

**The Impact of Institutions on the Development of
Corporate Governance in Saudi Arabia**

Mazin Sirajuddin D. Bukhari, BSc, MSc.

**Thesis Submitted to the University of Nottingham
for the Degree of Doctor of Philosophy**

June, 2014

Abstract

Recent studies highlight the importance of improving corporate governance practices in order to reduce the impact of financial crises on the economy. However, doing so requires consideration of exactly what forms corporate governance, particularly in a national context. Such consideration necessitates some focus on institutions, an area which has been largely neglected by previous research. As such, this research primarily focuses on understanding a range of institutions in a non-Western, emerging society. Attention will be paid to the influence of such institutions on the emergence and development of corporate governance regimes from an institutional theory perspective, as perceived by significant social actors. Data were collected from semi-structured interviews with corporate governance managers in Saudi Arabia. Findings suggest that the emergence of corporate governance regimes in a non-Western, emerging society (Saudi Arabia) is influenced by family, kinship, bureaucratic state, and religion institutions. Family and kinship institutions appear to negatively impact on the emergence and development of corporate governance in this non-Western, emerging society in terms of issues surrounding control, abuse, and conflict of interest. The bureaucratic state and religion appear to positively influence the development of corporate governance in the Saudi Arabian non-Western, emerging society in terms of issues centred on implementation, compliance, and supporting roles. This research provides a new understanding of the impact of, and role played by, institutions in the formation of corporate governance in a non-Western, emerging society which is an under-researched context. Implications, such as how to reduce negative institutional impacts and take advantage of more positive ones, are discussed. Finally, suggestions for further research are offered. Such research might focus on exploring the impact of institutions from extended standpoints of institutional theory, for example institutional logics and institutional work perspectives.

List of Participated Conferences

Bukhari, M., Soulsby, A. and Hughes, M. (2013) The Impact of Institutions on the Development of Corporate Governance in Saudi Arabia, (submission no. 2875197). *Paper presented at: The 13th PREBEM: The Conference for PhD Candidates in Business Economics and Management*. March 22nd, Amsterdam, Netherland.

Acknowledgement

All praise is due to Allah, the Lord of the Worlds.

Conducting a PhD research is not an easy task as it requires a commitment and willingness to overcome multiple challenges. However, I find this task and challenge very interesting because there is a high level of creativity involved in this task as well as exploring new insights and contributing to knowledge is also involved in this task. This long journey is successfully completed with continuous support and encouragement from a number of persons whom I want to deeply thank.

In the first place, I'd like to express my sincere thanks to my supervisors, Anna Soulsby and Mathew Hughes, for their continuous and constant support, mentoring, encouragement, motivation, guidance, patience, advice, critical analysis, constructive feedback, and efforts with me in the entire process of conducting this research. My supervisors make genuine efforts to help and assist me to pass each stage successfully. No words can express or describe how happy I was under their supervision in my journey. Anna and Mat, thank you from the bottom of my heart.

I extend my respect and appreciation to the University of Nottingham including the university administration, graduate school, student services, international students support, university libraries, and business school administration for supporting PhD students and providing useful facilities and services that allow the students focus and concentrate perfectly on their studies. My special thanks go to the teaching staff and colleagues at the business school who have taught me during the research programme.

I would like to thank my sponsors, the Ministry of Higher Education and Saudi Arabian Airlines, for offering me this opportunity to continue and advance my education, and expand my knowledge and experience in the field of business administration. Both sponsors were patient and interested in serving me at any time to achieve my degree successfully.

I would like to express my appreciation to the managers of corporate governance departments of listed firms in Saudi Arabia, to the officials of the Capital Market Authority in Saudi Arabia, and to the representatives of the Saudi Stock Exchange (Tadawul) for their warm welcome to collect the data

through conducting interviews with them as a part of the process of conducting this research study.

My endless thanks to my parents, Siraj and Sharifa, for their unconditional love, for their continuous prays and best wishes to me, and for their constant support at all stages in life, and specifically, in my education. Thank you both for being there always for me. I extend my thanks to my siblings: Samia, Nadia, Hani, Adel, and Omar, my grandmother: Ebada, my parents-in-law: Saber and Nasema, and my siblings-in-law: Saud, Sara, and Mohammed for their warm wishes to me.

My special thanks also to my friends: Ahmed Hafiz, Wael Bukhary, Mohammed Sobhi, Jubran Alqahtani, Abdulrahman Alsahami, and all other friends, relatives, and neighbours who supported me in this journey.

My deep gratefulness to my wife, Samar, for her sacrifice, patience, supports, and accompany throughout the journey. Thank you for your unlimited love that filled our days with happiness and pleasure which, in turn, helped me to carry on doing my research. Thank you for your time and looking after our children during the busy time of my studies. My endless love to my children: Abdulrahman and Layal, who filled my life with happiness, enthusiasm, and energy to face challenges.

Many thanks for everyone prayed, helped, supported, and encouraged me during my journey, and affected me positively to complete this research.

Table of Contents

Abstract	I
List of Participated Conferences	II
Acknowledgement	IV
Table of Contents	V
List of Tables	X
List of Figures	XI
Acronyms	XII
Chapter 1: Introduction	1
Chapter 2: Theories of Corporate Governance	8
2.1 Introduction.....	8
2.2 Agency Theory.....	8
2.3 Stewardship Theory.....	16
2.4 Stakeholder Theory.....	19
2.5 Transaction Cost Economics (TCE).....	23
2.6 Path Dependence Theory.....	27
2.7 Corporate Governance Objectives.....	31
2.8 Conclusions.....	34
Chapter 3: Institutional Theory	36
3.1 Introduction.....	36
3.2 Early Institutionalism.....	37
3.2.1 Early Institutional Theory in Economics.....	38
3.2.2 Early Institutional Theory in Political Science.....	40
3.2.3 Early Institutional Theory in Sociology.....	42
3.3 Institutional Theory Development.....	43
3.4 Neo-institutional Theory Approaches.....	53
3.4.1 Neo-institutional Theory in Economics (NIE).....	54
3.4.2 Neo-institutional Theory in Political Science.....	55
3.4.3 Neo-institutional Theory in Sociology (NIS).....	57
3.5 Summary of the Historical Development of Institutionalism and New Institutionalism.....	58
3.6 Institutions.....	60

3.6.1 Defining Institutions.....	60
3.6.2 Family Institution.....	64
3.6.3 Kinship Institution.....	65
3.6.4 Bureaucratic State.....	67
3.6.5 Religion Institution.....	68
3.6.6 Market Institution.....	69
3.6.7 Political Institution.....	70
3.6.8 Legal Institution.....	71
3.7 Institutions and Power.....	72
3.8 Institutions and Legitimacy.....	74
3.9 Limitations of Institutional Theory.....	75
3.10 Summary.....	76
Chapter 4: Corporate Governance and Institutional Theory.....	78
4.1 Introduction.....	78
4.2 Corporate Governance from an Institutional Theory Perspective.....	79
4.3 Corporate Governance Practices within Institutions.....	83
4.3.1 Family Institution.....	84
4.3.2 Kinship Institution.....	89
4.3.3 Bureaucratic State.....	90
4.3.4 Religion Institution.....	94
4.3.5 Market Institution.....	96
4.3.6 Political Institution.....	98
4.3.7 Legal Institution.....	99
4.4 Research Problem.....	101
4.4.1 Research Setting.....	104
4.4.2 Research Questions.....	105
4.5 Summary.....	106
Chapter 5: Corporate Governance in Non-Western, Emerging Societies: The Context of Saudi Arabia.....	108
5.1 Introduction.....	108
5.2 General Overview.....	110
5.3 The Emergence of Corporate Governance in the Saudi Arabian Non- Western, Emerging Society.....	113
5.4 The Saudi Arabian Capital Market Authority (CMA).....	114
5.5 Capital Market Law (CML).....	118
5.6 Companies Act (1965, 1982, 1985).....	120
5.7 The Saudi Stock Exchange (Tadawul).....	121

5.8 Saudi Arabian Monetary Agency (SAMA).....	123
5.9 Summary.....	123
Chapter 6: Research Methodology.....	126
6.1 Introduction.....	126
6.2 Research Philosophy.....	126
6.2.1 Characteristics of Critical Realism.....	131
6.3 Research Design.....	134
6.4 Research Methods.....	137
6.4.1 Ethical Considerations.....	141
6.4.2 Interview Approach.....	143
6.4.3 Interview Guide.....	157
6.4.4 Interview Bias.....	158
6.4.5 Archival Sources.....	159
6.4.6 Data Analysis.....	161
6.5 Summary.....	163
Chapter 7: First Stage of Data Analysis: Emergent Themes.....	166
7.1 Introduction.....	166
7.2 Emergent Themes.....	167
7.3 Meta-narrative.....	173
7.3.1 An Expression of the Bureaucratic State.....	173
7.3.1.1 Imposed Compliance.....	173
7.3.1.2 Bare Minimum Compliance.....	175
7.3.1.3 Exceeding Minimum Compliance (Best Practice).....	177
7.3.1.4 Implementation: the Regulatory Role.....	179
7.3.1.5 Implementation: the Awareness/Cooperative/Partnership Role.....	181
7.3.1.6 Regulations Failure.....	182
7.3.2 Family Ties.....	185
7.3.2.1 Entitlement (Separation of Ownership and Control).....	185
7.3.2.2 Control (Decision Making).....	187
7.3.2.3 Conflict of Interests.....	190
7.3.2.4 Abuse (Selecting and Appointing Board Members).....	193
7.3.2.5 Resistance to Change.....	194
7.3.3 Kinship Networks.....	196
7.3.3.1 Abuse (Independence of Board Members).....	197
7.3.3.2 Control (Decision Making).....	199
7.3.4 Religion.....	200

