agendas that they do not trust CSR *"decisions, that we explain to shareholders the benefit of every penny they have dedicated to the community rather than to the bank"*. This is actually in consistent with the findings of Berger-Walliser and Scott (2018: 212) that in some regions, including India, China and Indonesia, tightening CSR and increasing regulation lead to new definitions of CSR that increasingly favour the idea of creating value for shareholders. Hence, *"if the regulations mandate 'business-case' CSR premised on increasing shareholder value, then, intentionally or not, they could result in an evolution toward shareholder primacy rather than a correction against it"*. LCBs are therefore are under pressure to raise shareholders' awareness of CSR and concern about sustainability to manage CSR issues while creating shareholder value at the same time.

3. The Socio-Political Instability

The current situation in Libya, including the domestic political conflict, social instability and insecurity since 2011, has hindered the economic growth and decreased the ability of LCBs to play social roles. In this regard, CEO_8 stated, *"the current situation in Libya is preventing us from doing a lot of things such as achieving the bank's key targets faster or contributing socially to our society"*. In similar lines, CEO_7 confirmed that due to "*the current crisis:*

> *I do not think at this time or in the near future that our bank will practice CSR activities at the level of society, at large. The environmental conditions associated with the banks had also a role in generally affecting the economic situation from instability to lack of security. All these in fact contributed to the shortage of CSR culture and affected directly the extent of the Bank's expansion in its obligations towards its social responsibilities.*

This is compatible with Adeleke's findings (2014) that, the Nigerian instability had forced the banking sector to reduce its practices in the area of CSR. This is also in line with the results of Amara (2013) that political instability affected the choice of CSR strategy in Kenyan commercial banks.

However, it should be noted that low LCBs profits as a result of this crisis led to the reduction of CSR activities. In this regard, BM_{10} claimed that with the bad investment conditions during the current crisis *"many businessmen left the country. These investors used to provide a large number of jobs and financial assistance to the poor"*. Therefore, the current situation in Libya has shaped how these financial institutions perform economically, socially and environmentally, resulting in the need for strategic planning, concrete legislation and working mechanisms for CSR to achieve the desired goals. According to Microsoft's President of the MENA (quoted in Avina, 2013: 79), during the crisis, demands were rising for the banking sector to Reveal that:

> *It cares and that it is there to help the citizens empower themselves to set their own future. In the space of social engagement and benefitting the consumer, corporate citizenship must play a new and more pro-active role than it has in this region.*

4. Unorganised Corporate Social Responsibility Practices

Although, BMs and CEOs in the LCBs realise the importance of adopting CSR activities for economic, social and environmental benefits, these leaders are unable to ensure that CSR efforts are well managed because of the absence of a well-defined CSR framework. This makes these CSR actions ineffective. On that matter, BM_7 expressed that *"once CSR agendas are well organised, I think the bank will massively contribute or support as many CSR projects as possible"*. Similarly, the outcomes of Okur's study (2015) on CSR and sustainability in the UAE confirms, *"monitoring and reporting of CSR activities are poorly done"*. Similarly, the work of Ali and Al-Aali (2012) shows the absence of systemic CSR incentives and initiatives leading to the neglect of national development priorities in the context of CSR. Additionally, Jamali & Mirshak (2007) and Muthuri & Gilbert (2011) highlighted that the ways by which CSR is theorised and implied in developing countries differs, relying on the institutional structure, social and cultural background, and pressures from stakeholders. Take charitable contributions as an example for the unorganised CSR activities in LCBs, it is difficult for these commercial banks to verify the authenticity of the information provided by the charity representatives. In this respect, CEO_{10} clarified that:

> *Some charity representatives request financial support for it, but without any clear indication of the validity of its procedures or even its existence as in the case of humanitarian organizations. We need to put in place laws and regulations.*

In the same lines, CEO_{11} contended the same idea to demonstrate the reason behind some CSR initiatives being unproductive, *"many individuals come with papers or documents to request support or charitable assistance without sufficient and required information. It is necessary to know the source and the extent of its usefulness"*. This means that CSR agendas in the LCBs seem unorganised due to the poor coordination between LCBs and charities. It will therefore be essential to have a certain body to regulate and coordinate CSR activities that can lead to a strategic social responsibility partnership. After all, the LCBs need to take an organisational and institutional form that has specific plans and objectives for the CSR agenda, rather than dispersed random efforts.

5. The Weakness of State Support and Cooperation

One reason for the difficulty of creating sustainable CSR projects in these commercial banks is the weakness of state support. On this subject, CEO_1 claimed, *"We informed the Ministry of Housing that we are ready to solve the housing crisis in Libya and that our bank only needs lands, but in vain because the Ministry of Housing delays this project"*. This in consistent with the work of Ali and Al-Aali (2012) who found that although corporations reflect national development priorities in the context of CSR, it is not always the primary concern as systemic CSR incentives and initiatives for social and environmental performance are missing. In the same context, Ararat (2006: 5) argues that in the absence of government roles or *"given the poor performance of governments in the region, business has no choice but step in to reduce the social tension, gain legitimacy and create a safer environment to conduct business"*. This lack of government support makes the leader in these commercial banks adopt short- term CSR projects according to their beliefs and opinions rather than government guidelines. This is in harmony with the findings of El Dief & Font (2010) as well as Jamali & Sidani (2013) who explained that in the MENA region religion rather than government policies tends to shape leaders' behaviour towards CSR activities.

Conclusion

This chapter revisited the concept of CSR within the LCBs. Having grown in size and impact recently, the LCBs have faced increasing demands to assume more responsibility for small and large issues. Hence, these commercial banks endeavour to provide satisfactory working conditions for employees and protect the ethical standards of their branches across the country to meet the expectations. More recently, the LCBs have taken CSR as a quality indicator that ensures the building strong of relationships with all stakeholders in particular through employee evaluation and community support. The first section investigated the understanding of CSR according to the perceptions of BMs and CEOs. The findings revealed that CSR is a relatively new concept and does not reflect the current meaning and practice in Western corporations due to its connection with Islam. The second section examined the current CSR practices in the LCBs. The findings suggested that CSR activities in the LCBs vary and differ from one bank to the other. These practices are still small and revolve around the notion of charity and philanthropy. Thus, they do not constitute a high level of CSR. The third section inspected the roles of BMs and CEOs in making CSR decisions. The findings displayed that the board and the executive management are involved in the establishment of CSR activities, through a two-way hierarchical power relationship. The fourth section investigated the relationship between CSR and CG in the LCBs. The findings suggested that CSR and CG are reciprocal and intend to play the same roles, regardless of their terms and conditions, and that is serving the interests of diverse stakeholders within and outside the LCBs. The final section explored the key challenges impeding CSR application in the LCBs. The findings demonstrated that the culture of CSR in the LCBs is under the influences of a set of factors that limits its application and levels of dissemination. For example, the mindset of shareholders to maximise profits only is prevalent, whilst the current Libyan crisis curtails the objectives of CSR. In addition, confusing CSR philosophy with philanthropic activities yields undersized CSR activities, which does not help CSR goes beyond charitable involvement. Finally, unorganised CSR efforts do not touch upon sustainable development capable of promoting the country socially, economically and environmentally.

Leadership in the Libyan Commercial Banks

Introduction

Leadership has been the centre of attention in business studies for decades. Since its inception, leadership studies have collected massive accounts on various leadership matters. The recent financial crisis encouraged leaders to reconsider their positive impacts on corporations and their responsibilities towards diverse stakeholders (Bolden, 2004; Claudet, 2016). In Libya, the case of leadership remains such a complex issue that needs sharp focus. Therefore, this chapter explores the concept of leadership in the LCBs by firstly examining the understandings of leadership through the insights of the BMs and CEOs. The second section focuses on TSL and TFL styles being change enablers. The final section investigates the key issues that hinder the development of this leadership in the LCBs.

7.1 Reframing the Meanings of Leadership in the LCBs

Leadership is a key element in the success of the LCBs' various activities. In light of political, economic and social instability, there is a great demand for responsible and ethical leaders within the Libyan banking sector to guide the behaviour of employees and mobilise their energies towards desired goals. In this regard, Dempsey (2013) explains that due to structural changes, Libyan leadership is responsible for putting the Libyan domestic wealth to use. However, the question *"What is your understanding of leadership"* was raised to investigate the leadership definitions in the LCBs through perceptions of BMs and CEOs. The results highlighted that some key professionals viewed leadership as an innate 'art' that enables the leader to direct and coordinate tasks among members of the group to coherently and cohesively attain shared objectives. In this respect, CEO_3 pointed out that *"leadership is a gift and comes by heredity. A person becomes a leader if he is born with its traits"*. In similar lines, BM_{11} confirmed that good leaders are born. Thus, *"leadership is never acquired or gained through the training processes or experiences. Rather, leadership is an instinct"*. An explanation provided by BM_{10} claimed that leadership is:

An art represented in some self-personal skills, which are innate. Although there is importance in the learning and experience of leaders, yet there is great importance in charisma as one of innate characteristics that leaders must possess.

