IMPLEMENTING THE BOARD OF DIRECTORS' MECHANISM – AN EMPIRICAL STUDY OF THE LISTED FIRMS IN LIBYA

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Abstract

This paper aims to investigate the extent to which board of directors' mechanism is implemented in Libyan listed companies. This includes a consideration of composition, duties and responsibilities of the board directors. This study employed a questionnaire survey to collect required data from four key stakeholder groups: Boards of Directors (BD), Executive Managers (EM), Regulators and External Auditors (RE) and Other Stakeholders (OS). The results of this study provided evidence that Libyan listed companies generally comply with the Libyan Corporate Governance Code (LCGC) requirements regarding the board composition: the findings assert that most boards have between three and eleven members, the majority of whom are non-executives and at least two or one-third of whom (whichever is greater) are independent. Moreover, the results indicate that general assemblies in Libyan listed companies are practically committed to the LCGC's requirements regarding the appointment of board members and their length of tenure. The findings provide evidence that boards in Libyan listed companies are carrying out their duties and responsibilities in accordance with internal regulations and laws, as well as the stipulations of the LCGC (2007). Furthermore, the stakeholder groups were broadly satisfied that board members are devoting sufficient time and effort to discharge these duties and responsibilities properly. This study helps to enrich our understanding and knowledge of the current practice of corporate boards as a significant mechanism of corporate governance (CG) by being the first to address the board of directors' mechanism in Libyan listed companies.

Keywords: The Boards of Directors Mechanism, Libyan Listed Firms

1. INTRODUCTION

The board of directors plays a crucial role in CG practice as it is the heart of the company and the key link between management and shareholders. Its importance is founded on the premise that it is the highest body in a firm's overall internal governance mechanism (Abdullah, 2016). Likewise, Cadbury (2002, p. 31) attributes central importance to the board, defining it as "the bridge between those to whom the board is accountable and those who are accountable to the board". The board is the main internal governance mechanism in charge of supervising and controlling executive directors' decisions (Al-Manaseer et al., 2012) and resolving any conflicts of interest between managers and other stakeholders (Halal et al., 2014). Its responsibilities may include developing a long-term strategy, determining the compensation of corporate executives and evaluating the performance of managers, as well as improving internal control systems (Kang et al., 2007; Marciukaityte et al., 2009). The Cadbury Report (1992) pays particular attention to the board of directors as it considers this one of the most important mechanisms for achieving CG best practice.

The vast majority of CG studies have focused on developed countries such as the UK, the USA, Canada and Australia. However, the research findings from developed countries are not necessarily applicable to developing countries, where environmental factors may be very different (Barghathi et al., 2016). Mangena and Chamisa (2008) argue that national differences make it necessary to examine governance structures country by country, but as Okeahalam (2004) points out, Africa-based empirical studies on CG, including the board of directors' mechanism, are few and far between.

The aim of the study is to investigate the extent to which board of director's mechanism is implemented in Libyan listed companies. This includes a consideration of composition, duties and responsibilities of the board directors. In particular, it focuses on answering this question: *To what extent are Libyan listed companies committed to implementing the board of directors' mechanism?* One of the most significant contributions of this study, therefore, is that it considers corporate board's issues in Libya – an environment that has so far been addressed in very few studies. The current research one of the first studies to investigate the board of directors' mechanism since the revolution of 17th February 2011, since when there have been dramatic changes in the Libyan Stock Market (LSM). These include the CBL's replacement of the LCGC (2005) with the compulsory LCGC (2010), applied in 2011 (Zakari, 2014).

The remainder of this study is organised into 7 parts. Section 2 reviews the development of corporate governance (CG) in the Libyan environment. Section 3 presents agency theory perspective. Part 4 critically reviews the literature on corporate governance (CG). The method utilised to examine the research question is provided in section 5. Section 6 presents and discusses the results of the data obtained from the study questionnaire. The final section provides the conclusion.

2. DEVELOPMENT OF CORPORATE GOVERNANCE (CG) IN THE LIBYAN ENVIRONMENT

The evolution of CG in the Libyan environment has been marked by a number of legal and regulatory milestones since Libya obtained its independence in 1951. The first key moment came in 1953 with the issuing of the Libyan Commercial Law (LCL), which contained a range of provisions addressing many of the basic principles of CG, including the structure and responsibilities of the board of directors and the fundamental rights of shareholders. In 2010, the LCL was technically superseded by the revised Commercial law no. (23). However, the latter has not yet come into force as the Libyan government has not yet issued executive regulations relating to this law.

The second key moment in the development of CG in Libya came in 1973 when the government issued law no. (16). This was the first regulation to focus on the accounting and auditing profession in Libya; it sought to raise standards by setting out the responsibilities of and a code of conduct for Libyan accountants and auditors, and it laid the groundwork for the establishment of the Libyan Association of Accountants and Auditors (LAAA) (Laga, 2013; El-Firjani et al., 2014).

In 2005, the Central Bank of Libya (CBL) issued the first Libyan Corporate Governance Code (LCGC). This set out basic guidelines regarding CG practice for commercial banks in Libya, though these were advisory rather than mandatory. The code was divided into five main sections (CBL, 2005). The first discussed the underlying principles of CG and its importance in ensuring the credibility of banking transactions and highlighted examples of international best practice. The second section set out the standards for assigning board members and senior management and explained what both groups should do in order to perform their duties and other stakeholders effectively and efficiently. Section three concentrated on the board of directors' role in selecting and supervising executive management. Moreover, it contained a comprehensive description of the most important tasks of the board, and how it should interact with the executive management. The fourth section highlighted the duties and responsibilities of the board of directors in terms of its formulation and monitoring of targeted plans and policies, while section five focused on its role in auditing and internal control. This section also addressed the main role played by internal auditing, internal control systems and the audit committee.