7.3.4.1 Association (Similar Principles).....	200
7.3.4.2 Implementation: Supportive Role.....	203
7.3.4.3 Compliance (Sharia Compliance).....	204
7.4 Archival Sources Evaluation.....	206
7.5 Comparative Analysis.....	208
7.6 Quantifying the Data.....	211
7.6.1 Evaluation.....	213
7.6.1.1 An Expression of the Bureaucratic State (the CMA).....	213
7.6.1.2 Family.....	215
7.6.1.3 Kinship.....	216
7.6.1.4 Religion.....	217
7.6.1.5 Outcomes.....	217
7.7 Cross-links among Institutions.....	219
7.8 Summary.....	222
Chapter 8: Second Stage of Data Analysis: Development.....	225
8.1 Introduction.....	225
8.2 Meta-narrative.....	226
8.2.1 An Expression of the Bureaucratic State.....	227
8.2.2 Family Ties.....	231
8.2.3 Kinship Networks.....	237
8.2.4 Religion.....	238
8.3 Amendments on Cross-links among Institutions.....	241
8.4 Summary.....	243
Chapter 9: Discussion.....	244
9.1 Introduction.....	244
9.2 Family Institution.....	245
9.2.1 Entitlement (Separation of Ownership and Control).....	245
9.2.2 Control (Decision Making).....	249
9.2.3 Abuse (Selecting and Appointing Board Members).....	252
9.2.4 Resistance to Change.....	255
9.2.5 Conflict of Interests.....	257
9.3 Kinship Institution.....	261
9.3.1 Abuse (Independence of Board Members).....	262
9.3.2 Control (Decision Making).....	264
9.4 An Expression of the Bureaucratic State.....	266
9.4.1 Imposed Compliance.....	267
9.4.2 Bare Minimum Compliance.....	269

9.4.3 Exceeding Minimum Compliance (Best Practice).....	270
9.4.4 Implementation: the Regulatory Role.....	273
9.4.5 Implementation: the Awareness/Cooperative/Partnership Role...	276
9.4.6 Regulations Failure.....	277
9.5 Religion Institution.....	279
9.5.1 Association (Common Principles).....	279
9.5.2 Implementation: Supportive Role.....	281
9.5.3 Compliance (Sharia Compliance).....	283
9.6 Summary.....	285
Chapter 10: Conclusions, Implications, and Limitations.....	288
10.1 Theoretical Contributions.....	288
10.2 Practical Implications.....	301
10.3 Limitations of the Study and Directions for Future Research.....	303
10.4 Conclusions.....	306
References.....	309
Appendices.....	341
Appendix I: Informed Consent Form.....	342
Appendix II: The Saudi Arabian Corporate Governance Document.....	345

List of Tables

Table 2.1:	Agency Theory Overview.....	10
Table 2.2:	PA Conflict versus PP Conflict.....	14
Table 3.1:	The Old and the New Institutionalism.....	49
Table 3.2:	Three Pillars of Institutions.....	51
Table 3.3:	Summary of Institutional Theory Development.....	58
Table 4.1:	World Major Crises.....	102
Table 6.1:	Ethical Principles and Actions Taken.....	142
Table 6.2:	Interviews' Details.....	147
Table 6.3:	Interviewees' Details.....	150
Table 6.4:	Pilot Studies.....	156
Table 6.5:	Interview Questions.....	157
Table 7.1:	Emergent Themes.....	167
Table 7.2:	Annual Reports Evaluation.....	206
Table 7.3:	The Frequency of Emergent Themes in all Organisations.	209
Table 7.4:	Quantifying the Frequency of Themes.....	212
Table 7.5:	The Causes of Conflict of Interest.....	218
Table 8.1:	Follow Up Interviews' Details.....	226

List of Figures

Figure 1.1:	Research Process.....	5
Figure 2.1:	Stakeholder View of Firm.....	20
Figure 2.2:	Alternative Modes of Governance.....	25
Figure 4.1:	A Map for the Research Study.....	104
Figure 5.1:	Map of the Kingdom of Saudi Arabia.....	110
Figure 5.2:	OPEC Countries of Oil Exports.....	111
Figure 6.1:	Interview Sample Approach.....	149
Figure 7.1:	The Causes of Conflict of Interest.....	218
Figure 7.2:	The Influence of Institutions on CG.....	219
Figure 8.1:	The Influence of Institutions on CG (amended).....	241

Acronyms

CG	Corporate Governance
CMA	Capital Market Authority
CML	Capital Market Law
PIF	Public Investment Fund
GCC	Gulf Co-operation Council
IPO	Initial Public Offering
MOC	Ministry of Commerce
NIE	Neo-institutional Theory in Economics
NIS	Neo-institutional Theory in Sociology
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of the Petroleum Exporting Countries
SAMA	Saudi Arabian Monetary Agency
SSE	Saudi Stock Exchange
TCE	Transaction Cost Economics
WTO	World Trade Organisation

Chapter 1: Introduction

In recent years, both scholars and practitioners have devoted considerable interest and attention towards improving corporate governance (CG) practices (Shleifer and Vishny, 1997; La Porta et al., 2000; Gompers et al., 2003). In a review of corporate governance, Shleifer and Vishny (1997: 737) pointed out that “the subject of corporate governance is of enormous practical importance”. Their early research highlighted the crucial role played by poor corporate governance systems in causing major financial crises. Their research has proven to be correct, with multiple financial calamities exemplifying their predictions. Examples of such calamities include the East Asian financial crisis in 1997, Enron in the USA in 2001, Ahold and Parmalat in Europe in 2003, and the global financial crisis in 2007 (Johnson et al., 2000; Elson and Gyves, 2003; Millar et al., 2005; Erkens et al., 2012). The efficiency of these corporate governance systems mainly depends on how these systems are formed within a particular context (Aguilera and Jackson, 2003). One possible explanation for this involves institutional influence, which is interesting as it brings institutions (largely neglected in previous research) into the debate on corporate governance. Indeed, social scientists are largely absent from the intellectual community of researching and debating the development of corporate governance systems (Davis, 2005).

Corporate governance from an agency theory perspective has dominated the literature since the 1980s (e.g. Coffee, 1984; Brudney, 1985; Eisenhardt, 1989; Singh and Davidson, 2003; McCarthy and Puffer, 2008; Filatotchev and Wright, 2011). However, a recent stream of corporate governance studies has started to move away from this dominant standpoint towards a more holistic

view that accounts for a configuration of interdependent elements such as the relationship between stakeholders and corporations, and the relationship between corporations and society (Davis and Useem, 2002). This view also emphasises that corporate governance systems are embedded in larger institutional and legal frameworks (Davis and Useem, 2002). The institutional approach to corporate governance assumes that its arrangements reflect institutional processes, for example political processes (Davis and Thompson, 1994). This viewpoint accounts for the enactment and acceptance of institutions that inform the behaviour of actors within activities such as corporate governance (Davis, 2005).

The author of this research study will primarily focus on understanding the dynamics of different institutions in a non-Western, emerging society and their influence on the emergence and development of corporate governance systems from an institutional theory perspective. The domination of the theory and conceptual development of corporate governance through agency theory leads to the notion of context being ignored. This results in contextual specificities relevant to different cultures being missed, leading to an incomplete treatment of the emergence and effective running of corporate governance. Moreover, those studies that have adopted an institutional theory or offered different frameworks of corporate governance which tend to be grounded in the Western tradition and do not account for institutional contexts far removed from those traditions, where the economic context may be more emerging than developed. The following research questions were addressed to fill this important gap in the literature:

- 1- What do non-Western, emerging society (Saudi Arabia) institutions consist of as perceived by significant social actors?
- 2- In light of these perceptions, what are the likely influences of these non-Western, emerging society institutions on the emergence and development of its corporate governance regime?

In order to address these research questions, data were collected from semi-structured interviews with significant social actors who have backgrounds in corporate governance practices. A pilot study was conducted initially and then followed by the first stage of interviews. The data collected from these interviews were analysed using thematic analysis. The findings were discussed with the significant social actors in follow-up interviews. After this, a further analysis was performed after the second stage of interviews. Archival sources, such as the annual reports of listed firms, were used to gather more information about the relationships and transactions between listed firms and the regulatory authorities.