On the other hand, other interviewees believe that leadership is an acquired process by which a leader motivates his group to achieve common goals. Here, BM_6 maintained, *"leadership, in general, does not have specific standards as it requires education, experiences and sometimes political and administrative prospects"*.

Whether innate or acquired, the BMs and CEO realise that a successful leadership requires a number of important elements. First, the role of followers is a condition for the success in achieving the objectives. Second, successful leadership sets a unified goal that everyone seeks to achieve. Third, harmony and cohesion among members of the group is crucial in accomplishing the common goal. Finally, the ability to influence is one of the most important elements of leadership and is the executive step of the actual practice of leadership. On that matter, CEO_8 explained that:

A Leader influences his team to achieve the targets set up by the board. The way to achieve these goals depends on many factors: it depends on the person [the leader]; it depends on the strategy; and it depends on the goal itself. At the same time, the leader has to decide which [suitable] way to achieve [these goals] based on the capability of his team, the external and internal environmental factors, based on the laws, the regulations, the rules and based on technology.

The findings also indicate that the meanings of leadership in the LCBs are under the influence of three factors, including the leadership of the Gaddafi regime, Islamic culture about the characteristics of a Muslim leader and Western perspective of leadership. This combination makes leadership a huge term whose definition is unstable. Gaddafi's political philosophy of socialism as an alternative model of communism and capitalism that influenced hugely the meanings of leadership in Libya. On this point, the Mercy Corps' report (2011) stressed a critical leadership gap as a result of the strategies of the old regime. Leadership concepts focus on administration instead of service or management. Additionally, *"Libya's repressive history and complex governance background present a set of transitional issues to the present Libyan leadership"*. With regard to the impact of Islamic culture, the findings of Greaves (2012) affirmed that regarding *"the national and regional leadership in the Middle East, history, culture, religion, and geography form a unique complex that influence both the decisions made by leaders and how others view those decisions"*. Shaykhian et al. (2016) articulate the same standpoint highlighting that:

> *Personal spiritual beliefs affect the behavior and strategic decisions of top-level leaders and such beliefs affect the measurement and adjustment of the spiritual climate of the leaders' organizations. Other researchers have claimed that spiritual and religious beliefs influence leadership style in the way leaders develop new skills and provide information relied upon in the workplace.*

Finally, the results of Bolden (2004), Northouse (2004) and Stogdill (1974) showed that the definition of leadership differs according to the various sciences and theories that sought to define this concept. Further, the study of Tagharobi and Zarei (2016) found that Arab intellectuals, as they became fascinated with the West, analysed their societies using Western theories, *"so that a strong desire for development opens the way for more liberal values, causing fundamental shifts in the political sphere"*.

Hence, the meanings of leadership in the Libyan context, and mainly in the banking sector, vary between leadership as an acquired process or as an innate 'art'. Either ways, participants agreed that leadership is the act of influencing and motivating followers to achieve common goals. The issues with these meanings are that they are under three different influences that reshape the practices of leadership in the LCBs. The traces of the previous regime's leadership have still a place within the mindset of these leaders and which are reflected in the structures, bureaucracies and policies that exist in the LCBs. Thus, leadership seems trapped in the notion of absolute power and dictatorship exercised by shareholders being the providers of the share. Second, the Islamic tradition dictates how leaders must behave. Consequently, leaders are unable to avoid the social connections that undermine the performance of the LCBs. Shareholders and leaders select and decide on serious matters while considering their relatives and networks. The third influence is the frameworks of western definitions of leadership, which have a heavy presence within the features of leadership in the LCBs and, henceforth, impose impacts on its meanings.

7.2 Faces of Leadership in the Libyan Commercial Banks: Transactional and Transformational leadership

The Libyan banking sector has increasingly become concerned about how to make leadership effective. Beside the contribution to the economic growth, leaders are under pressure pay to more attention to the social and environmental issues. This section examines the implementation of the TSL and TFL styles in LCBs. The key professionals highlighted that both TSL and TFL are in use within the LCBs and they are much more like 'a continuum' than two polar opposites. On this point, CEO_9 pointed out that *"in [this] organisation there is a mixture of both: transactional and transformational leadership styles"*. Similarly, BM_{10} explained, *"there are some positive points in the transactional style; and there are some positive points in the transformational style. It is not necessary to adhere or apply only one"*. This is in agreement with Bass (1985) that TSL and TFL are a continuum rather than opposites. TSL style is complementary to the TFL style. Thus, if one is absent, then the interaction is ineffective between leaders and subordinates. Similarly, Brain and Lewis (2004) confirmed that both TSL and TFL methods are important for use together in some organisations.

However, the analysis showed that the centralisation of TSL and TFL styles take two different directions. As explained by CEO_7 that when it comes to the relationship between the CEOs in the senior positions and their followers in lower positions TSL is dominant. As for the relationship between these CEOs and BMs TFL is apparent. For example, the CEOs and the BoDs share ideas and opinions to adopt future policies and plans, whereas, the relationship between senior managers and their subordinates in lower positions tends to depend on TSL rather than TFL.

- **Transformational Leadership Style among the Boardroom, Top Management and the Relationship between these two bodies**

The interviewees confirmed that TFL resonates with BMs and CEOs. The boardroom and senior executive management are the central platforms where important talks and strategies take place. Therefore, TFL seems to be a crucial tool for such negotiations and relationships between the BMs and CEOs. In this context, CEO_7 highlighted that *"TFL is obvious in the relationships between the senior executive management, BoDs and AGM"*. In the same lines, CEO_{11} demonstrated that *"TFL is the prevailing pattern in* *annual meeting with branch managers and directors of departments and the BoDs, as we discuss the problems and proposals in the various branches"*. In fact, the study of Ng (2014) has confirmed such findings. It has stated that transformational leadership positively influences good CG. In this regard, Ng (2014) highlights that "*TFL has lofty goals of accomplishing the corporate vision by elevating employees to sharing the vision with leadership, and in turn raise them up to become leaders themselves, and to even make of them moral agents"*. Therefore, the type of leadership practice required from the BoDs transcends that norm of protecting the interest of shareholders, but pursues the idea of developing leaders with moral dominance.

In addition, this spread of TFL in the LCBs has become an essential requirement because of the ongoing political, economic and social changes in the Libyan environment, in view of the fact that TFL is *"about renovating an organization; it is about transmuting the firm following a new vision which will lead to the evolution of the organization's culture"* (Roy & Gupta, 2015: 234). This is consistent with Cousin's argument (2013: 5) that it is a necessity for companies to succeed in an uncertain and unpredictable environment to have an effective leadership that encourages change and transformation. In such situations, banks require effective leadership to lead them through changes that are likely to become problematic for business. Besides, the findings of Tweeten (2002) suggested that:

> *Transformational boards offer an engagement framework for board leadership designed to help boards lead their organizations through times of change. Using this proven, highly effective model, boards and CEOs work closely together to set responsibilities, outcomes, and strategic direction for the organization.*

This is also in accordance with the results of Grant (2012) confirming that *"TF [TFL] leaders articulate meaningful visions, they face challenges in making these visions a tangible reality"*. In addition, the findings of Kottler (1998: 166) emphasised the *"potentiality of finding and cultivating an environment that adapts to change, based on the accessibility of leadership, which is an indicator of the distinction between successful and failed cultural variables"*. Thus, BMs and CEOs apply TFL to overcome the critical challenges that obstruct the LCBs development.

- **Transactional Leadership Style between Top Management and their Subordinates in Lower Positions**

The interviewees pointed out that TSL is prevalent within the connections between the senior managers and their followers in the lower levels of management. Here, leaders expect followers to adhere to the existing structure and evaluate success in accordance with the LCBs regulations on rewards and penalties. Simply, middle and low-levels of management require rules and regulations to complete goals on time and in organised ways. Therefore, leader-follower relations at these sites are established upon reward and punishments to gain compliance from their followers. In this respect, CEO_7 stressed, *"the relationship between the senior management and subordinates in the lower positions is dominated by transactional leadership style"*. In similar lines, BM_5 stated, *"We have an applied administrative policy through which the system of reward and punishment is conducted. Employees have broad lines to follow. Thus, each success means reward and failure is punishment"*. Similarly, BM_6 introduced reward and punishment systems that regulate the relationships between middle and low-level managers: "*they have general rules to consider. Once these general rules are followed, these managers are rewarded. There are also reports from their senior managers at the end of the year to assess their performance in general"*.