In 2007, the LSM issued a second LCGC geared towards protecting the rights of shareholders and other stakeholders. Aimed specifically at listed companies, it included a number of articles relating to the duties and responsibilities of the board of directors, the formation of sub-committees such as the audit, nomination and remuneration committees, disclosure and transparency, the internal and external audit functions and the rights of shareholders and stakeholders. Once again, however, the code was advisory, with the only mandatory article being the requirement that companies must disclose which articles they have not complied with and why (Masoud, 2013; Zakari, 2014).

In 2010, the CBL seeking to raise the level of performance of commercial banks replaced the 2005 LCGC with a new, compulsory code. In the same year, the government enacted law no. (11), which provided for the creation of the Libyan Stock Market Authority (LSMA), an independent body (though working under the supervision and control of the Ministry of Economy) tasked with regulating and monitoring the LSM. Law no. 11 of 2010 sets out a series of measures designed to enhance the operation of the LSM and to increase the level of transparency therein so that more domestic and foreign investment might be attracted into the Libyan environment. For instance, one of these measures is the requirement that all necessary information be properly disclosed to investors, including all relevant statistics, biographical and financial details about board members, externally certified financial statements, an annual list of shareholders and any information that could affect the share price in the market.

In conclusion, since 1951, the Libyan government and the CBL have launched a series of legal and regulatory initiatives designed to foster more effective CG. Despite this, however, CG practice in the Libyan environment is still in its early stages and, as numerous researchers have observed (e.g. Pratten & Mashat, 2009; Larbsh, 2010; Abu-Azza, 2012; Hamuda & Sawan, 2014; Faraj & El-Firjani, 2014, Zakari, 2014) there are still significant obstacles to be overcome.

3. AGENCY THEORY PERSPECTIVE

Agency theory, which was originally developed by Jensen and Meckling (1976), is the dominant theory for interpreting CG issues (Kapardis & Psaros, 2006; Ward & Filatotchev, 2010; Ermongkonchai, 2010; King & Wen, 2011; Renders & Gaeremynck, 2012; Bezemer et al., 2012). It focusing on the separation of ownership and control and addresses the relationship between principals (e.g. shareholders) and agents (e.g. managers and company executives). Fama and Jensen (1983) built on the work of Jensen and Meckling to develop the potential of agency theory, and researchers ever since have relied on its assumptions, arguments and models to better understand a range of issues including board practice, ownership structure, CG reform and agency conflicts (Manos et al., 2007). In developing countries, researchers such as Reed (2002), Imam and Malik (2007) and Manos et al. (2007) have adopted agency theory to examine the structures of CG and to look for ways to ensure good CG practice.

Agency theorists have highlighted a number of CG mechanisms that are designed to protect the interests of shareholders, reduce agency costs and stabilise the agent-owner relationship. Among these is the board of directors mechanism (Davis et al., 1997). Agency theory suggests that the board of directors is a significant component of CG which companies should consider. An effective board of directors is considered to be the main internal governance mechanism to monitor managers so as to ensure they are running their companies effectively to achieve a good performance (Abdulsamad et al., 2018). As has already been emphasised, no single theory is sufficient to explain CG practice (Daily et al., 2003; Young & Thyil, 2008). According to Tricker (2015, p. 74), *"CG, as yet, does not have a single widely accepted theoretical base nor a commonly accepted paradigm".* Numerous theories have been used most often to examine CG: agency theory, stewardship theory, stakeholder theory and legitimacy theory (Mallin, 2007). Of these, agency theory seems the most appropriate for use in this study, given its focus on the mechanisms of governance.

The literature review highlights the role of board mechanism in reducing agency problems; Alrshah and Fadzil (2013), for example, discusses the impact of board characteristics such as composition, size, level of involvement and financial expertise on the monitoring function, and how this function can reduce agency costs by enhancing information flow between principals and agents.

The agency relationship comes under additional pressure in many developing countries, including Libya (Zakari, 2013); because the low level of separation between ownership and control in these countries leaves the way open for the abuse of power from either side. Libya's system of CG is insider-dominated with most Libyan listed companies being largely or entirely state-owned. As a result, minority shareholders are often unable to access important information about the firm's operations (Solomon, 2013), and many are left feeling that their interests are being sacrificed for the sake of majority shareholders (Abdou, 2015).

4. LITERATURE REVIEW

The board of directors is one of the most important mechanisms for attaining best CG practices, as the bridge between those to whom the board is accountable and those who are accountable to the board (Iswaissi & Falahati, 2017). Further to ensure that the interests of shareholders and managers are aligned and that management teams are operating effectively (Halal et al., 2014; Kang et al., 2007). There is a general consensus that when other CG mechanisms are weakened, an inefficient board can be costly to companies and, in turn, to society. As a result, much of the debate about CG has concentrated on the boards' activities (De Andres et al., 2005).