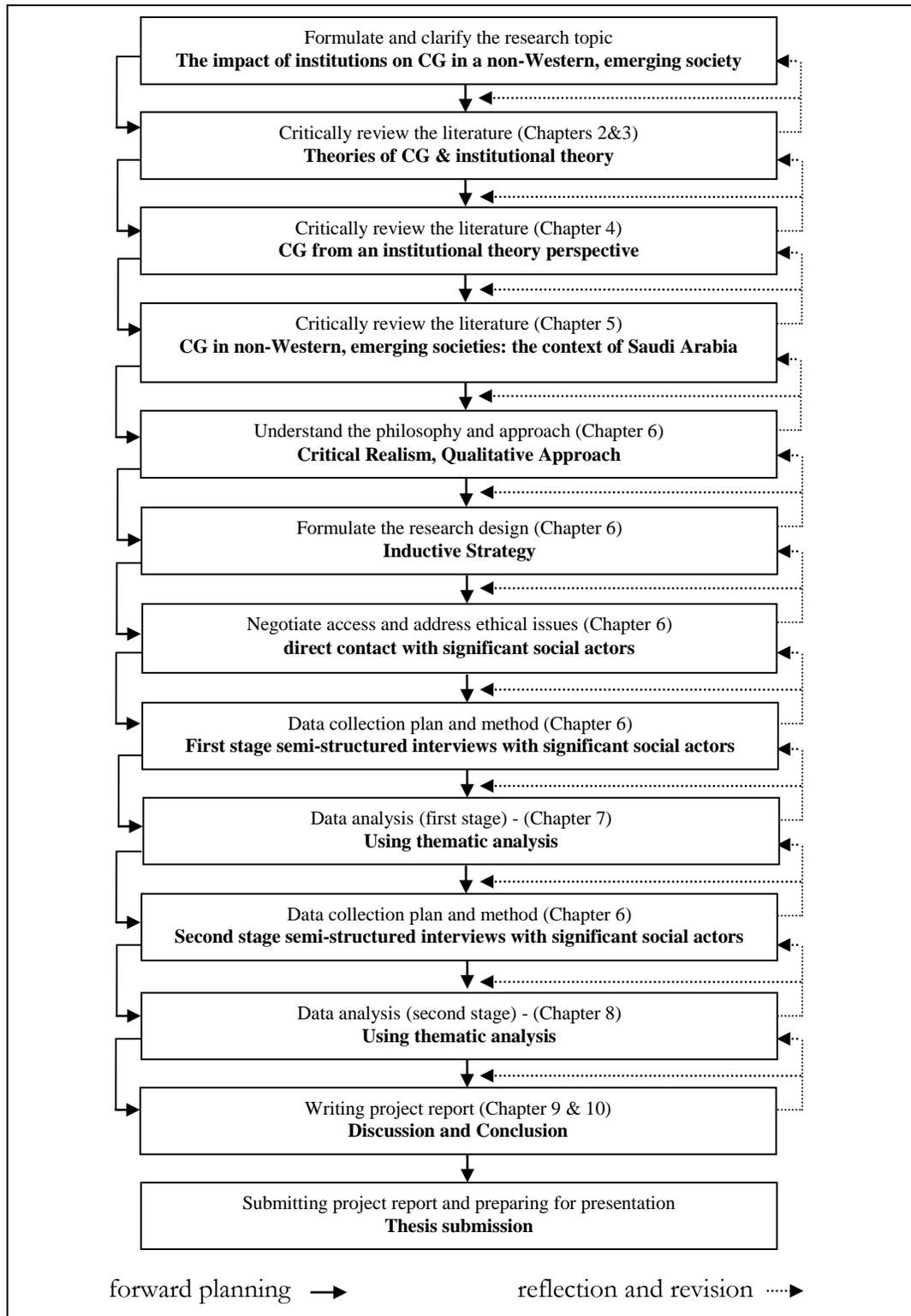
The findings from this research study suggest that there is an apparent influence from family, kinship, bureaucratic state, and religion institutions in the eyes of significant social actors. Family and kinship institutions appear to negatively impact the development and emergence of CG regime in the Saudi Arabian non-Western, emerging context, whereas bureaucratic state and religion institutions appear to positively influence the development and emergence of a CG system. By understanding this from the institutional theory perspective, the original contribution to knowledge from this thesis is to reconcile how institutions influence the emergence of corporate governance

regimes in a non-Western, emerging society. The process of conducting this research study is presented in a detailed figure next and is followed by the structure of this thesis.

Process: to illustrate the process of conducting this research, Figure 1.1 outlines each step of the research, from the research proposal to the submission of the thesis. The figure presents all the stages that this research has undergone in order to answer the research questions and achieve the objectives of the study.

Figure 1.1: Research Process

Source: Saunders et al. (2007: 10) with modification for context and the nature of the study



Structure: Chapter One introduces the research topic and briefly outlines the methods employed in this research, the process of conducting this research study, and the structure of this thesis. Chapter Two presents the theories previously employed by different scholars to explain and understand the different phenomena of corporate governance. This includes presenting agency theory, stewardship theory, stakeholder theory, transaction cost economics, and path dependence theory. Chapter Three presents institutional theory in a detailed view as it is the adopted perspective in this research study. This includes presenting the historical background of early institutionalism in economics, political science, and sociology. This is followed by an introduction of the development of institutional theory up to the new institutionalism in economics, political science, and sociology. A number of definitions of institutions are provided along with examples of institutions including family, kinship, bureaucratic state, religion, market, legal, and politics. The limitation of institutional theory and its relationship with power and legitimacy are also explored. Chapter Four presents corporate governance from an institutional theory perspective. This includes defining CG and providing a literature review of the influence of institutions on the emergence and development of the CG regime. This is followed by presenting the research problem along with the research questions and research setting. Chapter Five presents a broad view of CG in a non-Western, emerging society (Saudi Arabia). This includes describing the context, the Capital Market Authority, the Capital Market Law, Companies Act, Saudi Stock Exchange Company, and Saudi Arabian Monetary Agency.

Chapter Six discusses the methods employed in this research. This includes presenting the research philosophy, the research design, the research methods,

and the analytical process. Chapter Seven interprets, analyses, and evaluates the data collected in the first stage of interviews. This includes describing and evaluating the emergent themes, providing a comparative analysis, quantifying the data, and providing cross-links among institutions. Chapter Eight provides further interpretations to the collected data from the second stage of interviews. This includes drawing amendments to the cross-links among institutions. Chapter Nine discusses the findings of this research. This includes interpreting the main observations, discussing the importance and relevance of the observations, and discussing the outcomes in light of existing literature in the field. Chapter Ten concludes the research. This includes highlighting the theoretical contributions of the research, limitations of the study, directions for future research, and the research conclusions.

Chapter 2: Theories of Corporate Governance

2.1 Introduction

The previous chapter introduced this research study by providing a brief background of the research along with the methods employed in this study, the process of conducting this research, and the overall structure of the thesis. This chapter aims to present a wide-range of theories employed commonly by scholars to investigate and understand the different aspects of corporate governance. This includes presenting agency theory broadly as it is argued that the CG system emerged from the agency problem that focuses on the separation of ownership and control (Berle and Means, 1932). After that, the chapter will proceed to present the remaining theories used in CG studies, specifically stewardship theory, stakeholder theory, transaction cost economics, and path dependence theory. In principle, these different theories of CG studies aim to achieve common objectives of CG. These objectives are outlined in detail at the end of this chapter. Presenting different theories of CG offers better understanding of the dimensions of CG which simplify the choice of the theory that is most suitable for conducting this research study. The presentation of these theories will start by describing and discussing agency theory.

2.2 Agency Theory

Berle and Means (1932) identified important problems in the separation of ownership and control of firms. Such problems principally emerge from a presumed conflict of interest between managers ('agents') and owners or

shareholders ('principals'). Berle and Means' (1932) work formed the basis of what later became known as the 'agency' problem. Jensen and Meckling (1976: 308) define the agency relationship as:

a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.

A basic assumption of agency theory is that the goal of the agent and the principal is divergent (Hill and Jones, 1992), which initially means that the agent will not always (or automatically) act in the best interests of the principal (Ross, 1973; Jensen and Meckling, 1976). As a consequence of diverging interests, managers would redirect the main goal of the shareholders, which is profit maximisation, towards their own interests, thereby subverting the relationship between the managers and the company's shareholders. The agency problem was extensively delineated by Ross (1973) who found that when this separation occurred, the optimal incentive contract is determined by the importance of the manager's decision and his aversion to risk. Following the work of Ross, Jensen and Meckling (1976) were the first to suggest a satisfactory explanation of how a public corporation can be controlled by proposing agency theory. They assumed that the managers tend to focus on self-interest and so do not look solely after the firms' interests.

Table 2.1: Agency Theory Overview

Source: Eisenhardt (1989: 59)

<i>Element</i>	<i>Meaning</i>
Key idea	Principal-agent relationships should reflect efficient organization of information and risk-bearing costs.
Unit of analysis	Contract between principal and agent.
Human assumptions	Self-interest. Bounded rationality. Risk aversion.
Organizational assumptions	Partial goal conflict among participants. Efficiency as the effectiveness criterion. Information asymmetry between principal and agent.
Information assumption	Information as a purchasable commodity.
Contracting	Agency (moral hazard and adverse problems selection). Risk sharing.
Problem domain	Relationships in which the principal and agent have partly differing goals and risk preferences (e.g., compensation, regulation, leadership, impression management, whistle-blowing, vertical integration, transfer pricing)

Eisenhardt (1989) offered an overview of agency theory (see Table 2.1). Agency theory focuses on the basic agency structure of principal-agent relationships who are engaged in cooperative behaviour with different objectives and interests (Eisenhardt, 1989). Fama and Jensen (1983) posit that, at an organisational level, control of the agency problem is crucial when decisions are made by managers. This is because managers are not the major residual claimants and thus have no bearing on the major share of the wealth outcome of their decisions. With no robust control over decisions, such managers may make decisions and take actions that are likely to be divergent from the core interests of residual claimants (i.e. principals). To overcome this problem, they suggest that decisions should be separated from management. Eisenhardt (1989) identified another agency problem that can occur in the

agency relationship. She stated that it might be expensive or difficult for the principal to ensure what exactly the agent is doing. More to the point, the principal is unable to discover whether the agent is acting in a proper way or not. Thus, risk sharing can be a problem due to the different risk preferences between the principal and the agent.

Agency theory is generally the most dominant theoretical perspective applied in corporate governance (Davis et al., 1997; Shleifer and Vishny, 1997; Dalton et al., 1998; Shankman, 1999) and the main focus of research on corporate governance has been to determine optimal contracts between managers and shareholders that might resolve the agency problem (Fama and Jensen, 1983). Daily et al. (2003) indicate that describing and analysing CG through the agency theory perspective is popular for two reasons: (1) the simplicity of agency theory, in which the contract is only between two actors (manager and shareholder), and (2) the notion of humans as self-interested, advancing their interests at the expense of other parties interests.