Moreover, the research of Odumeru and Ifeanyi (2013: 358) stressed that *"people with this leadership style also can punish poor work or negative outcomes, until the problem is corrected. One way that TSL focuses on lower level needs is by stressing specific task performance"*. Hence, in exchange, transactional leaders support their followers by providing material and psychological contingent reward to fulfill responsibilities (Afshari & Gibson, 2016). In addition, because transaction leaders provide clear rules for their employees, TSL is not suitable for spaces where inspirational, creative and innovative concepts are valued. Some studies support the claim that TFL implementation does not exist in the middle and low levels of management, while it becomes dynamic and effective in senior management (Xiaoxia & Jing, 2006). Within the same lines, the findings of Tichy and Ulrich (1984) that:

> *Where transactional managers make only minor adjustments in the organisation's mission, structure, and human resource*

management, transformational leaders not only make major changes in these three areas but they also evoke fundamental changes in the basic political and cultural systems of the organisation.

The final interpretation on the existence of these two styles of leadership in the LCBs can be linked on the fact that TFL and TSL are two styles that enable change and gear up towards transformation. For instance, as the LCBs decided to change their structures by adapting the LCGC, the BoDs and CEOs had to cooperate to come up with the best code of practice that fits the Libyan banking sector, and based on the previous analysis, the BoDs and CEOs understood the significance of ethical behaviour, which is implemented through leadership styles that encourage cooperation, negotiation and communication. Hence, to increase both shareholder value and other stakeholders' satisfaction.

7.3 Challenges of Leadership in LCBs

In the LCBs, BoDs and CEOs understand that leadership has an important role in guiding the organizations to act ethically towards the society and influencing followers to achieve the desired goals in a coherent and cohesive manner. Both BMs and CEOs acknowledged critical issues in LCBs restrain the development of leadership as well as obstruct its consistency. Some of the largest leadership obstacles in the LCBs are in spotlight.

1. **Effects of the Social and Tribal Culture**

Although Libya is trying to separate itself from any idea of the old regime, tribalism still dominates the leadership process. In such a society, this domination affects the lives of individuals at the social, political and economic levels. Thus, Libyan social affiliations are strong barriers that the leadership needs to deconstruct to achieve its progress. In this matter, CEO_4 pointed out *"culture here has a role and big influences in Libya. Therefore, the application of leadership may be different from one community to another based on the different prevailing cultures"*. Similarly, CEO_4 commented that in societies governed by the tribal forces, individuals feel oppressed and want everything without offering anything. Similarly, MB_1 clarified that:

In other environments, the employee knows if he is not doing his job well he will be sent off, while in the Libyan environment a leader cannot do that, whether from the legal or social perspective, because he will be criticised socially,

> *even if the law gives you the right to fire him. This is because of the fact that* society is coherent. Therefore, this employee is able to find someone to impinge upon this leader to change his mind. In addition, a leader cannot get out of his social reality. Therefore, the decision of dismissing an employee may make you back down from this idea because of the extraordinary social pressures.

This is in line with the argument of Ben Lamma (2017: 5) on how tribal leadership in Libya has an organisational power and influences the activities of individuals and organisations. The tribe is a powerful route to gain privileges, speed up administrative procedures, *"obtain authorisations or protect oneself against violence. Each tribe is different according to its strength and the degree of proximity or loyalty it possesses towards the regime in power"*.

2. Impacts of the Legacy of the Old Regime

In reality, leadership in Libya suffers from a critical gap created by the ousted regime's strategies. The old traditional management has indeed affected the LCBs' structures and operations. The lack of integrated activities and their division into a number of sectors and central administrations created an inflation in organisational structures, leading to a traditional administrative style dominated by complicated bureaucracy. The repercussions are reflected in the lack of opportunities for development that accommodate current and future employment needs and the relationships between the leader and the employees, which is not transparent and accountable. In this respect, BM_9 displayed that *"the traditional management does not develop. The person is in a circle and does not work on development"*. In the same lines, CEO_5 notified that:

> *Managers still practice management through the traditional leadership. This leadership has made the employee unable to demonstrate their skills and abilities. There are employees with massive skills and experiences, but because of the presence of the traditional managers, employees do not have the opportunity to participate in the process of decision-making.*

The comprehension of the nature of the Libyan leadership at micro and macro levels require the understanding of history, sociology and anthropology (Alsayah, 2011). This is because various historical powers such as tribal social relations, religious forces and lines of traditional authority exerted by the former regime had filtered through society and shaped traditional leadership. The Mercy Corps' report (2011: 14) stated that the Gaddafi regime's effect on the Libyan mentality is so complex to understand that the new leadership is unable to act outside this legacy or create prospects for future leadership.

3. Current Libyan Situation and Crisis Leadership

Olafsson (2014) points out that it is really difficult to predict when a crisis will hit and when it becomes a moment for leaders to lead their organisation, team, or community through the crisis. In the Libyan context, the repercussions of the civil war and anarchy have contested the abilities and skills of the BoDs' and CEOs' leadership. However, a chance for a new generation seems difficult to attain. This is in relation with the fact that the LCBs does not possess crisis management or have traditional crisis management. Thus, the BoDs and CEOs require a core set of competencies to positively influence the vast number of stakeholders who are affected by the Libyan crisis. Moreover, these events have proved that the LCBs' leadership lacks experiences on the strategies to not only to face and adapt to the crisis, but also to take advantage from its challenges. On that matter, Wooten (2007: 76) emphasises that:

> *For executives, much of their formal training and on-the-job learning experiences emphasise the importance of human resource management, the company's market position, its competitors, and the value of collaborative partnerships. In many instances, however, these learning experiences neglect to address the importance of managing organisational crises, even though executives are expected to take charge during a crisis situation and are aware of the negative consequences of a mishandled crisis situation. However, without learning experiences, how can leaders develop a frame that serves as a reference point for understanding and preventing organisational crises?*

Accordingly, in this phase of turmoil and volatile stances, Government-initiated administrative development faces resistance, especially from those who have lived in periods where traditional concepts of public administration functions prevailed. These individuals find it difficult to accept new ideas and societal change. Additionally, the contrast of political ideas has created an organisational instability where organisational units in the administrative system undergo continuous changes. Hence, this results in disruption of organisational relations and the distribution of competencies, which negatively affects creativity and its effectiveness. In this regard, BMs mentioned, *"The ability to identify and develop leaders in this context is a challenge"*.

The Adam Smith International Report (2016) noted that various international organisations harmonized their forces to organize various training programs *"to build leadership capacity, and relationships between future leaders in key sectors of Libya"*. However, this modern leadership is hard to materialise due to the lack of a suitable environment. This is in line with John's (2015) argument that while the Libyan government embarked on economic policy reforms, particularly privatisation and investment policies, it has moved to adopt modern management practices. Consequently, this makes the LCBs enter into a state of conflict with change and development because this situation required innovative and distinct leadership that can achieve effective and efficient goals for the LCBs. Further, the findings of Armstrong et al. (2011: 1) confirmed, *"[the] lack of leadership capacity which plagues Libya's public sector and certainly influences both civil society and the private sector"*.

Conclusion

Leadership in the LCBs has been required to move from the conventional connections of authority to a new model that encourages TSL and TFL leaders to undertake new tasks and activities capable of changing current Libyan social, economic and environmental situation. The first section explored the concept of leadership within the LCBs. The findings suggest that this concept of leadership is influenced by three elements, including the legacy of the old regime, Islamic and Western beliefs meanings that make its definitions broad. The second section dealt with TSL and TFL patterns in LCBs. The results indicated that leaders employ TSL and TFL styles for an effective performance. Moreover, the results showed that TFL works on the boardroom and top level of executive management, whereas the application of TSL exists within the relationship between the CEOs and their followers in lower levels of management. The last section investigated the key issues that refrain Libyan leadership from development. The findings demonstrated that the impact of legacy of old regime is still present in the organisational structure of the LCBs. In addition, the socio – political instability in Libya restricts the effectiveness and efficiency of leadership. Finally, tribalism is strong in that it sets norms on how leaders behave and recruit employees.