4.1. Board composition

The board of directors is the principal entity responsible for planning and controlling the operations of the company so that it can achieve its objectives. Its members, therefore, need to be highly qualified and fully conversant with their duties towards the company. Most CG codes place emphasis on board composition because this directly affects the activities of the company and its value (Klein, 1998).

Solomon (2013) highlights a number of factors that should be considered by the board of directors if it wants to enhance its administrative efficiency. Having determined the optimum size of the board, a balance needs to be established between executives and non-executives, and between those with practical experience and those with relevant educational qualifications. Mechanisms also need to be developed to ensure that the right candidates are appointed and that directors are fairly compensated (Fratini & Tettamanzi, 2015; Walker, 2005).

However, it is uncertain whether all this is happening in Libya. The LCGC, issued by the LSM in 2007, and the 2005 Libyan Bank Code stipulate that the majority of board members should be non-executives, but there is no conclusive evidence that Libyan listed companies comply with this requirement. Consequently, this was one of the empirical phenomena that were examined in this study.

4.2. Board size

The number of directors on the board is considered a significant determinant of its effectiveness, though there is disagreement over what constitutes the optimum board size. Numerous studies have found a positive relationship between the size of the board and firm performance (e.g. Al-matari et al., 2012; Al-Janadi et al., 2013; Isik & Ince, 2016). These authors argue that large boards achieve better performance because they encompass a wide range of up-to-date skills, which allows them to make better decisions and monitor CEO performance more closely (Rechner & Dalton, 1991; Al-matari et al., 2012; Al-Janadi et al., 2013). Kula (2005) argues that a large board is more capable of monitoring the actions of senior management, which Jensen and Meckling (1976) point out can reduce agency costs and lead to better financial performance. Moreover, Al-Mosharrafa (2015) asserts that large boards are more effective at overseeing companies than small boards. In addition, Tulung and Ramdani (2018) concluded that a larger board size has a positive impact on the firm performance, that larger boards provide greater monitoring so as to improve firm performance.

In contrast, other studies argue that small boards appear to be more effective (Dabor et al., 2015). Yermack (1996) examined a sample of 452 US companies and concluded that small boards were the best choice for these companies as they were the most likely to increase the companies' market value. Similarly, Chan and Li (2008) identified an inverse relationship between the size of the board of directors and company performance, while Jensen (1993) concluded that a small board is better able to oversee a company's activities effectively.

The difficulty of determining the best board size is acknowledged in a number of national CG codes; the UK's codes, for example, do not specify an ideal board size, though they advise corporations to give careful thought to composition. Thus, the UK Combined Code (2006) recommends that:

"The board should not be so large as to be unwieldy. The board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the board's composition can be managed without undue disruption".

Boards in listed companies should have between eight and ten members. Libya's Commercial Law (2010) does not stipulate a board size but leaves this to the general assembly to decide. In contrast, the LCGC (2007) recommends that the board should have between three and eleven members (Benomran et al., 2015), while the Libyan Banking Code (2010) requires commercial banks to have no fewer than five and no more than seven members on the board, the majority of whom should be Non-Executive Directors (NEDs). However, there is no conclusive proof that Libyan listed companies comply with these requirements in practice, and hence, this issue was investigated in this study.

4.3. Non-executive directors (NEDs)

NEDs are one of the main elements within the board of directors that help it achieve the objectives of the company on one hand and controlling and act as a counterweight to executive directors and contribute to the general leadership and development of the firm on the other hand (Shalba, 2016). Their key roles are to contribute to strategic decision making, protect the interests of shareholders and ensure the company continues to perform competitively (Pye, 2001). Al-Faryan (2017) argued that boards with a higher number of external or non-executive directors may be able to mitigate agency issues by enabling boards to be more independent in scrutinising and controlling firm management behaviour. Growing attention is being paid to the role of NEDs.

However, there are a number of obstacles that can prevent non-executive directors carrying out these responsibilities effectively. Bozec (2005) argues that NEDs may sit on several different boards, leaving them only limited time to devote to any one board or to learn about the company's activities. In addition, they may be asked to undertake complex tasks with inadequate information, leading to poor results.

Several studies have examined the role of NEDs in the Middle East and North Africa (MENA) countries. Hussain and Mallin (2002) examined CG practice in firms listed on the Bahraini Stock Exchange and found that a number of these firms had NED-dominated boards. In contrast, El-Mehdi (2007) points out that the majority of board members in Tunisian listed companies are executives, and that the positions of CEO and chairman are often held by the same person. These two sets of results suggest that this aspect of board composition varies significantly across the MENA region.

As far as Libya is concerned, the LCGC (2007) stipulates that the majority of the board of directors must be NEDs and that no board member should sit on more than five company boards at once. In the absence of any definitive evidence that Libyan listed companies comply with these requirements; this empirical issue was investigated in this study.

4.4. Independent non-executive directors (INEDs)

Considerable attention has been paid by academics and policymakers to the question of NED independence. The Cadbury Report (1992) explains that NEDs must be independent of the firm's management in order to avoid any possible conflicts of interest. Accordingly, most leading CG codes recommend that the majority of board members should be independent; the UK CG Code (2010), for example, stipulates that no less than half the board (excluding the chairman) should be INEDs. Al-Sahafi et al. (2015, p. 6) define an INED as:

"a member of the board of directors who does not have a full-time management position at the company, or who does not receive a monthly or yearly salary".