This discussion has so far highlighted the theoretical logic of corporate governance from a contractual perspective. This discussion will proceed to define corporate governance in light of a seminal publication by Shleifer and Vishny (1997: 737), in that corporate governance is:

[the process that] deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.

This definition and viewpoint is grounded in the agency problem, which focuses on the way major investors protect their assets and investments against expropriation by insiders, such as managers. This protection may also

include protecting rights and interests of minority shareholders, the strength of creditor rights, and the rights and limitations of executive directors, and the ability to pursue class action suits (Claessens, 2006). A broader definition of CG under the agency theory is provided by Sir Adrian Cadbury, the chairman of the committee of the Financial Aspects of CG in the UK, in that “[c]orporate governance is the system by which companies are directed and controlled” (Cadbury Committee, 1992: 15). This definition regards CG as a set of rules, in which ownership is separated from control. Another broad definition of CG is suggested by Gillan and Starks (1998: 12): “governance pertains to the organization (firm) as a nexus of contracts. At one level, a firm’s governance can be viewed as the set of structures that provides the boundaries for the operation of the enterprise. This entails not only participants, such as workers, managers, and suppliers of capital, but also the returns to those participants and the constraints under which they operate”. It can be understood from the multiple definitions of CG that they attempt to include the diverse relationships involved in such a contract. Such relationships may include those between corporations and regulators, between the corporations and financial markets, and between corporations and employees, investors, creditors, shareholders, and other stakeholders.

From the perspective of analysing and discussing CG across societies, it is important to take into account other factors, such as historical and cultural backgrounds and institutional arrangements that are not covered by agency theory. These other factors are thought to determine the emergence of CG frameworks (Claessens, 2006). Relying only on the laws and rules offered by agency theory that shape the frameworks of CG, and not considering the role of institutions can be misleading to the concerned parties to an extent. Both

rules and institutions matter as they complement each other and evolve over time. Institutions can be affected by the rules in a society and similarly, rules can be affected by the institutional setup of a society (Claessens, 2006).

It is important to highlight that CG practice in developed societies is commonly categorised into two broad types of capitalism in the literature. Authors tend to refer to them as “insider” and “outsider” forms of capitalism (Lerner, 1995; Rueda, 2006; Young et al., 2008), “stakeholder” and “shareholder” (Kelly et al., 1997; Gordon, 1998; Godfrey and Hatch, 2007; Allen et al., 2007), or the “legal origins” analysis of civil law and common law (La Porta et al., 1997). This categorisation differentiates the German-Japanese model of CG from the American Anglo-Saxon model. A recent stream of work started to explore a different kind of relationship rather than the traditional principal-agent (PA) relationship. This traditional PA conflict has received substantial attention by scholars because most of the studies in this regard were conducted in developed societies, where ownership is dispersed and often separated from control (Jensen and Meckling, 1976). The other relationship, the so-called principal-principal (PP) conflict, is between controlling shareholders and minority shareholders. This conflict often exists in emerging societies and results from concentrated ownership and less separated from control (Young et al., 2008). This relationship has received much less attention by scholars in part due to the fewer number of studies conducted in emerging contexts in this field. It is argued that insight into the PP conflicts in emerging societies may be drawn from the German-Japanese model of CG as it effectively captures concentrated ownership (Shleifer and Vishny, 1997; Young et al., 2008). This model of CG often reduces agency problems while avoiding PP conflicts associated with concentrated ownership.

Table 2.2 summarises the main differences between PA conflict and PP conflict.

Table 2.2: PA Conflict versus PP Conflict

Source: Young et al. (2008: 202)

	PA Conflict	PP Conflict
Goal incongruence	Between fragmented, dispersed shareholders and professional managers	Between controlling shareholders and minority shareholders
Manifestations	Strategies that benefit entrenched managers at the expense of shareholders in general (e.g. shirking, pet projects, excessive compensation, and empire building)	Strategies that benefit controlling shareholders at the expense of minority shareholders (e.g. minority shareholder expropriation, nepotism, and cronyism)
Institutional protection of minority shareholders	Formal constraints (e.g. judicial reviews and courts) set an upper bound on potential expropriation by majority shareholders. Informal norms generally adhere to shareholder wealth maximization	Formal institutional protection is often lacking, corrupt, or un-enforced. Informal norms typically favour the interests of controlling shareholders over minority shareholders
Market for corporate control	Active as a governance mechanism ‘of last resort’	Inactive even in principle. Concentrated ownership thwarts notions of takeover
Ownership pattern	Dispersed – holding 5–20% equity is considered ‘concentrated ownership’. A shareholder with 5% equity stake is regarded as a ‘block-holder’	Concentrated – often more than 50% of equity is held by controlling shareholder. Often structured as a ‘pyramid’ where cash flow rights are greater than ownership rights
Boards of directors	Legitimate legal and social institutions with fiduciary duty to safeguard shareholders’ interests. Research focuses on factors that affect day-to-day operations such as insiders vs. outsiders, background of directors, committee structures, etc	In emerging economies, boards often have yet to establish institutional legitimacy and thus are ineffective. Research indicates they are often the ‘rubber stamp’ of controlling shareholders
Top management team	Professional managers who often have made their way up through the ranks or are hired from outside after extensive search and scrutiny of qualifications. Monitored internally by boards of directors and externally by managerial labour market	Typically family members or associates. Monitored mainly through family consensus or self-regulation adhering to ‘gentlemen’s agreements’

The main concern in PP conflict is the expropriation of minority shareholders by major shareholders such as family owners. Jiang and Peng (2011) argue that the control structure adopted by families in emerging societies can be a problem in CG when those family members use their control rights to protect their own interests without looking after minority shareholders' interests. To be more precise, a number of cases where families can exploit their position in this contract will be addressed. Firstly, excess control over ownership rights may enable families to sell assets of public firms to their parties at below market prices (Young et al., 2008). Secondly, families have the ability to take advantage of the most profitable parts of a listed firm by engaging with it through their own private businesses (Jiang and Peng, 2011). Thirdly, families are able to appoint family members as executive managers and therefore have the potential advantage of obtaining insider information greater than minority shareholders (Anderson and Reeb, 2003). Through this advantage (essentially being aware of future investments of a public firm), families can easily expropriate minority shareholders (Lemmon and Lins, 2003).

It can be observed from Table 2.2 that formal institutions¹, such as legal and state institutions, play a role in driving CG activities in the PA relationship in societies where the norms and rules are often effective, such as those in some developed societies. Whereas informal institutions, such as family and kinship, play an important role in driving CG frameworks in the PP relationship in societies where the rules and regulations are relatively weak, ineffective, or absent, such as those in emerging contexts (Young et al., 2008). This can be attributed to the evidence that the institutional environment in emerging

¹ Formal and informal institutions are the terms that Young et al. (2008) used to distinguish between institutions.

societies makes the enforcement of agency contracts more expensive and challenging (Wright et al., 2005). Therefore, this research will take into consideration the role of such institutions in the development of CG in a non-Western, emerging context. Other theories have been used to explain corporate governance. Thus, the discussion will present stewardship theory as one of the important theories in CG studies.

2.3 Stewardship Theory

It has been noted that the basis of agency theory is the conflict of interests between the manager and the principal (Jensen and Meckling, 1976). However, this theory does not explain whether or not anything causes their interests to be aligned. Therefore, scholars in sociology and psychology suggest that there are theoretical limits to agency theory (Perrow, 1986; Hirsch et al., 1987). In an effort to fill this gap, stewardship theory has been introduced to define other behavioural assumptions in this relationship (Donaldson and Davis, 1989).

Stewardship theory has its roots and historical background in sociology and psychology, and was developed to explain the relationship between managers and principals in which executive managers (as stewards) are presumed to be motivated to behave and act in the best interests of principals (Donaldson and Davis, 1991). Davis et al. (1997: 24), in their seminal paper on stewardship theory, argue that a steward's behaviour is "ordered such that pro-organizational, collectivistic behaviours have higher utility than individualistic, self-serving behaviours". The authors go on to outline a number of steward characteristics that can be summarised as follows:

- The steward's behaviour does not depart from the organisation's interest.
- A steward does not substitute individualistic behaviours for cooperative behaviours.
- A steward appreciates cooperation more than defection even if his/her interests are not aligned with the principal.
- A steward seeks to achieve the objectives of the organisation and thus, his/her behaviour is collectivistic.
- A steward's target is to protect shareholders' rights and maximise profits mainly through firm performance, because his/her utility functions will be maximised subsequently.
- A steward's behaviour can be regarded as organisationally centred.
- A steward is often motivated to make decisions that he/she believes are at the best interest for the team, specifically, in loosely coupled, heterogeneous organisations.
- A satisfactory steward to most groups who genuinely seeks to improve the performance of the organisation.
- A steward recognises his/her personal needs from organisational objectives and tends to work towards organisational, collective ends as he/she believes, by doing so, that personal needs will be met.
- An opportunity set of a steward is guided by the notion that the benefits obtained from pro-organisational, collectivistic behaviours are higher than that obtained from individualistic, self-serving behaviours.
- A steward believes that his/her interests are aligned with the interests of the owner and thus, his/her motivation is oriented towards organisational objectives rather than personal needs.

- A steward's performance can be affected by the structural situation and whether it facilitates efficient and useful action.
- A steward can be trusted. Thus, his/her autonomy should be expanded to empower the abilities of a steward.
- Control can sometimes be counterproductive, because it weakens pro-organisational behaviour by reducing the steward's motivation (Argyris, 1964).