Chapter Eight

Analysis and Discussion of the Findings of the Main Research Questions

Introduction

Leadership, CG and CSR are three separate themes, but cannot exist without the presence of the other in the LCBs. CG is today one of the concerns of the Libyan business community for the desire to transform the Libyan economy into an open market system and pursue economic liberalisation. Moreover, Libyan businesses play an increasingly important role in society and contribute to the community and to provide social justice. However, the crisis of Libyan economy, politics and social concerns are not the result of coincidence that necessitate a decision or superficial reform. The defect is deep and structural and its treatment takes time and effort. First, it is not easy to repair the Libyan economy, as it has no sound and correct ground. Second, the Libyan social issues have augmented with the fall of security. Therefore, the reformation is impossible in the absence of a sound, responsible and moral leadership capable of investing in CG and CSR to sustainably develop and lead the country to prosperity and stability.

This chapter focuses on the findings of the main research questions in relation to the ongoing debates in the field of CG, CSR and leadership. It starts by Q1 whether the board and executive leadership has a role in determining and implementing the CG framework in the LCBs. Then, Q2 investigates the extent to which the board and executive leadership, through the employment of TSL and TFL styles, facilitate the application of CSR activities in the LCBs in light of the current Libyan crisis? Finally, it discusses the findings of Q3 whether the board and executive leadership incorporates CSR strategies into CG code of the LCBs to manage the issues caused by the current Libyan crisis?

8.1 Analysis and discussion of the findings of question one: *To what extent does the board and executive leadership involve in the establishment and implementation of the CG guidelines in the LCBs?*

This question attempts to examine whether leadership is a tool that determines and applies CG features in the LCBs. This highlights the roles of the BoDs and CEOs in achieving a compromise between the CG international standards and Libyan regulations to form the CG code and the roles of these leaders in employing this code. In reality, the findings indicated that prior to the adoption of the LCGC 2010, the CBL demanded the BoDs and CEOs in the LCBs to draft the main CG features that correspond to the Libyan context. In this regard, CEO_7 reported, *"before the implementation of the LCGC 2010, the CBL requested the commercial banks to provide all the necessary information and their understandings of CG that fit the Libyan environment"*. Consequently, the CBL organised regular meetings with leaders of the LCBs to provide their views on the CG concepts and the best mechanisms that can adjust the international CG guidelines to fit the local environment. This suggests that the LCGC 2010 was a mutual attempt between the CBL and the LCBs to make this code effective. One example is the statement of BM_{11} mentioning that:

> *Before and during the year of 2010, the CBL used to hold constantly regular meetings with the general managers of the commercial banks, and especially with individuals who have significant weight in Libyan banks. The CBL consulted these experts. Therefore, these banks played a major role in the development of monetary policy to be consistent with reality and with international standards and instructions on the subject of CG.*

Similarly, CEO_3 maintained that if the issue concerns the boards, the CBL invites the Chairmen, but in most cases, the executive management provides proposals to make it in effect. Another CEO_{10} highlighted the key roles the boards and CEOs played in this regard by confirming that;

> *A meeting is organised if there are any specific issues in relation to the executive managers of the commercial banks, or in some circumstances, these two parties are invited to meetings with the CBL to debate the issues instigated and then create the rules or guidelines. Therefore, we feel that we have a role in negotiating and implementing these issues.*

Actually, the findings of Iswaissi and Falahati (2017) strengthen this argument by stating that in 2005 the CBL distributed voluntary CG guidelines to the LCBs to restructure an effective CG that contains the key CG international principles mixed with the national laws in an attempt to commence the development phase of the Libyan banks. In reaction, the LCBs designed social policies, applied sustainability management structures, and placed structures to monitor and supervise these concerns up to the level of the boards. Hence, this led to the creation of a mandatory Libyan CG code. This code became effective since 2010 and replaced the outdated and non-compulsory CG of 2005. From this, it is obvious that during the construction of the Libyan CG, corporate leaders in the LCBs jointly formulated their visions that incorporate sustainability into the strategic directions of their businesses.

In fact, the international CG standards were the basis for generating the Libyan CG. Here, a key professional stated, *"these CG international standards had tangible impacts and influences on the LCGC 2010. Clearly, the international standards of CG were the reference and the basis by which the CBL has covered this concern"* (CEO_7). Besides, as the international CG codes contain unchangeable rules applied to any country regardless of the political and economic backgrounds, the CBL and the LCBs cooperatively preserved these non-changeable rules, they, being the main criteria for establishing an international business relationship, modified the international changeable standards and national regulations of CG to fit the Libyan context. In this respect, CEO_6 mentioned that in terms of the international CG guidelines:

> *There are fixed, unchangeable and generally accepted standards, such as what concerns credits. These CG regulations govern the relations between the banks in Libya and other overseas and international banks. As for the Libyan internal standards, legislation comes from the CBL, being the regulation legislator and distributor for other banks. There are issues that need deliberation, revision and consultancy. Thus, the executive managers are invited to hold meetings and discussions to come up with results.*

Moreover, the BoDs and CEOs have been allowed to develop the internal regulations of their banks to enhance their performance. It is important that these regulations do not conflict with both the Libyan CG regulations and the CG international policies. In this regard, BM_2 declared that:

> *The Central Bank of Libya issued a manual named CG [LCGC 2010] to guide the banks. The CBL has put a set of benchmarks explaining the minimum extent to which these banks can implement. This CG manual was directed to these banks in a form of instructions. Thus, if it is believed that there are more [other] important instructions, which are not mentioned in this manual, then these banks have the right to add or implement them.*

Similarly, BM_2 stated that *"the international standards are our objective or benchmark; [but] obviously we look at areas where we meet central bank regulations; and wherever there is no interference or issues. Then, we go for international standards"*.

Furthermore, the establishment of Compliance Audit within the boardroom is a link between the LCBs and the CBL. According to the banking law (2012, No. 46, # 83) the LCBs are required to establish, within their boards, a unit called Compliance Audit. This division is responsible for monitoring whether the bank applies the CBL guidelines and respects the standards of international banking supervision. Thus, the head of this unit transmits the views of the commercial banks to the CBL and then reports to the banks the comments of the CBL concerning CG issues raised. This process is constantly maintained until the realisation of an agreement on CG implementation. Therefore, the Compliance Audit coordinates and acts collectively in accordance with the decisions and guidelines issued by both the boardroom and CEOs in the CG context. BM_4 summarised the type of relationship that binds both the boardroom and the executive management on the one hand, and the CBL on the other:

> *There are also the committees that stem from the BoDs, responsible for monitoring CG and its related decisions whether from the bank itself or from the CBL. Therefore, there is full coordination and continuous communication between the bank and the CBL. The management then follows the implementation of regulations issued by the CBL. These regulations and guidelines are taken into account and applied earnestly. The BoDs always receive notes and reports from the CBL concerning certain CG aspects and compliance. We revise these notes and then redirect them to the CBL for modification.*

The head of the Compliance Audit within the boardroom is the representative for communicating the CG issues between the LCBs and the CBL. However, the CEOs still resume a remarkable position in that regard. Here, CEO_7 stated, "*We have but a supportive role that supports the boardroom in this topic, even if we are specialists in the CG subject more than the BoDs. The compliance unit conveys the executive management's views alongside the BoDs' to the CBL"*. On this matter, Price (2018) stated that the boards tend to delegate regularly some of their duties to the board committees. Corporate board committees act as a subsection of the full board:

> *Committees devote the necessary time and resources to issues for which the full board does [not] have time. Committees delve deep into issues, often calling in experts to assist them. Committees provide regular reports to the board on the matters they are charged with handling.*

To sum up, the boardroom and executive management have significant impacts on the establishment and development of the LCGC. The key professionals confirmed that the CBL, being the regulations legislator for the Libyan banking sector, called the BoDs and CEOs to participate in the formation of the LCGC 2010 and to further advance and promote the adoption of the best CG practices across their banks. The BoDs and CEOs cooperatively debated and negotiated the CG international codes and extracted the most important elements that correspond to the Libyan conditions. Therefore, it is noticeably evident that leadership is a tool that delineates CG features in the LCBs.

8.2 Analysis and discussion of the findings of question two: *To what extent does the board and executive leadership, through the employment of TSL and TFL styles, facilitate the application of CSR activities in the LCBs in light of the current Libyan crisis?*

This section attempts to discuss the findings of Q2 that TSL and TFL styles applied by the BoDs and CEOs and these both styles enable the employment of CSR practices in the LCBs. On the one hand, the results showed that TSL style operated by senior managers towards the lower levels of the hierarchy. The explanation for such TSL expansion at these levels was under the rationalisation that leader-follower relationship revolves around the idea of exchange or the task and reward type scenario (Cherry, 2018). The argument of Szekely and Knirsch (2005) argues that TSL facilitates CSR through the incentive system. Corporate leaders ensure the commitment to CSR activities by creating an incentive system to reward their subordinates whenever they improve and promote the implementation of sustainability practices.