The Organisation for Economic Co-operation and Development (OECD) Principles of CG (2004, p. 64) highlight that INEDs can:

"…contribute significantly to the decision making of the board. They can bring an objective view to the evaluation of the performance of the board and management. In addition, they can play an important role in areas where the interests of management, the company and its shareholders may diverge such as executive remuneration, succession planning, changes of corporate control, takeover defences, large acquisitions and the audit function".

There is a considerable consensus in the CG literature that the presence of INEDs significantly improves board performance and consequently company value. Cotter and Silvester (2003), for example, found evidence that most Australian firms benefit from having independent non-executive directors on their boards, however, Deli and Gillan (2000) found a direct correlation between board independence and company performance.

On the other hand, Lawrence and Stapledon (1999) argue that INEDs generally fail to add real value to companies, claiming that many lack the ability or the time (for example because of extensive commitments elsewhere) to make a real difference. The authors argue that the ability of INEDs to contribute may, in any case, be limited if the board is dominated by executive directors and affiliated non-executive directors. They may not even be truly independent, for example, if they have a personal relationship with the Chief Executive Officer (CEO), if they have held the appointment for a long time, or if they are an executive director elsewhere. These factors can all reduce the INED's effectiveness in their monitoring role. Lawrence and Stapledon argue that INED monitoring can actually be counterproductive in some circumstances, for example, if it adversely affects decision making.

In Libya, the LCGC (2010) requires the board to be independent of the bank's management in order to avoid any possible conflict between the monitoring and management processes and to strengthen accountability. The same code emphasises that there should be at least two INEDs on the board. Even so, there is no definitive evidence that boards in Libyan listed companies ensure that directors are practically independent, so this was another empirical issue investigated in this study.

4.5. Selecting and appointing board members

The UK CG Code (2010) recommends that appointments to the board should be scrutinised by a nomination committee in order to ensure that a suitable balance of experience and skills is maintained within the board (and by extension, the company). The rules for selecting and appointing board members are typically stipulated in national CG codes and regulations (Mallin, 2007), with the result that they vary from one country to another. In countries with a unitary board system, board members are generally selected by the shareholders, while in countries with a dual board system, supervisory board members are appointed by shareholders and management board members are appointed by the supervisory board.

In Libyan environment, the LCGC (2007) stipulates that the general assembly, as the shareholders' representative, is solely responsible for selecting board members. The assembly is supposed to choose candidates according to specific criteria, the most important of which are technical and practical efficiency, specialist knowledge and experience. However, there is no definitive evidence that Libyan listed companies are practically committed to this requirement. Accordingly, this was investigated in this research.

4.6. Duties and responsibilities of the board of directors

Cadbury Report (2002, p. 33) describes boards as:

"…the link between shareholders and managers, companies and the outside world. This is why the board is inescapably the centre of the government system".

First and foremost, the board of directors plays a vital role in overseeing the management on behalf of shareholders and protecting the latters' interests. Its effectiveness in this supervisory function is influenced by several factors such as its size, composition, diversity and whether the positions of CEO and chairman are separated or shared (Brennan, 2006).

According to Mallin (2007), the primary role of the board of directors is to set the company's objectives and monitor the achievement of its goals. Its responsibilities include appointing the CEO, holding regular meetings and making appropriate decisions in areas within its purview. Clarke (2007) describes the board of directors as having three main roles: (i) the control role, which requires it to monitor management performance and ensure accountability to stakeholders; (ii) the strategic role, which requires it to make key strategic decisions and/or monitor strategic decisions taken by senior management; and (iii) the institutional role, which involves establishing institutional relations with shareholders, stakeholders and society as a whole.

The board of directors is a widely recognised legal mechanism, but the roles ascribed to it vary from code to code (Brennan, 2006). According to the UK CG Code (2010, p. 3), the essential roles and duties of the board of directors are:

"…to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met".

Similarly, the UK Combined Code (2006) states that the role of the board of directors is to give skilled leadership and design wise and effective oversight mechanisms to assess and manage risk. It stipulates that it is the duty of the board to *"…make decisions in an objective way and in the company's best interests"*. Recognising that the purview of the board should be clearly defined, the code recommends that: *"There should be a formal schedule of matters over which the board has the right to make decisions"*. In addition, it recognises the importance of good information flow in helping the board carry out its roles effectively; it advises that: *"There should be appropriate reporting procedures defined for the board and its subcommittees"*, that the board should have regular meetings, with an agenda, and that: *"All directors should have access to the company secretary and also be able to take independent professional advice"*. It recommends that all directors receive appropriate training when they are first appointed to the board.

As far as Libya is concerned, the LCGC (2005) makes no explicit recommendations concerning the board's role or responsibilities. However, the LCGC (2007) describes the board's role as being:

- To make all decisions and conclude all actions necessary to achieve the objectives of the company;
- To set policies and issue internal orders pertaining to the company's administrative and financial affairs;
- To invite the general assembly to convene;
- To prepare an annual report, signed by the chairman, to be submitted to shareholders for review at least seven days before the GAM; and
- The board of directors can vest its authority in an executive committee formed from some of its members and determine the period of this authorisation. The authorisation should not extend to include issues that may lead to fundamental changes in the company.

The 2010 version of the LCGC adds that among the functions and responsibilities of the board of directors is the job of monitoring the implementation of policy. However, there is no conclusive empirical evidence that boards in Libyan listed companies perform their roles and responsibilities in accordance with the requirements of the LCGC. This was, therefore, another area of investigation in this study.