These characteristics of a steward can be linked with the fundamental assumption of stewardship theory in that the behaviour of executive managers is aligned with the interests of principals. Moreover, stewardship theory focuses on designing structures that empower and facilitate rather than control and monitor. Executive managers should be authorised to make decisions and act since they are not opportunistic agents. Rather, they are effective stewards who naturally act with focus on the best interests of owners (Clarke, 2004).

A number of studies have adopted this stewardship perspective to explain different phenomena inherent in the CG debate. For example, Donaldson and Davis (1991) conducted a study on U.S. corporations to examine the different perspectives of agency theory, which argues that shareholder interests need protection by a separation of incumbency of roles within the board of directors and chief executive officer. Whereas stewardship theory argues that shareholder interests are maximised by shared incumbency of these roles, through an empirical test. The results from their study provided some support for stewardship theory but failed to support agency theory. Other examples focused on the relationship conflicts of family firms (Eddleston and Kellermanns, 2007), the behaviour of non-family employees in family firms

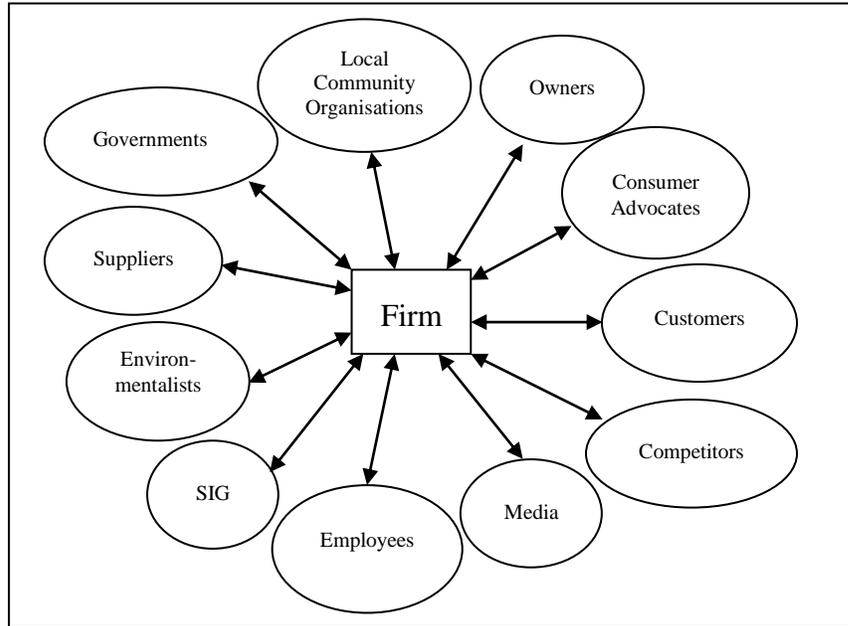
(Vallejo, 2009), exploration of decision-making influence (Tosi et al., 2003), family governance and firm performance (Miller and Breton-Miller, 2006), and ownership structures (Lee and O'Neill, 2003). More examples can be offered when other theories are employed. Thus, this chapter will now proceed to present stakeholder theory as an important theory in CG studies.

2.4 Stakeholder Theory

Stakeholder theory has diffused tremendously after the publication of Freeman's leading book, 'Strategic Management: A Stakeholder Approach' (1984). This book established a proper roadmap for a variety of field studies in: strategic management (e.g. Freeman, 2010), corporate governance (e.g. Jensen, 2010), corporate social responsibility (e.g. Roberts, 1992), and organisation studies (e.g. Phillips, 2003). Stakeholder theory is based on the relationship of stakeholders with the firm. According to Freeman (1984: 25), a stakeholder is "any group or individual who can affect or is affected by the achievement of the firm's objectives". Such stakeholders may include owners, suppliers, customers, shareholders, employees, among others. Figure 2.1 illustrates a stakeholder view of the firm.

Figure 2.1: Stakeholder View of Firm

Source: Freeman (1984: 52)



Donaldson and Preston (1995) argue there are three fundamental theses in stakeholder theory: descriptive accuracy, instrumental power, and normative validity, and they summarise them as follows:

Thesis 1: stakeholder theory describes what a corporation is. According to the theory, a corporation is “a constellation of co-operative and competitive interests possessing intrinsic value” (p. 66). This model is likely to be used to examine the descriptive accuracy and test empirical claims relevant to the theory.

Thesis 2: stakeholder theory is ‘instrumental’ in that it involves examining the link between stakeholder practice and the accomplishment of corporate objectives. The conventional wisdom here is that corporations who practice

stakeholder management will most likely be successful in terms of profits, growth, stability, etc.

Thesis 3: both the ‘descriptive’ and ‘instrumental’ aspects of stakeholder theory are grounded on the basis of normative aspect. According to this view, stakeholders are “persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity” (p. 67) and they can be recognised through their interests in the corporation, in which their interests are of intrinsic value.

Jones and Wicks (1999) reflect that these three theses are comprehensive and greatly aligned to the concept of stakeholder theory. Jones (1995) adapted the second thesis of stakeholder theory, which is the ‘instrumental perspective’, into a promising standpoint for theoretical development and linked it to ethics (see thesis 2 above). This ‘instrumental perspective’ establishes theoretical links between particular practices and particular end states. In addition, the truth or falsehood of this theory is an important issue but was ignored in earlier research. Jones (1995) developed a number of underlying assumptions that provide a broad picture of the firm drawn from economic theory and the concept of stakeholders. These assumptions are elicited from firm characteristics (Freeman, 1984), contract premises (Eisenhardt, 1989), the firm as a nexus of contracts (Jensen and Meckling, 1976), top corporate managers (Herman, 1981), and market characteristics (Jacobson, 1992; Kirzner, 1979). Through these collective assumptions, the relationship between modern corporations and their environments can be described as: (a) firms have contracts with numerous stakeholders, (b) firms are operated by qualified managers, and (c) firms do exist in markets where competitive pressures are

often active (Jones, 1995). Together, they establish an adequate context for the development of 'instrumental stakeholder theory'.

It has been argued that there is a lack of appreciation for and considerable ignorance by scholars in determining the conflicting and negative relationships between organisations and stakeholders. For this reason, several attempts have been made to uncover a convergent stakeholder theory. Friedman and Miles (2002) attempted to present a model that combines stakeholder theory with realist theory. Their model intended to explain the importance of distinguishing between different stakeholders. Jones and Wicks (1999) proposed a different way of theorising that offers a normatively and instrumentally sound convergent stakeholder theory. They have provided an example of theory convergence through the concepts of trust and cooperation and their instrumental relationship to stakeholder performance.

Stakeholder theory is thought to be one of the common theories used to explain different aspects of CG. For instance, Jensen (2001) used stakeholder theory to examine the role of the corporate objective function in corporate productivity and efficiency, social welfare, and the accountability of managers and directors. Heath and Norman (2004) conducted a historical review of public management during the 1960s and 1970s using stakeholder theory. They observe that there is a need for an effective CG system to reduce the impact of corporate scandals. Freeman and Reed (1983) employed stakeholder theory to understand the roles and responsibilities of the board of directors. They claim that a volunteeristic approach is recommended to implement a structural change that answers the enquiries of CG that focuses on effective director behaviour. Hendry (2001) engaged the normative stakeholder theory

into the debate of CG ethics by identifying different kinds of normative stakeholder theory and different levels of claim. Sternberg (1997) observed some defects of stakeholder theory and saw that this theory, far from being a source of improvements, as misguided, and incapable of offering better CG, business performance and conduct. Moreover, it is incompatible with many different objectives. Therefore, other theories are employed to answer different enquiries in CG. Some of which, is transaction cost economics that is one of the common theories in analysing CG aspects and will be presented next.

2.5 Transaction Cost Economics (TCE)

Transaction cost is central to studies in the field of economics. If transaction costs are neglected, economic activities become irrelevant because any advantages one mode of organisation holds over another will be eliminated by any costless contract (Williamson, 1979). Hart (1995: 680) identifies three types of transaction costs in literature: (1) costs related to all “the different eventualities” that can take place within the contractual relationship, and the need for proper planning to handle and treat them, (2) costs that are essential for negotiating these plans with others, and (3) costs required for organising and documenting these plans in a way that they can be facilitated and “enforced by a third party”. In terms of theory development, a number of propositions underpin the development of transaction cost studies and can be drawn as follows: (a) opportunism is deemed to be a fundamental concept, (b) opportunism is particularly central to economic activities that are engaged with investments in the human and physical capital, (c) an efficient and effective processing of information is significant and considerably relevant, and (d)

transaction cost is assessed as a comparative institutional undertaking that arises in conjunction with alternative modes of governance, the strengths and weaknesses of which are always examined comparatively—especially with reference to transaction cost features (Williamson, 1979).

TCE emerged through a series of developments between the 1930s and 1970s and has its roots from different disciplines such as economics (Coase, 1937; Hayek, 1945; Arrow, 1969), contract law (Llewellyn, 1931; Summers, 1969), organisation theory (Simon, 1947; Selznick, 1949), and business history (Chandler, 1962). Researchers and academics within the sphere of TCE focused on the dimensions that characterise transactions, the governance structures of transactions, and transactions within institutions (Williamson, 1979; Shelanski and Klein, 1995; Tadelis and Williamson, 2010). The fundamental insight of TCE (that transactions must be governed) is widely accepted (Shelanski and Klein, 1995).