Accordingly, leaders in this stance intend to maintain the growth or change, as it is through the enforcement of current rules and expectations that come from the top leaders (Aarons, 2006; Kuhnert & Lewis, 1987; Xu, 2017). This claim is in the line with various findings suggesting that middle and lower level managers adopt the TSL style widely to ensure that CSR projects are implemented as defined in the policies and procedures (Tichy & Uhich, 1984). Also, the outcomes of Tuan (2012) showed that TSL corresponded with legal and economic CSR. Simply put, transactional leaders tend to promote CSR activities when these practices increase the quality and safety of the product and highlight key stakeholders. Besides, the outcomes of Alonso-Almeida and Bremser (2014) suggested that when implemented at the bottom of the hierarchy, TSL gives priority to the internal stakeholders' dimension of CSR over the other arrangements.

On the other hand, the findings indicated that TFL works at the top levels of the hierarchy. The justification for this prevalence relates to the fact that the relationship between the Boards and executive managers is closer that it resembles a supervisor-supervisee relationship. As inferred from the participants' perceptions, the current Libyan situation demanded the LCBs modify their strategies to make an organisational change. A number of studies explained that transformational leaders are ideally perfect for the performance of change (Buchanan & Huczynski, 2010; Tichy & Devanna, 1986). Here, Aarons (2006) indicated that this style initiates change in organisations because *"transformational leaders inspire and motivate followers in ways that go beyond exchanges and rewards. Transformational leadership operates especially well in close supervisory relationships"*. Hence, TFL is more prevalent at higher organisational levels (Tichy & Uhich, 1984; Bass & Avolio, 1990). Therefore, to renovate their current objectives and corporate practices, and CSR agenda, the LCBs, at the boardroom and senior executive management, depended on TFL to encourage team spirit and good operative relationships to realise the goals. This is consistent with the argument of Tweeten (2002) arguing that the transformational board members propose an arrangement framework for the board leadership planned to support the boards guide their businesses through times of change. Utilising this highly recognised and operative leadership model, the boards and CEOs closely cooperate to set responsibilities, outcomes, and strategic direction for the business. The conclusions of Waldman et al. (2003: 19) defend this argument by highlighting that *"firms led by transformational CEOs tend to take a more inclusive view of their role within the society and pursue strategies that enhance both the firm's competitive position and its broader societal context"*. The results of Veríssimo and Lacerda (2015) confirm that there is either direct or indirect connection between TFL and positive perceptions of CSR.

However, the leaders in the LCBs engaged TFL alongside with TSL, meaning both styles are a continuum of behaviours that supports the CSR activities. In fact, the delicate Libyan situation has enforced the LCBs to employ a combination of TSL and TFL leadership to ensure the continuity of their business as profitable institutions and simultaneously as responsible organisations that resolve some of the most pressing complexities in Libya. The outcomes of the studies of Castelló et al. (2009: 4) stated that both TFL and TSL approaches are essential for advancing change in the company *"towards a sustainable model, since the first strategy provides innovation and inspiration for managers, while the second consolidates the CSR initiatives"*. Hence, only one of these leadership styles can either promote or diminish CSR agendas in an organisation, unless combined together. Then, the two styles work together for positive influence (Ho et al., 2015). Therefore, the findings revealed that there is positive correlation between the TSL and TFL styles and the implementation of CSR strategies which indicated that TSL and TFL are key enablers of societal institutions as well as CSR behaviour.

8.3 Analysis and discussion of the findings of question three: *Whether the board and executive leadership incorporates CSR strategies into CG code of the LCBs to manage the issues caused by the current Libyan crisis?*

From the insights of the interviewees, the BMs and CEOs in the LCBs consider proper CG practices and responsible corporate behaviour to contribute to the long-term performance of their banks. Thus, these leaders ensure that CG regulations contain CSR policies. In this respect, BM_4 mentioned, *"as BoDs, we see that the whole bank operates within the social responsibility which is within the system of CG"*, there is *"a committee coming from the BoDs studies CSR and communicates these activities with the CEO. The BoDs then decide.*

Therefore, there is a certain balance between CG and CSR". Within parallel lines, CEO_4 stated, *"the budgets devoted for CSR are included in the name of social activities article which is within the CG regulations".* Actually, This is in line with the findings of Jamali et al. (2008: 446) that CSR acquires *"the highest standards of governance internally, particularly in discussions of the internal dimension of CSR".* Additionally, this is compatible with the findings of Alshareef and Sandhu (2015: 1) that the BoDs and CEOs in Saudi petrochemical companies confirmed CG as a critical basis for sustainable CSR activities. This is because *"the previous trend of focusing solely on CG in developing countries has been reverted and more attention is dedicated to CSR".*

Furthermore, the utilisation of both TSL and TFL styles as facilitators of CSR practices have significant impacts on CG. Through the establishment, sustainability and affirmation of ethical and moral standards, the board and executive leadership ensures that the Libyan CG includes and respects CSR practices. Thus, the LCBs generate significant values for both shareholders and stakeholders. The statement of Klenke (2005) highlighted that leadership is *"paramount if organisational members are to understand the key issues and standards regarding moral, ethical, and socially responsible conduct".* The report of United Nations Conference on Trade and Development UNCTAD (2004) claimed that when CG is effective and efficient, corporate leaders are certainly efficient, honest, responsible and accountable and intend to act in accordance with moral principles and behave in ethical manners towards all stakeholders.

The Libyan environment encourages the integration of CSR projects into strategic deliberations and considerations of the LCGC. In fact, the Libyan social life is characterised by religious teachings and Islamic culture that incite and respect the principle of charity and donations. The conclusion of Rashid and Ibrahim's study (2002) explained that variables such as family background, ethical standards, religious teachings, beliefs, Islamic tradition, culture and peer pressure form Malaysian managerial attitude towards CSR. Thus, leaders become *"extremely conscious about the consequences of their decisions on stakeholders".* In the same way, Sullivan et al. (2013: 7) maintained, *"the perceived and observed behaviour by senior management sets the tone throughout the company, it establishes the commitment [...], and* *it shapes the identity of the company"*. This is consistent with the findings of Thomas (2011: 137) who emphasised that *"the CSR orientation that a firm adopts is closely associated to its leader's ethical values"*. The results of Pless (2007) pointed out that leaders' values are mirrored in the corporate practices that businesses adopt. O' Dwyer's inference (2003) pointed out that once the board and executive levels are committed to responsible business practices, their attitude towards CSR orientation is reflected in managers and team leaders at the middle and lower levels of the hierarchy. If corporate leaders promote the culture of a good CG, the middle and lower managers are certainly to observe that the LCBs express their roles and sustainably establish a work environment that yields to a high level of satisfaction among all stakeholders. This is also in line with the findings of Ferrell et al. (2016: 333) that *"both transformational and transactional leaders can influence the corporate culture"*. Tuan (2012) underlined a positive link between CG and ethics and morals, meaning that ethical behaviours of leaders tend to influence the construction a CG system. El-Kassar et al. (2017) noted that companies with solid CSR activities have positive effects on employee-company identification and organisational citizenship behaviour. It is therefore clear that the TSL is a tool for moral development (Felix et al., 2015). Equally, TFL is an instrument for strong ethical values (Waldman et al., 2004). Accordingly, as both TSL and TFL are positively associated with CSR, surely both styles have critical influences on CG in the LCBs. In fact, different studies demonstrated the influence of TSL and TFL upon the concept of CG. The findings of Ng (2013: 13) is an example that pointed out that *"transformational leadership positively influences good CG"*. Lekka and Healey (2012) revealed that ranging from TSL to TFL styles influences the effectiveness of CG as both styles give high priority to CG over other organisational outcomes and encourage CG application.

Therefore, the findings of Q3 revealed that the BoDs and CEOs ensure the integration of CSR issues into the LCBs' CG principles to become a core practice in their corporate culture. The BoDs and CEOs encourage the implementation of CG policies and CSR practices to enhance and ensure the value of their stakeholders. The report of UNCTAD (2004) highlighted such inference that once it is incorporated into the core CG regulations, CSR becomes strong. Moreover, the more CSR is deposited within the core of corporate strategy and development, the long-term success this concept has. Similarly, the findings of Sullivan et al. (2013: 7) inferred that such CSR visible commitment assists the businesses stay on *"track to progress from just having a firm commitment to business ethics to creating an organisational culture where ethics is a central consideration in business decisions across all layers of a company"*. Hence, investigating the effects of corporate ethics, governance and social responsibility in the SMEs in Egypt and Lebanon, ElGammal et al. (2018: 287) concluded that good CG codes directly affect the relationship between business ethics and CSR:

> *In order to satisfy stakeholders and gain a positive image, firms have adopted CSR in their agenda and embedded it into their strategies; the concept of CSR developed beyond economic responsibilities as building and maintaining an ethical identity became prominent, especially when stakeholder became more interested in the overall well-being of the society. Thus, CSR has been considered as a model of CG with a focus on stakeholders rather than shareholders. Moreover, a good CG practice directly influences the relationship between business ethics and CSR, given that the two reflect the strength and quality of the CG structure enacted by the firm.*

Based on the above review, the findings of Q3 revealed that the BoDs and CEOs have the principal responsibility for implanting CSR into CG frameworks, disseminating its culture and facilitating its projects in the LCBs.