5. STUDY METHODOLOGY

The questionnaire survey in this study was developed to gather data from four stakeholder groups (boards of directors, executive managers, regulators and external auditors and other stakeholders). Saunders et al. (2009) explain that surveys are typically employed to gather views, attitudes and perceptions where the purpose of the research is explanation or description. This is perhaps the main reason why the questionnaire survey is the most widely adopted tool in CG research (Jackling & Johl, 2009).

In this research, the potential population comprised four key groups: boards of directors (executive chairmen, non-executive chairmen, executive board members and non-executive board members from Libyan listed companies), executive managers (executive directors, non-executive directors and employees in Libyan listed companies), regulators (from the LSMA and the CBL, and external auditors registered in the LSM) and other stakeholders (academics, financial analysts, stock brokers and financial consultants).

These groups were selected primarily because they have been identified in previous studies as being the most directly engaged with CG (Falgi, 2009; Okike, 2007; Solomon et al., 2003). All of the groups are likely to have at least some awareness of and knowledge about CG and accountability practices, though it is the regulator's group that bears the overall responsibility for monitoring and supervising their implementation of CG mechanisms. Academics were included in the population because, although they have limited monitoring or supervisory responsibilities compared to the other groups, they are interested in and offer a different perspective on the complex issues surrounding CG.

Neuman (2000) recommends that researchers facing this task should employ judgemental sampling, as this is one way to ensure that they gain a deep understanding of the phenomenon. Sekamn (1992) agrees, arguing that researchers should use judgemental sampling even when the population is small, as this gives them the best chance of collecting sufficient and accurate information.

Since the number of Libyan listed companies, regulators and external auditors is limited (there were thirteen listed companies and fewer than 90 regulators in Libya at the time of the fieldwork), it was possible to use the whole population of these groups for this study. Other stakeholder groups were larger, so participants were selected from these groups by means of judgemental sampling, with the selection based on their experience and understanding of the issues surrounding CG in the Libyan environment.

The questionnaire surveys were distributed to Libyan companies listed in the LSM and to external auditors, regulators and other stakeholders in Tripoli and Misurata cities. In total, 400 questionnaires were circulated and collected by hand. Although delivering and collecting the questionnaires by hand was costly and time-consuming, it was worth it in the end as 231 of the questionnaires were returned – a response rate of 58%. This is high compared to Kamel's (2006) observation that questionnaires in the Middle East region usually yield a response rate of only 30%-50%.

The quantitative data were analysed using the Statistical Package for Social Sciences (SPSS) version 21, one of the statistical programs most commonly used by social science researchers (Miller et al., 2010). Descriptive statistics were used to describe and summarise the collected data into simplified forms, while non-parametric tests including the Mann-Whitney (MW) and Kruskal-Wallis (KW) tests were employed to investigate whether there were fundamental differences between four stakeholder groups (board members, executive managers, regulators and other stakeholders) in terms of their answers.

6. RESULTS AND DISCUSSION

This section presents the findings of SPSS and discusses respondents' views regarding the composition, duties and responsibilities of the board of directors.

Table 1 demonstrates the number and percentage of individuals who responded from each group, by position. It shows that the RE group (External Auditor, Regulator) yielded the highest response rate (70%), while the BD group (Executive Chairman, Non-Executive Chairman, Executive Board Member, Non-Executive Board Member) was the second most responsive with 61%. The EM (Executive Director, Non-Executive Director) and OS (Academic, Financial Analyst, Stock Broker, Financial Consultant) groups were less responsive, with rates of 50% and 57% respectively.

Table 1. Number of questionnaires distributed and returned and response rate

Groups	*Respondent's Position*	*Distributed Questionnaires*		*Returned Questionnaires*		*Response Rate (%)*
		No	*%*	*No*	*%*	
BD Group	Executive Chairman	9	11	4	8	44
	Non-Executive Chairman	6	8	3	6	50
	Executive Board Member	20	25	9	19	45
	Non-Executive Board Member	44	56	32	67	73
Total		79	100	48	100	61
EM Group	Executive Director	60	41	36	49	60
	Non-Executive Director	25	17	10	13	40
	Employee	62	42	28	38	45
Total		147	100	74	100	50
RE Group	External Auditor	52	68	37	70	71
	Regulator	24	32	16	30	67
Total		76	100	53	100	70
OS Group	Academic	20	20	9	16	45
	Financial Analyst	25	26	13	23	52
	Stock Broker	35	36	23	41	66
	Financial Consultant	18	18	11	20	61
Total		98	100	56	100	57
Total Groups		*400*		*231*		*58*

When the Cronbach's alpha test was employed to examine the internal reliability of the questionnaire survey in this research, the resulting coefficient was 0.77, indicating that all the responses were reliable.

6.1. The composition of the board of directors

Since the composition of the board is generally considered to have an important impact on its effectiveness as a CG mechanism, this was the subject of the next set of statements in Q1. As shown in Table 2, the respondents expressed general agreement that the statements accurately reflect conditions in Libyan listed companies. Overall mean scores ranged from 4.10 to 3.77 and median scores were 4 for all the statements.