Governance structures are thought to be an important dimension for characterising transaction cost theory through its three broad types: non-transaction specific, semi-specific, and highly specific governance structure (Williamson, 1979). A non-specific governance structure is represented by the market, whereas a highly specific governance structure represents the special needs of the transaction, and semi-specific governance structure falls in-between (Williamson, 1979). Tadelis and Williamson (2010) adapt two modes of governance in response to the problem that assets are specific and contracts are incomplete. These two modes are markets (buy) and hierarchies (make). They argue that these modes are internally consistent systems of attributes and have unique strengths and weaknesses. Each mode of governance can be

described within two key attributes: (1) incentive intensity, where high-powered incentives of the market provides a way to low-powered incentives in the firm, and (2) administrative authority and control, where the firm is supported by an extensive array of administrative procedures (Williamson, 1985, 1998). Figure 2.2 illustrates these alternative modes of governance.

Figure 2.2: Alternative Modes of Governance

Source: Tadelis and Williamson (2010: 174)

		Incentive Intensity	
		Strong	Weak
Administrative Control	Weak	Market (buy)	Cost-Plus Contracts (less common)
	Strong	Recipe for conflict (empty)	Hierarchy (make)

Transaction cost theory is considered a part of the New Institutional Economics (NIE) (this will be discussed in further detail when presenting institutional theory in Chapter 3) (Williamson, 1971, 1975, 1976, 1979, 1998; Shelanski and Klein, 1995). Williamson (1998) argues that NIE deals with two main branches, institutional environment (which was formulated by Coase in 1960 in his paper ‘The Problem of Social Cost’), and institutions of governance (Coase, 1937, ‘The Nature of the Firm’). The institutional environment as a level of analysis has benefited from interim development in economic history during the formation period of ‘cliometrics’ (Fogel and Engerman, 1971, 1974). The institutions of governance as another level of

analysis has benefited from the literature of recurrent market failure (Arrow, 1969), from organisation theory (March and Simon, 1958), and business history (Chandler, 1962).

A range of studies in corporate governance adopted TCE to explain different aspects inherent in the CG debate. For example, Dittmar et al. (2003) in their study of international CG and corporate cash holdings, examined whether or not transaction cost motives are larger in countries with extensive shareholder protection. Mayer and Salomon (2006) examined the effects of contractual hazards and technological capabilities on governance. They argue that robust technological capabilities increase firms' abilities to govern transactions. Donaldson (2003) argues that the two dominant theories of CG are agency theory and transaction cost economics. Donaldson (2003: 18) emphasises the work of Williamson by positing that the main concern when establishing a firm is to avoid some transaction costs that are associated with "undertaking market transactions involved in ordinary market activity". Oviatt (1988) examined the relationship between managers and shareholders using TCE. The results from his study supported the proposed hypotheses concerning incentives and monitoring methods. Ezzamel and Willmott (1993) conducted a study on CG to review reforms in the public sector in the UK. They adopted TCE in their review to analyse potential reforms in listed firms.

TCE has received criticism from a number of scholars as it is not a comprehensive theory that can be used merely to analyse many strategic and organisational issues. Ghoshal and Moran (1996) argue that prescriptions outlined from TCE are not only 'wrong' but also 'dangerous' for executive managers because of the basis and assumptions underlying this theory. They

emphasise this by using examples from other studies that show TCE lacks generality because of ethnocentric bias (Dore, 1983), embodies a hidden ideology that distorts more than it illuminates (Perrow, 1986), is divorced from reality in terms of ad hoc theorising (Simon, 1991), and ignores the contextual grounding of human actions (Granovetter, 1985). Wieland (2005) claims that the critical problem of TCE is to explain the conduct of transactions by the efficiency and performance of the chosen governance structures that have been customised to perform the transactions at hand. Williamson (1996) argues that the CG problem of TCE is not only the protection of shareholders' rights, but also the efficient achievement of transactions by firms within their political and cultural environment. Having described the potential problems associated with adopting TCE in CG analysis, other theories can be helpful to fill the gaps. Thus, the next section will present the path dependence theory as an important theory in investigating issues in CG.

2.6 Path Dependence Theory

Path dependence theory was first introduced by Brian Arthur (1987, 1988, 1989, 1990) as an analytical perspective. It encompasses an economic concept for understanding a number of aspects such as mathematical models, competing technologies, increasing returns, and lock-in by historical events (Arthur, 1994). Following the release of the theory, the literature of path dependence began to include a wider range of aspects in order to answer enquiries in historical sociology (Mahoney, 2000), political science (Pierson, 2000; Alexander, 2001), and corporate governance (Gilson, 1996; Bebchuk and Roe, 1999; Schmidt and Spindler, 2002). These perspectives will be employed

as platforms in order to understand the different dimensions of path dependence frameworks.

Path dependence is broadly defined as “history matters” or “the past influences the future” (North, 1990: 100). Liebowitz and Margolis (1995: 2) argue that there are three efficiency outcomes in which a dynamic process demonstrates sensitive dependence on preliminary conditions. The first type of path dependence is ‘first-degree path dependence’ and this refers to instances in which sensitivity to starting points exists, but with no implied inefficiency. The second type is ‘second-degree path dependence’, where sensitive dependence on preliminary conditions leads to results that are disappointing and costly to change. The third type is ‘third-degree path dependence’ where sensitive dependence on preliminary conditions leads to a result that is inefficient, but remediable. The first and second types of path dependence are commonplace and offer little in the way of an objection to the neo-classical paradigm of rational behaviour. The third type is the strongest form and challenges the neo-classical paradigm, and requires restrictions on price, institutions, or foresight (Liebowitz and Margolis, 1995).

A group of scholars in the field of historical sociology such as Tilley (1988), Aminzade (1992), Griffin (1992), Sewel (1996), Issac (1997), and Somers (1998) have suggested that some social phenomena can only be adequately explained through the concept of path dependence (Mahoney, 2000). Mahoney (2000) adds that according to these scholars, the field of historical sociology provides tools of analysis for path dependence studies. As sociological studies tend to focus on the normative aspects of social sciences (Briton and Nee, 2001), Gartland (2005) argues that studies in sociology that

incorporated path dependence theory mainly fall in the normative research paradigm that focuses on the rules, regulations, and power of organisations and agents. Within the realm of historical sociology, Mahoney (2000) indicates that scholars in this field often regard two types of sequences: (1) self-reinforcing sequences, which are characterised by the shaping and reproduction of a given institutional pattern, and (2) reactive sequences, which are chains of ‘temporally-ordered’ and ‘causally-linked events’. These sociological sequences of path dependence indicate the need to focus on the behaviours and rules embedded in an organisation that has created lock-in (Gartland, 2005). From a CG perspective then, it is necessary to pay attention to the path dependency of a given system by considering the sociological sequences that focus on the patterns of behaviours, customs, and laws embedded in institutional frameworks.

A growing number of social scientists are describing political processes as ‘path dependent’ (Pierson, 2000). These political processes that follow path dependence are often categorised under the term ‘historical institutionalism’ (Alexander, 2001). Thelen (1999: 387) points out that historical institutionalism “can shape and constrain political strategies in important ways, but they are themselves also the outcome (conscious or unintended) of deliberate political strategies of political conflict and of choice”. Pierson (2000: 263) outlines the main features of political life within a path dependence paradigm as follows:

- *Multiple equilibria*: a wide range of outcomes are promising under preliminary conditions conducive to increasing returns.
- *Contingency*: tiny events can have great consequences if they occur at a convenient time.

- *A critical role for timing and sequencing*: the occurrence of events might be crucial, because the earlier part of an event might be much more critical than the later part.
- *Inertia*: positive feedback about the established returns process can potentially lead to a single equilibrium that is likely resistant to change.

Gartland (2005) argues that political science studies that incorporate path dependence theory mainly fall in the regulative research paradigm that focuses on behavioural change. Berman (1998), in her study of path dependency and political action, emphasises the need to look beyond the institutional and structural context. She does this by going back and looking at the German and Swedish view of the evolution of social democracy. She indicates that decision making was path dependent. Such views should be considered in the CG debate and will be discussed in the next paragraph.

Gilson (1996) notes that the difference between a traditional and path dependence view of CG can be observed from the history of American CG. For example, Berle and Means (1932) reported that the separation of ownership and control is a fundamental feature of American CG. At that time, CG systems of other societies were ignored to a large extent because it was thought that the American CG system is an ideal and a practical system in the evolution of CG. Other CG systems were almost at an evolutionary dead end. Gilson (1996) argues that two major developments in this sense changed these thoughts. Firstly, the observation of Roe (1994) that the Berle-Means description of American CG was historically and politically contingent, a federal system, and a path dependent object of politics. It is worth noting that the American CG system is characterised as dispersed ownership, more

professional managers, widespread stock market, and limited CG role for financial intermediaries (Gilson, 1996; Coffee, 1998; La Porta et al., 2000; Aguilera and Jackson, 2003). Secondly, the increased development of global competition through the 20th century highlighted the need to pay attention to the path dependency of the American CG system which showed that this system seemed to be failing. The American CG system has not sufficiently taken into account the institutional differences that shape the formation of CG of different societies. Gilson (1996) argues that the institutional arrangements of the American, German, and Japanese CG systems are clearly path dependent and claims that the path dependence of a CG system of society confronts the effects of environmental selection mechanisms. Other scholars employed path dependence concept to focus on the rapid convergence towards the best CG systems (Schmidt and Spindler, 2002), understanding ownership structure and governance (Bebchuk and Roe, 1999), analysing corporate contract (Kahan and Klausner, 1996), examining CG and employment relations in Japan and the USA (Jacoby, 2005), analysing the cross-cultural theory of CG systems (Licht, 2000), and investigating the evolution of CG structure (Kole and Lehn, 1997). The next and final section will attempt to outline the central objectives of CG that practitioners and policy makers intend to achieve.