Nonetheless, the volatile situation that Libya experiences at the moment contests the BoDs and CEOs as well as their leadership styles. It is becoming very difficult for the LCBs leaders to maintain morale and momentum when members of their team are close to collapsing in frustration over the problems they face and when angry customers ask questions that are hard to answer. Managing crisis is still an issue in Libya because leaders have difficulties creating plans to manage the unexpected. This is in relation to the fact that the concept of framing crisis management does not exist in the organisational culture of the LCBs. Therefore, the possibility for organisational innovation and positive change seems unattainable.

Conclusion

This chapter displayed that the findings of Q1 confirmed that the BMs and CEOs in the LCBs played a vital role in the establishment of the LCGC 2010. These leaders jointly cooperated by combining the CG international standards with the national regulations to design the LCGC 2010 within the context of the LCBs. These leaders also supported the application and the development of this CG guidelines in their banks. Moreover, the findings of Q2 advocated that the BoDs and CEOs in the LBCs utilised both TSL and TFL styles, and that these two styles of leadership facilitate CSR practices and encourage a CSR culture in the LCBs. Finally, the findings of Q3 verified that the board and executive leadership encourage the incorporation of CSR practices within the CG policies of the LCBs.

Chapter Nine

Research Conclusion

Introduction

The interactive relationship between leadership, CG and CSR has great influence on contemporary corporations' policies and regulations *vis-a-vis* profitable values and social development and sustainable environment. The board and executive leadership supportively go beyond shareholder primacy to balance the interests of diverse stakeholders, including employees, shareholders and the communities. Hence, this chapter summarises the whole thesis. It starts by providing a general summary of the findings of the research questions. In addition, the chapter addresses the contributions of this study to the overall body of knowledge. Then, it moves to present a set of applicable recommendations to improve the implementation of leadership, CG and CSR concepts. Finally, it displays the study's suggestions for areas of future research.

9.1 Summary of the Findings of the Research Questions

This study endeavoured to provide a deeper understanding of the effects of the board and executive leadership on CG policies to integrate CSR strategies in the LCBs. Therefore, this study embarked on a set of sub-questions that investigated the meanings of, the current situation of and challenges of CG, CSR and leadership, the relationship between CG and CSR and the position of the TSL and TFL in the LCBs. In addition to main questions examined the effects of the board and executive leadership on CG establishment and implementation in the LCBs. Then, it investigated the effects of both transactional and transformational leadership styles on CSR practices in the LCBs. Finally, the study examined how leadership influences the incorporation of CSR strategies within the CG code in LCBs.

9.1.1 The summary of the sub-research questions' findings

The findings revealed that the Arabic term *'Al-Hawkamah'*, meaning the governance embraced as an equivalent term for 'Corporate Governance' in the LCGC 2010 manual, although other interpretations for this term are still implemented. Moreover, CG has narrow and broad definitions reflect the economic and social perspectives. The narrow definition looks at CG as a set of laws and regulations that direct and control the banks, as well as organizing the relationship between the management, board and shareholders. Whereas, the broad definition considers various relationships between the management, shareholders, the boards and diverse stakeholders. Another finding is that there is separation between the Chairman and Chief Executive Officer titles, meaning that the LCBs apply a two-tier CG. The division between these two positions began with the declaration of law No. 1/2005. Later, the LCGC 2010 ensured this split of titles in the LCBs. The findings also suggested that the actual application of CG is the problem because several internal and external challenges slow down its progress towards a saturated level. Thus, CG in the LCBs fluctuated between the early stage of its application and the transition phase of its advancement. The various barriers restrict CG implementation in the LCBs, including low level of CG culture, ownership concentration, weak legal CG enforcement and the political disturbance.

The findings exposed that CSR in the LCBs is a relatively new institutional concept that is progressing, evolving and gaining more importance, but its practices are largely a voluntary commitment to include the social and environmental dimensions in the banks' core business operations. However, from a cultural context, CSR in the LCBs is connected to religion and centred on the notion of philanthropy. As CSR has always been present due to Islamic values, which favour benevolence and giving. Donating through Sharia compliant ways of businesses have been such a tradition in the LCBs and Libya in general. Nevertheless, the current CSR practices lack strategic approaches leading to sustainable development. Instead, the existing approaches are more about charity and philanthropy taking forms of random actions, unaligned to the nation's actual needs. Moreover, the findings displayed that CG and CSR are interrelated in the LCBs. CSR influences CG through instigating the ethical behaviour to make leaders responsible and ethical to all stakeholders within and around the LCBs. Thus, the board and executive leadership integrates CSR activities into CG policies. On the other hand, CG has a positive impact on CSR through the internal mechanisms' roles in forming and employing CSR activities and through the broad meaning of CG as it intends balance between shareholders and stakeholders' interests.

The findings highlighted that leadership is seen as an acquired process by some participants, other viewed leadership as an innate 'art'. Moreover, leadership defined as the act of influencing followers to achieve common goals by leaders. However, leadership features in the LCBs is still under the influence of three factors, including the previous regime's leadership, the Islamic tradition and the frameworks of western definitions of leadership. Therefore, these constituents have an important presence within the characteristics of leadership in the LCBs and, hence, influence its meanings. In addition, both TSL and TFL utilized by the board and executive leaders as a continuum rather than opposites and in different directions which is beneficial for effective interaction between leaders and subordinates as Bass believes. TFL style is prevalent among leaders at the board and the senior executive management and in the relationships between these two bodies. Whereas TSL is widespread in the relationships between top management leaders and their followers in lower levels. Nonetheless, the current unstable situation within Libya has required the boards and CEOs to regenerate the LCBs' structures to detach from such frameworks of leadership and the hierarchical organizations to enable transformation. Still, being enablers of change and enhancer of accountability, transparency and ethics, TFL and TSL are under the influences of issues such legacy of old regime, the socio–political instability and tribalism are still critical challenges for TSL and TFL effectiveness in the LCBs.

9.1.2 The summary of the main research questions' findings

The following findings provide an overview of how the Board and Executive Leadership affects CG and CSR concepts, as well as their effects on the incorporation of CSR practices within the LCGC.

Q1: *To what extent does the board and executive leadership determines and implements the CG structure in the LCBs?* The findings of Q1 showed that the board and executive leaders contributed to the construction of the LCGC. This cooperation between the BoDs and CEOs gave credibility to the LCGC and mobilised toward taking on the best CG practices to promote the economic and social aspects of these institutions at the national and international levels as it compromises the CG international regulations with national laws and regulations. In addition to their crucial roles in the application and development of this CG guidelines within their banks.

Q2*: To what extent does the board and executive leadership, through TSL and TFL styles, facilitate the application of CSR activities in the LCBs in light of the current Libyan crisis?* The findings of Q2 demonstrated that TFL and TSL styles are applied by board and executive leaders in the LCBs. TFL style is prevalent at the board and the senior executive management whereas TSL style is functional in relationship between the senior executive managers and their followers in lower positions of the LCBs. The application of these two styles enabled the BoDs and CEOs to change the conventional structures of the LCBs and to become socially responsible through conducting CSR practices in varying degrees to address the socio-economic aspects by creating sufficient working conditions and by increasing the positive impacts of the LCBs on society.

Q3*: How does board and executive leadership influence CG policies towards the integration of CSR strategies in LCBs to manage the issues caused by the current Libyan crisis?* The findings of Q3 revealed that the BoDs and CEOs ensure the integration of CSR practices into the LCBs' CG principles to make them a core practice within their corporate culture. During their collaboration in the LCGC construction, the BoDs and CEOs incorporated CSR practices into the LCGC. As the CEOs initiated CSR practices, and the boards ensured an effective CG application in the LCBs, these worked simultaneously to ensure balance between the interests of shareholders and diverse stakeholders.

What is important now in the LCBs is how leadership can handle the crises that the civil war has created. These ongoing events have negatively affected the behaviours of organisational members in the LCBs. The interactions between clients and employees is very complex, and stakeholders tend to deliver partial information and attempt to disguise mistakes, while shareholders tend to dominate the decision making to ensure they are gaining benefits. Therefore, the BoDs and CEOs are in big demand to building a foundation of trust not only within the LCBs, but with the LCBs' key external stakeholders as well.