Statement Q1a: "Boards in Libyan listed companies have no fewer than three members and no more than eleven" scored highest with overall mean and median scores of 4.10 and 4 respectively. The RE and OS groups were the strongest supporters of this statement with group means of 4.23 each, while the EM group was the least supportive with a mean score of 3.93. Statement Q1b: "The general assemblies have criteria for appointing the board members in Libyan listed companies and the period of their appointment is no longer than three years" garnered overall mean and median scores of 3.79 and 4 respectively. This time, the strongest agreement was expressed by the BD group (group mean 3.88), while the EM group had the lowest mean score (3.66). The statement that: "The majority of board members in Libyan listed companies are non-executive members" (Q1c) scored second-highest with overall mean and median scores of 3.84 and 4 respectively. It was most strongly supported by the OS group (group mean 4.04) and least supported by the BD group (group mean 3.73). Finally, the statement that: "In Libyan listed companies, at least two board members or one-third of the board (whichever is greater) are independent" (Q1d) was given overall mean and median scores of 3.77 and 4 respectively. The strongest support came from the BD group (group mean 3.89) and the weakest from the OS group (group mean 3.64).

Table 2. The composition of the board of directors

Statement	*No*	*Mean*	*Median*	*SD*	*Rank*
Q1a: Boards in Libyan listed companies have no fewer than three members and no more than eleven.	231	4.10	4	0.78	1
Q1b: The general assemblies have criteria for appointing the board members in Libyan listed companies and the period of their appointment is no longer than three years.	231	3.79	4	0.91	3
Q1c: The majority of board members in Libyan listed companies are non-executive members.	231	3.84	4	0.86	2
Q1d: In Libyan listed companies, at least two board members or one-third of the board (whichever is greater) are independent.	231	3.77	4	0.81	4

Note: A five-point Likert Scale was adopted where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree.

The Kruskal-Wallis test indicated a significant difference among the groups on statement Q1a only; when investigated further with the Mann-Whitney test, this revealed that the difference lay between the EM and RE groups (p-value = 0.015) and the EM and OS groups (p-value = 0.017). As in the last question, this may reflect a difference in perception between internal (the EM group) and external stakeholders (the RE and OS groups).

Table 3. The composition of the board of directors: KW test & MW test

Q	*Group Means*				*K-W P-values*	*Result*	*Mann-Whitney Test – P-values*					
	BD	*EM*	*RE*	*OS*			*BD-EM*	*BD-RE*	*BD-OS*	*EM-RE*	*EM-OS*	*RE-OS*
Q1a	4.04	3.93	4.23	4.23	*0.038**	Sig.	0.300	0.219	0.234	*0.015**	*0.017**	0.986
Q1b	3.88	3.66	3.85	3.82	0.563	Not Sig.	0.250	0.887	0.900	0.269	0.292	0.950
Q1c	3.73	3.74	3.85	4.04	0.142	Not Sig.	0.780	0.648	0.089	0.406	*0.029**	0.169
Q1d	3.89	3.73	3.85	3.64	0.447	Not Sig.	0.209	0.631	0.203	0.333	0.860	0.325

From the point of view of CG, this adherence to the board composition requirement is encouraging. Nam and Lum's (2005) finding that the most efficient board size for CG purposes is fewer than twelve members seems to support the LCGC's eleven-member maximum, though the findings of other authors suggest that boards at the top end of this scale may be more effective in their oversight role than their smaller counterparts (Al-Mosharrafa, 2015). Boards with ten or eleven members are more likely to encompass a wider range of skills, allowing them to make better decisions and monitor CEO performance more closely (Rechner & Dalton, 1991; Al-Matari et al., 2012; Al-Janadi et al., 2013), while the presence of independent members will strengthen their ability to monitor and influence senior management (Kula, 2005; Lee, 2008; Al-Sahafi et al., 2015).

Similarly, the questionnaire responses indicated that general assemblies in Libyan listed companies are practically committed to the LCGC's requirements that they – as the shareholders' representatives – should be solely responsible for appointing board members and that these appointments should be for no longer than three years. The result thus appears consistent with Mallin's (2007) finding that the criteria for selecting and appointing board members are typically stipulated in national CG codes and regulations.

6.2. Duties of the board of directors

In the first part of Q2, respondents were asked to indicate how far they agreed that the activities listed in statements Q2a-e constitute the boards' duties in Libyan listed companies. As can be seen in Table 4, the respondents as a whole agreed that all the listed duties are undertaken by boards; overall mean scores ranged from 4.16 to 3.81, while overall median scores were all 4.

The statement: "The board of directors endorses the strategic direction and main objectives of the company and supervises their implementation" (Q2a) scored highest with overall mean and median scores of 4.16 and 4 respectively. Table 4 shows that the BD and EM groups endorsed this most strongly (group means 4.19 and 4.20 respectively). Q2b: "The board of directors sets up and supervises systems of internal control" was awarded overall mean and median scores of 3.87 and 4 respectively, with the highest group mean coming from the BD group (4.06), while Q2c: "The board of directors sets out specific and clear policies, standards and procedures for the membership of the board of directors" achieved overall mean and median scores of 3.81 and 4 respectively – again, the highest group mean came from the BD group (3.96). The statement: "The board of directors sets out a clear written policy governing the relations between stakeholders in order to protect their interests and preserve their rights" (Q2d) was given overall mean and median scores of 3.87 and 4 respectively, but this time, the highest group mean came from the OS group (4.00), indicating a high level of emphasis on this aspect of board activity. Finally, "The board of directors sets up policies and procedures to ensure that the company's rules and regulations, as well as its commitment to disclose essential information to shareholders, creditors and other stakeholders, are respected" (Q2e) was given overall mean and median scores of 4.12 and 4 respectively. The highest group mean for this statement (4.25) came from the RE group, which represented the external auditors and regulators who officially monitor Libyan listed companies and their boards. This is a positive indication that these boards are expected to carry out their duties in accordance with internal regulations and laws, as well as the stipulations of the LCGC.