2.7 Corporate Governance Objectives

Having presented the various theories that are primarily employed to explain aspects of CG, it appears these multiple theories are all seeking to understand how to achieve the objectives of CG. A number of scholars such as Shleifer and Vishny (1997), La Porta et al. (2000), and Claessens (2006) highlighted

many of these objectives of CG. However, for comprehensiveness and a better reflection of the actual situation, it is useful to outline these objectives of CG as stated in the Organisation for Economic Co-operation and Development (OECD) document of CG. The OECD as an international organisation helps and assists governments to deal with economic, social, and governance challenges of a globalised economy. These objectives are in line to some extent with those indicated by some scholars in the field of CG. From OECD Principles of Corporate Governance Document (2004), these objectives are:

- To promote a transparent, fair, and efficient market that is consistent with the laws and rules.
- To protect shareholders' interests and facilitate the exercise of their rights.
- To equate between minority, foreign, and majority shareholders and treat them similarly.
- To encourage co-operation between stakeholders and corporations for offering jobs, wealth, and sustainability of enterprises.
- To ensure accurate, proper, and timely disclosure of all information and data materials in terms of financial statements, ownership, performance, governance, etc.
- To make sure that the board of directors follows a clear strategic plan, monitors the management effectively, and is responsible for the company and the shareholders.

These are only the key points of the entire objectives of CG explained in detail in 69 pages in the OECD Principles of Corporate Governance Document (2004). These formal objectives are common worldwide, regardless of the nature or classification of the society, or the adopted model of CG in the society. They are also compatible with the different theories adopted to explain, understand, and analyse CG themes.

In order to understand how these objectives of CG can be achieved, Davis et al. (1997) argue that there are two governance mechanisms that have received considerable attention by scholars in the field of CG, namely, alternative executive compensation schemes and governance structures (e.g., Jensen and Meckling, 1976; Demsetz and Lehn, 1985). The first mechanism suggests using financial incentives as rewards or punishments in order to align the interests of the agents and principals. When executive managers are compensated based on successful achievement of the shareholders objectives, they more than likely become motivated to behave consistently with shareholders' interests (Davis et al., 1997). This is particularly useful when monitoring is almost impossible. The second mechanism suggests the functioning of governance structures. The boards of directors can monitor managers' performance through periodic evaluations and audits. The boards of directors can link the objectives of shareholders with managers and watch them to keep agency costs observed. An external board (non-management board) is desirable to reduce the possibility of any management loss of balance or oversight to occur.

It can be seen that conflict of interests between the agent and the principal is a dilemma that received much attention by scholars in order to minimise this

divergent of interests. Therefore, this research study will attempt to provide more attention to this dilemma when discussing CG practices within the realm of institutional theory.

2.8 Conclusions

This chapter has presented, described, and evaluated the common theories employed frequently by scholars to explain the different phenomena of CG. The chapter started by describing and discussing agency theory by presenting the historical background and roots of the agency problem. The agency problem focuses on the separation of ownership and control (Berle and Means, 1932). It is here that is highlighted that there is a need to introduce a governance system that protects the rights and serves the interests of the agent and the principal. Stewardship theory was presented afterwards to argue that the interests of the agent and the principal are not always divergent. It can be presumed in the relationship between managers and principals that managers (as stewards) are motivated to behave and act at the best interest of the principals (Donaldson and Davis, 1991). Stakeholder theory has been used to define the relationship between the firm and stakeholders such as owners, suppliers, customers, shareholders, employees, among others. The theory describes what a corporation is, examines the connection between stakeholder practice and the accomplishment of corporate objectives, and relies on the basis of normative aspect (Donaldson and Preston, 1995). Transaction cost economics is central to the studies in the field of economics and is widely employed to understand economics aspects of CG. Studies that adopted this approach focused on the dimensions that characterise transactions, the governance structures of transactions, and transactions within institutions

(Williamson, 1979; Shelanski and Klein, 1995; Tadelis and Williamson, 2010). Path dependence theory has been used as an analytical approach to understand a number of phenomena such as mathematical models, competing technologies, increasing returns, and lock-in by historical events (Arthur, 1994). Afterwards, path dependency theory was developed in order to account for a wider range of enquiries in corporate governance, historical sociology, and political science (Bebchuk and Roe, 1999; Mahoney, 2000; Pierson, 2000, respectively). However, these different theories of CG do not account for the context. As the context does largely matter in this research, institutional theory will be introduced to explain different aspects of CG as this theory considers the context to a large extent.

These different theories aim to understand how to achieve specific objectives of CG. Such objectives are centred on protecting shareholders' interests, upholding justice and fairness between all shareholders through emphasising timely and accurate disclosure and transparency of information, maintaining equitable opportunities for all shareholders, encouraging co-operation between stakeholders and corporations, and making sure that the board of directors follows strategies that are in the best interest of shareholders. The next chapter will describe and evaluate institutional theory and demonstrate its bearing in the CG debate.

Chapter 3: Institutional Theory

3.1 Introduction

The previous chapter presented the most common theories used in the CG debate. It showed how CG emerged when the agency problem arose and evolved over time. It also presented the common objectives of CG that are shared by some scholars and practitioners. This chapter will present institutional theory in more detail as this theory is the adopted perspective in this research study for a number of reasons (to be highlighted throughout Chapters 3 and 4). Yet, it is argued that the most important application of institutional theory for this research study is that the theory takes into account the ‘context’.

This chapter will begin by introducing the historical background of institutional theory by presenting early institutionalism in economics, political science, and sociology. This will be followed by an introduction of the development of institutional theory and the transition from early to new institutionalism in economics, sociology, and political science. Institutional theory has a long history and encapsulates a wide range of views and positions. Through continuous critiques and revisions, it is constantly being developed. This continuous development of institutional theory highlights its strength and effectiveness in explaining organisational behaviour. Understanding this historical development of the theory will establish the foundation of this thesis as an attempt to achieve the objectives of this research study. As the definition of an ‘institution’ has evolved over time as institutional theory evolved, it is necessary to evaluate the history of institutionalism and the evolution of

institutional theory prior to defining ‘institution’ for the purpose of this study. Since institutions survive and exist as long as they are powerful, the relationship between institutions and power will be presented. Similarly, the relationship between institutions and legitimacy will also be described. Any theory has its own strength, boundary and limitation. Therefore, the limitations of institutional theory will be evaluated and discussed.

This chapter is organised as follows. Section 3.2 will introduce early institutionalism in economics, political science, and sociology. Section 3.3 will present the development of institutional theory. Section 3.4 will introduce neo-institutionalism in economics, sociology, and political science. Section 3.5 will offer a table that summarises the development of institutional theory by presenting seminal works in this theory. Section 3.6 will start by defining institutions and will continue to describe institutions such as family, kinship, bureaucratic state, religion, market, legal, and politics. Section 3.7 will present the relationship between institutions and power. Section 3.8 will present the relationship between institutions and legitimacy. Finally, Section 3.9 will provide the limitations of institutional theory.

3.2 Early Institutionalism

In order to provide a comprehensive outline of early institutionalism, this section will rely to an extent on the historical review of Scott (2008). Much of the work in early institutionalism differs from today’s institutional paradigm. Despite this fact, some academics and writers are inspired and motivated by pioneers in the field. The discussion in early institutionalism will be presented through three main streams: economics, political science, and sociology.

3.2.1 Early Institutional Theory in Economics

Institutional theory emerged in Germany and Austria in the late 19th century, in the form of a debate over the use of the scientific method in social science. Drawing from the early work on institutional arguments along with the ideas of Kant and Hegel, economists argued that economics can be condensed to a set of global laws. Leaders at this school, such as Schmoller's writings (1900-1904), observed that economic practices activated within a social context that was formed by historical and cultural influences. Furthermore, those scholars embraced more rational forms of human behaviour. This classical approach was defended by Menger (1883/1963) who highlighted the importance of developing an economic concept that was both abstract and timeless. Menger observed that institutions were social phenomena that needed theoretical description.

By the end of the 19th and beginning of the 20th century, according to Scott (2008) three scholars appeared as influential in the field of institutional economics: Veblen, Commons, and Mitchell. These scholars offer quite different perspectives but share important criticisms of economic models for their inattention to historical change and unrealistic assumptions. Veblen (1898) challenged the classical notion that regards individual behaviour and argued that much behaviour was governed by convention and habit. Veblen (1919: 239) defined institutions as "settled habits of thought common to the generality of man". Commons (1924) also challenged the prominence of individual behaviour, assuming that 'transaction' was a more adequate element of economic analysis. Commons (1924: 7) pointed out that a transaction is "two or more wills giving, taking, persuading, coercing, defrauding,

commanding, obeying, competing, governing, in a world of scarcity, mechanisms and rules of conduct”. Mitchell (1934) argued that economics was a barrier to evaluating the business cycle and focused on understanding economic change. He was a pioneer in empirical data collection in economics, suggesting that the concepts of the economy should be established on facts as opposed to deductive theories.

Having presented the historical roots of the early institutional theory in economics, the discussion will now move on to define this approach. Hodgson (2000: 318) argues that early institutional theory in economics is not a specifically defined theory, but it is a collection of thoughts that can be described as follows:

- (1) Although institutional economists are keen to give their theories practical relevance, institutionalism itself is not defined in terms of any policy proposals.
- (2) Institutions are key elements of any economy, and thus a major task for economists is to study institutions and the processes of institutional conservation, innovation and change.
- (3) The economy is an open and evolving system, situated in a natural environment, affected by technological changes, and embedded in a broader set of social, cultural, political and power relationships.