9.2 Contribution of the Study

Several important contributions have emerged from this research and are as follows:

- Enriching the existing literature by linking the three concepts CG, CSR and leadership together to explore how to benefit from the power of board and executive leaders in achieving effective CG and CSR application.
- Providing more explanation for some matters of debate in the mutual relationships between these three concepts such as the nature of relationship between CG and CSR, the impact of TSL and TFL on the CSR and determining who is responsible for CSR practices in the organisation.
- Improving the understanding of the concepts of CG, CSR and leadership in Libya as non-western environment that has specific economic, social and Islamic features and which influence the nature and effectiveness of these concepts. Moreover, the revolution of 2011 has recreated new economic, social, political and managerial concepts rejecting the old perceptions of of the fallen regime. Therefore, this study updated the understandings of these terms.
- Identifying the key challenges that limit the applications of CG practices and CSR activities in the LCBs and finding effective tools to reduce such obstacles.
- Creating interview questions which include three groups of open-ended questions. Each group covered one of the three concepts CG, CSR and leadership. These questions were derived from the literature reviews and according to the suitability of the participants' understanding.
- Unlike the majority of previous studies in these concepts in Libya that reflected the views of the accounting community, this study collected data directly from senior leaders and used qualitative interviews.
- Helping the leaders of the banks identifying the key challenges that prevent the effective applications of CG and CSR activities. By doing

so, leaders can find effective tools to reduce such challenges and manage the new stage of Libya transition.

- Generating a new theory about how to benefit from the power of board and executive leaders in the LCBs in achieving effective CG and CSR implementation and insuring the success of banks and the sustainability of Libyan society.
- Providing a number of suggestions and a useful source for future studies that examining the CG, CSR and leadership concepts, especially in Libyan context.
- Increasing the researcher's professional and research skills and widening his knowledge about CG, CSR and leadership topics.

9.3 Limitations of the Study

Some limitations were already known before the research started, other become obvious during the conduct of the research. These limitations need to be considered to get accurate understanding of the findings. The first limitation was the lack of literature and data in relation to the CG, CSR and leadership concepts in Libya. This dearth was critical problem to build the literature review and discuss the research findings in light of the previous studies that were already conducted about the research problem. The second was that the study was limited to a group of leaders from the boards and senior management of the LCBs and did not include other leaders from the middle and lower levels to understand how transformational and transactional styles interrelate and how they influence the application of CSR practices. Also, the study did not take other stakeholders' insights such as employees and shareholders. The third restriction is that this study did not distinguish the differences between the public from private banks which influenced the findings in regard with CSR practices, especially that the private bank give priority to the interests of owners, whereas, public banks take into consideration the welfare of citizens and the society. The forth barrier, female participants are absent. This reflects the culture attitude towards female in Libya society which determines the woman's position and employment. The final barrier was that the situation of socio, political and economic instability experienced by Libya during the process of conducting this research. The volatile context has indeed influenced somehow the findings of this research. Therefore, any generalisation of the findings is misleading until these limitations taken under consideration to provide a clear understanding of these concepts.

9.4 Recommendations

As an emerging market economy, Libya suffers from wide gaps in the domains of CG and CSR. For example, the process of planning and applying CG in the LCBs is not mature enough to provide the groundwork for significant improvement in the economic sector and the society or to attract new investment. On the other hand, the level of social responsibility in the LCBs is low when compared with developed countries and surrounded countries. The LCBs still concentrate largely on the charitable activities of CSR and do not communicate with other institutions to build a sustainable society. Moreover, Libyan leadership is in transition and strives to detach itself from the residue and accumulation of the overthrown regime and deal with the resultant political, economic and social changes, which necessitate successful leaders. Therefore, this section provides some concrete recommendations in an attempt to improve the application and development of CG and CSR and to enhance the effectiveness of leadership in the LCBs.

1. Raising awareness of leadership, CG and CSR concepts

It is important that the CBL cooperates with the LCBs to prepare strategic and structural studies to disseminate leadership, CG and CSR culture in the LCBs. Here, it is vital to cooperate with international organisations to change the mindset of the old regime embedded in the Libyan leaders. Such bodies can introduce new styles that are capable of change. Furthermore, creating a national leadership centre can help in the development of leaders that are active in their roles to instil a spirit of teamwork and acting as ethical and moral models. Besides, the educational institutional should be involved by providing academic courses, conferences, training and publications to achieve responsible balance between economic and social performance and build a healthy banking system.

2. Dispersing the ownership

Opening doors to foreigners and private sector to invest in the public banks as well as allowing new individual depositors to invest in the private banks can help reduce the level of ownership concentration. In doing so, banks can avoid the dominance of controlling shareholders directing executives to work in their interests and stop the conflict of the interests between majority shareholders and minority shareholders.

3. Strengthening CG regulations in the LCBs

The CBL, being responsible for the supervision and monitoring of the performance of the banking sector in Libya, should make sure that CG regulation are in place and respected by all public and private commercial banks. Moreover, the government should play an active role in conducting and improving the CG system in the whole country. This government involvement can define and address the issues facing the CG application.

4. Strategizing CSR practices

Instead of relying on the personal initiatives and random efforts, the LCBs need a regulatory framework that defines CSR and philanthropic activities to enable leaders to move from purely philanthropic activities to sustainable programs that ultimately address broader development challenges. This can happen through; first, the establishment of organisations, units or committees whose task is the institutionalisation of CSR. Second, the development of strategic plans implementing and supporting CSR activities through the allocation of an independent special budget and working side by side with the local charity organisations in addition to the involvement with the government to meet the pressing or urgent needs and provide sustainable solutions of the Libyan issues.

5. Framing Crisis Leadership and Crisis Management

It is important to provide training to leaders and employees in the LCBs to prepare them for handling crises that their organisations face. This can help the BoDs and CEOs and their teams to function more efficiently in a crisis. Because of the nature of organisational crises, and the serious threats they pose, workshops to familiarise leaders and their teams on frames that help leadership of the LCBs: strategic design, Organisational politics, human resource management practices and Organisational culture. These frames help manage crises.

9.5 Suggestions for Further Research

There is still increasing demands to widely understand the concepts of CG, CSR and leadership in the LCBs in particular and Libya in general to recover and improve the current economic and social situation. Therefore, future research is needed to Conduct similar studies in the CBL, being the legislator for banking sector regulation and responsible for the supervision and control of its performance. In addition to examine these three concepts either in the public or in the private commercial banks, or even make a comparison between these two groups to reach more precise findings particularly in terms of CSR practices.

Furthermore, as this study was limited to senior leaders in the board and the executive management, further research can include leaders in the middle and lower management to understand how transformational and transactional leadership styles interrelate in these locations and how they influence CG policies and CSR agenda. There is also a need for Future studies that incorporate other stakeholder's entities such as shareholders or employees to understand their perceptions in regard with CSR, especially that CSR studies in Libya is still absent. Finally, the absence of Libyan female leaders in CG and CSR decision making in the LCBs is also a topic that requires an investigation.

Conclusion

This chapter is a general conclusion for the whole thesis. It provided a brief summary for the key findings of the research questions. Then, it addresses the potential contributions that this research presents to this field of inquiry. It also showed a set of limitations that the research encountered throughout the data collation and analysis. Before this chapter finished its paragraphs by suggesting few recommendations to improve the effects of these concepts in the Libyan context in general and in the LCBs in particular and proposing several topics for further research.

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Appendices

Appendix (1): The Interview Questions

The Interview Questions

First: Corporate Governance Related Questions

1- How do you define Corporate Governance?

2- What does the company's governance structure include? Is the person responsible for the running of the Board of Directors (Chairman) different from the person responsible for the running of the business (CEO)?

3- How does leadership (Board members & CEOs) balance the identified international standards with the Libyan national regulations?

4- Can you describe the current status of CG in terms of:

- The shareholders' rights and control.
- The boards and management's relationship.
- Bank's responsibilities towards employees.
- The challenges your bank faces with Corporate Governance implementation.

Second: Corporate Social Responsibility Related Questions

1- What is your understanding of Corporate Social Responsibility?

2- Is your bank involved with CSR activities? If yes:

- Could you please summarise the current activities your bank is involved with?
- How much autonomy do you have in making CSR decisions in your bank?
- What are the challenges your bank faces in implementing CSR activities?

3- Does your bank incorporate CSR into corporate governance values?

Third: Leadership Related Questions

1- What is your understanding of Leadership?