Table 4. Duties of the board of directors

Statement	*No*	*Mean*	*Median*	*SD*	*Rank*
Q2b: The board of directors sets up and supervises systems of internal control.	231	3.87	4	0.80	3
Q2c: The board of directors sets out specific and clear policies, standards and procedures for the membership of the board of directors.	231	3.81	4	0.97	5
Q2d: The board of directors sets out a clear written policy governing the relations between stakeholders in order to protect their interests and preserve their rights.	231	3.87	4	0.83	4
Q2e: The board of directors sets up policies and procedures to ensure that the company's rules and regulations, as well as its commitment to disclose essential information to shareholders, creditors and other stakeholders, are respected.	231	4.12	4	0.78	2

Note: A five-point Likert Scale was adopted where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree.

As shown in Table 5, the Kruskal-Wallis and Mann-Whitney tests revealed no statistically significant differences between the groups on this question, indicating general satisfaction with the duties undertaken by boards in Libyan listed companies.

Table 5. Duties of the board of directors: KW test & MW test

Q	*Group Means*				*K-W P-values*	*Result*	*Mann-Whitney Test – P-values*					
	BD	*EM*	*RE*	*OS*			*BD-EM*	*BD-RE*	*BD-OS*	*EM-RE*	*EM-OS*	*RE-OS*
Q2a	4.19	4.20	4.09	4.14	0.824	Not Sig.	0.722	0.562	0.991	0.354	0.704	0.593
Q2b	4.06	3.84	3.81	3.79	0.385	Not Sig.	0.223	0.059	0.213	0.607	0.877	0.739
Q2c	3.96	3.76	3.72	3.86	0.511	Not Sig.	0.285	0.143	0.744	0.699	0.516	0.339
Q2d	3.92	3.78	3.83	4.00	0.304	Not Sig.	0.424	0.333	0.407	0.938	0.124	0.110
Q2e	4.08	4.08	4.25	4.09	0.405	Not Sig.	0.709	0.199	0.994	0.109	0.771	0.248

6.3. Responsibilities of the board of directors

In the next part of Q3, respondents were asked to indicate how far they agreed that the listed responsibilities are assumed by boards of directors in Libyan listed companies. As shown in Table 6, the respondents expressed a high level of agreement with the responsibilities listed in Q3a-Q3f. Overall mean scores for the statements ranged from 3.96 to 3.72, while overall median scores were all 4.

Statement Q4a: "The board of directors has the full authority and power to monitor the operations of the company's management in general and monitor the executives in particular" was given overall mean and median scores of 3.93 and 4 respectively. Table 7 shows that the RE group was the strongest supporter of this statement (group mean 4.08), while the EM group was the least strong (group mean 3.77). Statement Q3b: "The board of directors carries out its duties seriously and attentively and ensures its decisions are based on adequate information from the executive departments" was given overall mean and median scores of 3.84 and 4 respectively. The BD group expressed the strongest agreement with this statement (group mean 3.92), whereas the OS group gave the lowest mean score (3.66). The statement: "The members of the board of directors represent the majority of the shareholders and are committed to serving the company's interests generally" (Q3c) scored lowest in this section with overall mean and median scores of 3.72 and 4 respectively. In this case, the OS group expressed the strongest support (group mean 3.86), while the EM group had the lowest mean score of 3.58.

Overall, the respondents agreed most strongly with the statement: "The board of directors determines the authority delegated to the executive management, the executive decision-making procedures and the authorisation period" (Q3d), placing this first with overall mean and median scores of 3.96 and 4 respectively. Again, the strongest supporter of this statement was the OS group (group mean 4.11), while the BD and EM groups were the least supportive, with group means of 3.85 each. Statement Q3e: "The board of directors takes into account the interests of stakeholders when making strategic decisions" garnered overall mean and median values of 3.85 and 4 respectively. The OS group expressed the strongest agreement with this statement (group mean 4.02), while the EM group was the least supportive with a mean score of 3.73. Finally, the statement: "Board members devote enough time to undertake their responsibilities and to prepare for the meetings of the board" (Q3f) garnered overall mean and median scores of 3.73 and 4 respectively. The strongest support came from the RE group (group mean 3.85), while the EM group was the least supportive (group mean 3.64).

Table 6. Responsibilities of the board of directors

Statement	*No*	*Mean*	*Median*	*SD*	*Rank*
Q3b: The board of directors carries out its duties seriously and attentively and ensures its decisions are based on adequate information from the executive departments.	231	3.84	4	0.85	4
Q3c: The members of the board of directors represent the majority of the shareholders and are committed to serving the company's interests generally.	231	3.72	4	0.84	6
Q3d: The board of directors determines the authority delegated to the executive management, the executive decision-making procedures and the authorisation period.	231	3.96	4	0.78	1
Q3e: The board of directors takes into account the interests of stakeholders when making strategic decisions.	231	3.85	4	0.85	3
Q3f: Board members devote enough time to undertake their responsibilities and to prepare for the meetings of the board.	231	3.73	4	0.93	5

Note: A five-point Likert Scale was adopted where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree.