2- Relying on the following brief explanation of two leadership styles, can you please position where your leadership' style fits with explanation?

Transactional Leaders	Transformational Leaders
Leaders are aware of the link between the efforts and reward (contingent reward), they depend on standard forms to reward or punish followers. The leader clarifies the performance criteria, what is expected From subordinates, and what they receive in return	Leaders behave in ways that result embodying role models for their followers. The leaders are admired, respected and trusted. They can be relied on to do the right thing, demonstrating high standards of ethical and moral conduct.
Leaders are responsive and their basic orientation is dealing with present issues, leaders will take action when standards are not met (irregularities, mistakes and deviations from what is expected) or they wait for problems to arise	Leaders motivate and inspire their followers by providing meaning and challenge to them and their work. Team spirit is aroused. Enthusiasm and optimism are displayed. Leaders get followers involved in envisioning attractive future states.
Leaders depend on their official authority by using reward and punishments to gain compliance from their followers.	Leaders encourage their followers to be creative by reforming problems and approaching old situations in new ideas and creative solutions are solicited from followers, who are included in the process of addressing problems and finding solutions. There is no public criticism of individual members' mistakes, and their ideas are not criticised simply because they differ from the leaders' ideas.
Leaders avoid giving directions if the old ways work and allow followers to continue doing their jobs as always if performance goals are met.	Leaders are personally interested in the success and well-being of their individual followers. They clearly understand the individual growth needs and the aim of motivation.

Final: Would you like to explain or add any comments that you think are related with CG, CSR or Leadership.

Appendix (2): Interview Invitation Letter

UNIVERSITY OF Hull

Invitation Letter

Dear ....

My name is Khalid Alshaikh, a PhD student at Hull University Business School. I am conducting a doctoral study in the field of Organisational Behaviour & Human Resource Management. The study focuses on exploring and understanding The Effect of Leadership on the Corporate Governance to incorporate Corporate Social Responsibility within the Libyan Commercial Banks.

You are cordially invited to participate in this study. If you agree to participate, I will ask you to join a single 30-60 minutes face to face interview at a time and location of your choice regarding your experience and reflection as a leader in your organisation.

Participation is voluntary; you may withdraw from the study at any time, and this would not affect you in any way. The information you provide will be kept confidential. It will not include your name or any other identifying information, only me as a researcher and my supervisor will have access to this information.

Best Regards

Khalid Alshaikh

The contact details of the researcher are:

Investigator: Khalid Alshaikh Email: K.A.Alshaikh@2013.hull.ac.uk Mobile (UK) 00447449375011 (LY) 00218913748160	Supervisor: Prof/ Christopher Bovis Email: c.bovis@hull.ac.uk Hull University / Hull/ HU6 7RX, UK Tel : 00441482 463139

The Secretary, HUBS Research Ethics Committee, University of Hull, Cottingham Rd, Hull, HU6 7RX; Tel No (+44) (0)1482 463536, h.carpenter@hull.ac.uk

Appendix (3): The Consent Form

UNIVERSITY OF Hull

Research Ethics Committee
Consent Form

I .... of ....

Hereby agree to participate in this study to be undertaken by:

Khalid Alshaikh. And I understand that the purpose of the research is:

The Effect of Leadership on the Corporate Governance to incorporate Corporate Social Responsibility within the Libyan Commercial Banks.

I understand that:

1. Upon receipt, my interview will be coded and my name and address kept separately from it.
2. Any information that I provide will not be made public in any form that could reveal my identity to an outside party i.e. that I will remain fully anonymous.
3. Aggregated results will be used for research purposes and may be reported in scientific and academic journals (including online publications).
4. Individual results will not be released to any person except at my request and on my authorisation.
5. That I am free to withdraw my consent at any time during the study in which event my participation in the research study will immediately cease and any information obtained from me will not be used.

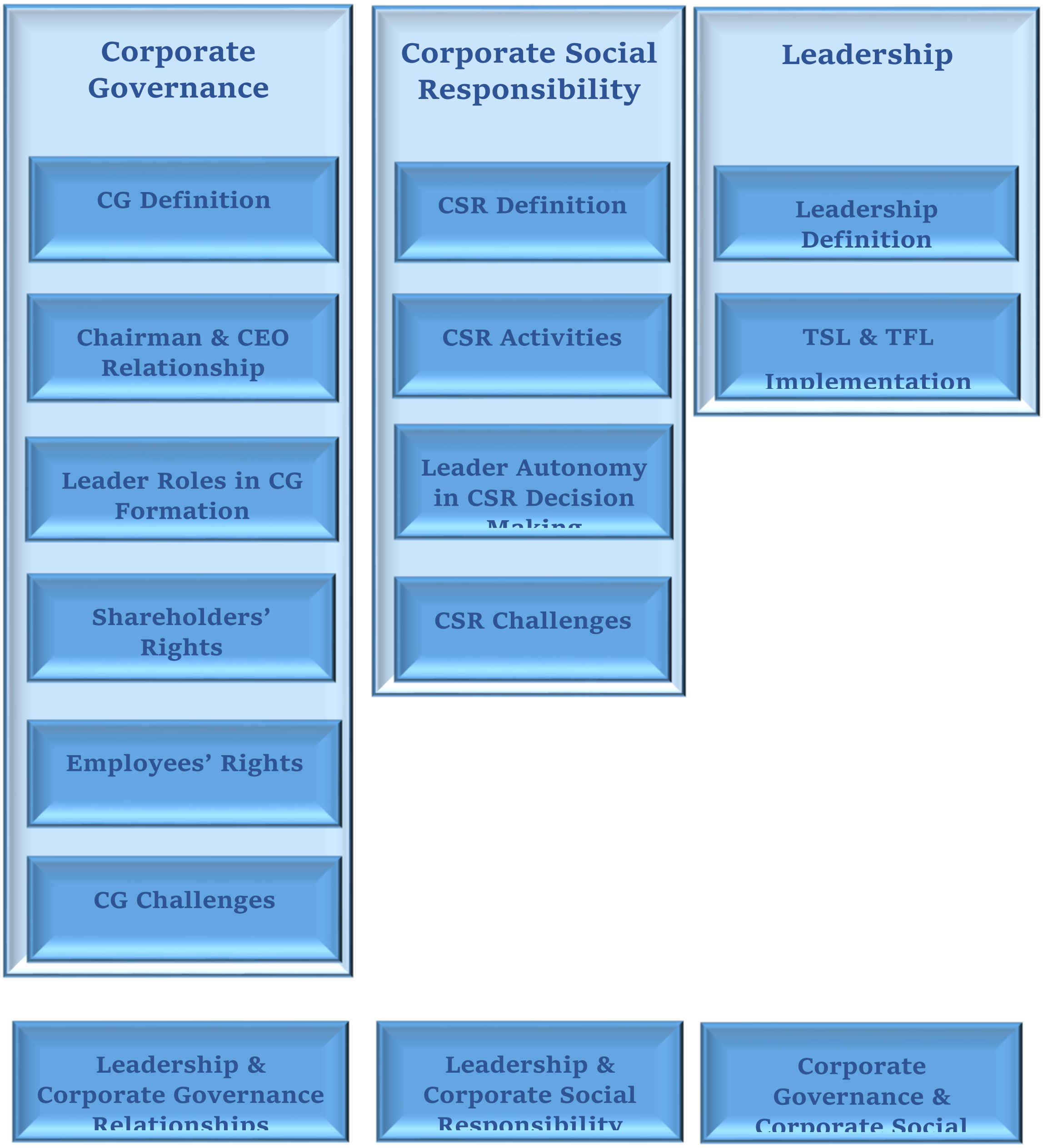
Signature: .... Date: / /

The contact details of the researcher are:

Investigator: Khalid Alshaikh Email: K.A.Alshaikh@2013.hull.ac.uk Mobile (UK) 00447449375011 (LY) 00218913748160	Supervisor: Prof/ Christopher Bovis Email: c.bovis@hull.ac.uk Hull University / Hull/ HU6 7RX, UK Tel : 00441482 463139

The Secretary, HUBS Research Ethics Committee, University of Hull, Cottingham Rd, Hull, HU6 7RX; Tel No (+44) (0)1482 463536, h.carpenter@hull.ac.uk

Appendix (4): The Core and Sub Categories.



Source: Author's own interpretation

Appendix (5): General Information about the Interviewees.

Years in Managerial Job	The number of Interviewees
(0 - 20)	2
(20 - 40)	16
(40+)	3

Source: Designed and organised by the researcher

Source: Designed and organised by the researcher

Qualification Level	The number of Interviewees
Doctoral degree	4
Master's degree	11
Bachelor's degree	3
Diploma’s degree	3