As can be seen in Table 7, the Kruskal-Wallis test indicated that there were no statistically significant differences across the sample as a whole for any of the statements, suggesting that boards in Libyan listed companies fulfil their responsibilities towards shareholders and stakeholders. The only significant differences found by the Mann-Whitney test were between the EM and RE groups (p-value=0.038) and the EM and OS groups (p-value=0.043) for statement Q3a. These differences may reflect a difference in perception between internal (the EM group) and external stakeholders (the RE and OS groups).

Table 7. Responsibilities of the board of directors: KW test & MW test

Q	*Group Means*				*K-W P-values*	*Result*	*Mann-Whitney Test – P-values*					
	BD	*EM*	*RE*	*OS*			*BD-EM*	*BD-RE*	*BD-OS*	*EM-RE*	*EM-OS*	*RE-OS*
Q3a	3.85	3.77	4.08	4.05	0.103	Not Sig.	0.370	0.291	0.319	**0.038***	**0.043***	0.974
Q3b	3.92	3.89	3.91	3.66	0.491	Not Sig.	0.448	0.717	0.134	0.772	0.364	0.228
Q3c	3.71	3.58	3.77	3.86	0.281	Not Sig.	0.363	0.772	0.371	0.217	0.065	0.780
Q3d	3.85	3.85	4.06	4.11	0.143	Not Sig.	0.970	0.193	0.078	0.144	0.053	0.545
Q3e	3.90	3.73	3.81	4.02	0.288	Not Sig.	0.215	0.494	0.706	0.679	0.062	0.275
Q3f	3.75	3.64	3.85	3.80	0.380	Not Sig	0.279	0.748	0.753	0.142	0.146	0.932

The questionnaire respondents as a whole strongly agreed that all the duties listed in Table 4 are undertaken by the boards of Libyan listed companies. These duties include endorsing the strategic direction and main objectives of the company and supervising their implementation; setting up and supervising systems of internal control; setting out specific and clear policies, standards and procedures for board membership; setting out clear written policies to protect the rights and interests of stakeholders; and setting up policies and procedures to ensure that the company's rules and regulations, as well as its commitment to disclose essential information to shareholders, creditors and other stakeholders, are respected.

In addition, they strongly agreed that boards in Libyan listed companies are responsible for monitoring the operations of the company's management in general and executives in particular; for carrying out their duties seriously and attentively; and for ensuring that their decisions are based on adequate information from executives (see Table 6). They saw boards as responsible for determining what authority is to be delegated to executive managers and for how long, and for setting out executive decision-making procedures. Finally, they agreed that boards must take the interests of stakeholders into account when making strategic decisions.

The respondents echoed the Cadbury Report (1992), Dahya et al. (2002), the OECD (2004), the UK Combined Code (2006), Monks and Minow (2008), the UK CG Code (2010) and Al-Matari et al. (2012) in suggesting that the main duties and responsibilities of the board are to set the direction of the company through targeted aims, policies, plans and strategies over the short and long term. The results are also in line with Mallin's (2007) argument that the primary role of the board of directors is to set the company's objectives and monitor its progress towards achieving its goals, and with Clarke's (2007) finding that the board's three main roles are control, strategic and institutional.

7. CONCLUSION

The questionnaire findings provided evidence that Libyan listed companies generally comply with the LCGC's (2007) requirements regarding the board of directors' mechanism. The results asserted that most boards have between three and eleven members, the majority of whom are non-executives and at least two or one-third of whom (whichever is greater) is independent. Moreover, the results indicated that general assemblies in Libyan listed companies are practically committed to the LCGC's requirements regarding the appointment of board members and their length of tenure.

The results provided evidence that boards in Libyan listed companies are generally carrying out their duties and responsibilities in accordance with internal regulations and laws, as well as the stipulations of the LCGC (2007). Furthermore, the stakeholder groups were broadly satisfied that board members are devoting sufficient time and effort to discharge these duties and responsibilities properly. Overall, the findings are consistent with agency theory's assumption that the board of directors performs a vital CG function in its role as the monitor of the company's management (Fama & Jensen, 1983; Peasnell et al., 2005).

Although the present study makes a valuable contribution to knowledge by investigating the extent to which board of directors' mechanism is implemented in Libyan listed companies, it should be acknowledged that as with any other study in social research, it has certain limitations. The first is the generalizability of the results; caution is necessary when generalising from the results, as the small sample size (only 400 questionnaires were circulated, 231 of which were returned and analysed, means that the findings might not accurately reflect the full range of views held by stakeholders in the Libyan environment.

Gathering data from the broadest possible range of stakeholders was made additionally difficult because many of those targeted (especially general assembly members, board members and sub-committee members) were unavailable to participate; many work part-time and do not have permanent offices in their companies. This made it more difficult to find a balanced number of participants for each stakeholder group.

Comparatively few studies have explored CG in Libya, making it a vital area for future research. Future research should investigate the effects of compliance with the CG mechanisms on companies' performance. More particularly, comparative studies between listed and unlisted companies are recommended to develop the CG environment and ensure better implementation of CG in the Libyan context. Some of the key CG mechanisms should be examined in depth and separately to increase understanding of their significance in the Libyan environment, for example, the impact of board composition on the implementation of CG and the effect of board characteristics on firm performance, using the two methods of qualitative and quantitative data collection.

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