These concepts of early institutional theory in economics are different from traditional theories of economics, in that early institutional theory in economics does not only emphasise human behaviour, but also norms, values, and attitudes (Powell and DiMaggio, 1991). Cognition and habit are central

aspects to this approach (Hodgson, 1998). This theory is an institutional approach that involves the institutions that form the ‘actions’ and ‘thoughts’ of individual human agents (Scapens, 2006).

Scott (2008) claims that the early institutional theory in economics has much more bearing in new institutionalism than the new institutional theory in economics (NIE). Hodgson (1998) argues that NIE can be regarded as a special and restricted case of the early institutional theory in economics. Although the early institutional theory in economics seems to be a broader and a more comprehensive theory, it is still a relatively limited perspective for two reasons: (1) it does not offer insights into the factors that drive institutional change, and (2) it does not explain the relation between human action and the presence of institutions (Seo and Creed, 2002). Moreover, it lacks methodological consistency and overall persuasiveness (Langlois, 1989). The new institutional theory of economics emerged in reaction to these criticisms and limitations of the early institutional theory in economics.

3.2.2 Early Institutional Theory in Political Science

Between 1860 and 1925, political science was inspired by institutional approaches in both America and Europe. This inspiration emerged from the work of pioneers in the field such as Wilson (1889), Willoughby (1896), and Burgess (1902). During this time, institutional analysis in political science was based on moral philosophy and law (Simon, 1991). Those scholars paid much attention to the administrative arrangements and legal frameworks that shape governance structures (Scott, 2008).

According to Bill and Hardgrave (1981), institutional analysis (developed at the beginning of the 20th century) included a number of aspects: (1) it emphasised legal systems and formal structures, (2) it focused on configurative description that accounts for procedures, rules, and rights, (3) it paid attention to the origins but not the change, (4) it was less theoretical and focused on the historical reform of institutional arrangements, and (5) it involved aspects associated with more moral philosophy and less empirical research.

Eckstein (1963) argues that early scholars embraced a sort of positivism in their studies in political science and focused on self-explanatory, hard facts of politics. He also argues that the 19th century was a superior era in terms of constitution-making, where formal political institutions in administrative rules, charters, and legal codes, meant a great deal. Between 1930 and 1960, the early institutional approach was challenged with the behaviourism perspective, which focused on reshaping the study of politics as a theoretical and empirical science (Scott, 2008). In addition to this, it was argued that the early institutional approach should focus on the informal distribution of power, political behaviour, and attitudes (Thelen and Steinmo, 1992). Academics in political studies increased focus on behaviour and moved away from emphasising rules and structures. This involved a closer focus on public opinion, voting behaviour, party formation, action as a product of self-interest, and allocation of resources (March and Olsen, 1984). Between 1970 and 1980, these theoretical approaches resulted in a new institutional theory in political science to emerge in response to the extreme revolution of the behaviourism that seeks to rebuild frameworks in guiding, empowering, and constraining political behaviour.

3.2.3 Early Institutional Theory in Sociology

The concept of institutions in the 19th and the 20th centuries primarily originated from the work of Spencer (1876, 1896, and 1910). He considered society as an organic arrangement that changes over time. This arrangement within its context was gained via ‘organs’ structured over time as institutional systems. Spencer mainly focused on comparing and contrasting the operation of institutions in different societies. This approach was extended by Sumner (1906) who studied the origin and change of ‘folkways’. He pointed out that an institution consists of a concept (that defines the function of the institution) and a structure (that engages the idea of the institution that is put into action). Soon after this proposition, sociologists rejected the evolutionary arguments developed by Spencer and Sumner, but appreciated the importance of institutions as a sociological focal point (Scott, 2008).

Scott (2008) has argued that the European approach to institutional analysis was led by three figures: Marx, Durkheim, and Weber. Marx (1844/1972) believed that the materialist world is the real one, and political and economic structures, such as beliefs, power relations, and norms, are products of human ideas and activities. Early notions of the social construction of reality were first described by Marx (1844/1972). Durkheim (1893/1949) emphasised symbolic systems, such as belief, knowledge, and collective ideas, which have religious and moral characteristics. For Durkheim (1893/1949), these symbolic systems are social institutions. He explained that institutions are products of joint activities and associations, where fixing and instituting in a subjective way represent individuals’ actions and judgments (Alexander, 1983). Weber (1924/1968) mainly focused on cultural rules that define social structures and

govern social behaviour. He viewed action as social, where the researcher and the object of study are attached to a subjective meaning of events. He also viewed the material conditions and interests as guidance and motivation for action. From an economics perspective, Weber (1924/1968) viewed rational behaviour as a variable, not an assumption (Swedberg, 1998). Recent institutional analysis is much grounded on Weber's approach as a key guidance in this field (Scott, 2008).

Parsons (1934, 1937) contributed greatly to sociology and followed ideas of early scholars such as Durkheim and Weber. He addressed the tension between subjective and objective approaches by explaining that normative frameworks emerged separately from social actors (Scott, 2008). According to Parsons (1934), institutions are systems that regulate and organise the relationships between individuals. Modern scholars in the field criticised Parsons' approach in that Parsons put too much weight on cultural patterns, his conception of culture failed to reveal its existence, his cultural analysis neglected its cognitive dimensions, and his view of culture is limited to value-orientations (Alexander, 1983; DiMaggio and Powell, 1991; Scott, 2008). As a result, new approaches of institutional theory in sociology that define the relationships of the normative and instrumental in social action emerged.

3.3 Institutional Theory Development

The previous section presented early institutionalism within three main disciplines: economics, political science, and sociology. Having done that, it is now necessary to understand the development of institutional theory over time. Institutional theory has grown and developed with continuous critiques

and revisions by different scholars from different fields. Such development of the theory is useful as it helps researchers to explain a wide range of diverse phenomena and in turn contribute considerably to the literature.

The critiques that early institutionalism received by modern scholars was discussed earlier. Above all, this early approach did not focus on organisations and organisational analysis as influential forms of social analysis. This approach was developed in the 1940s mainly through the pioneer sociologist, Selznick (1948, 1949, 1957), with his empirical studies of organisations and institutions or the so called, old institutionalism. Selznick (1948: 25) established a general definition of formal organisations as “a system of consciously coordinated activities or forces of two or more persons”. In light of this, an organisation can be seen as an expression of a social structure designated by logical actions for a specific goal. According to Selznick, an organisation can be viewed from two angles: (1) an economy, in which it is a system of relationships that provides scarce resources, and (2) an adaptive social structure, which at the same time is an economy, in which actors and individuals influence the formal systems. When organisations (as social systems) intend to achieve goals, they become institutionalised (Selznick, 1949).

Likewise, in the field of old institutionalism, Parsons (1956) employed rules, contracts, and authority to integrate organisations with other organisations in society, where an organisation is defined by Parsons (1956: 63) as “a social system oriented to the attainment of a relatively specific type of goal, which contributes to a major function of a more comprehensive system, usually the society”. This implies that a group of people work towards intended goals,

while they also contribute to the functioning of the society as a whole. In this sense, organisations can include: governments, corporations, international organisations, non-governmental organisations, cooperatives, universities, not-for-profit corporations, charities, and armed forces. Parsons articulated formal organisations into three primary contexts: (1) procurement of resources, financing and other services, (2) the operative code centred on decisions, and (3) the institutional structure centred on authority and contract. However, Parsons' theoretical work on the organisational field failed to inspire empirical research to the same level as Selznick's (Scott, 2008).

In later work on old institutionalism, Selznick (1957: 16-17) drew attention to the notion that institutionalisation is a process, and "to institutionalise" is to "infuse with value". This process reflects the distinctive history of organisations, the people and groups involved, the shared interests, the adaptation to the environment. Furthermore, the process is something that happens to the organisation over time (Scott, 2008). In addition to the notion that institutionalisation is a process, Selznick (1957) posited that institutionalisation is variable, in that organisations vary in their degree of institutionalisation (Scott, 2008). For example, organisations with specific goals and advanced technologies are less subject to institutionalisation than those with vague goals or poor technologies (Selznick, 1957).

In the 1970s, Meyer and Rowan (1977) and Zucker (1977) outlined a new approach of institutional analysis that highlighted the role of culture and cognition in institutional analysis. Meyer and Rowan (1977) emphasised the role of modernisation in rationalising taken-for-granted rules from a macro perspective. They point out that "institutional rules function as myths which

organizations incorporate, gaining legitimacy, resources, stability, and enhanced survival prospects” (p. 340). This implies that rational concepts of institutions are the driving force for organisations to adapt practices and procedures to increase their legitimacy and survival (Meyer and Rowan, 1977).

Zucker (1977) also highlighted the taken-for-granted nature of institutions, and the role of cultural persistence as a measure of institutionalisation from a micro perspective. In her study, she examined the effect of institutionalisation on three aspects of cultural persistence: generational uniformity, maintenance, and resistance to change. Observations from her study suggested that “the greater the degree of institutionalisation, the greater the generational uniformity of cultural understandings, the greater the maintenance without direct social control, and the greater the resistance to change through personal influence” (p. 742). This offers vital characteristics of institutions, in which they tend to transmit across generations, be maintained, and to be reproduced.

This new approach of institutionalism, or ‘neo-institutionalism’, led to isomorphism as formal pressures of structuring organisations. In 1983, Meyer and Rowan’s (1977) work on isomorphism was extended by DiMaggio and Powell from the societal level (macro-level) to the organisational field level (micro-level). They defined institutional isomorphism based on Hawley’s (1968: 149) description as “a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions”. They highlighted three isomorphic processes: (1) coercive to gain legitimacy, (2) mimetic to avoid uncertainty, (3) normative, which stems primarily from professionalisation. DiMaggio and Powell (1983) considered the new institutionalism as an explanation for the success and survival of

organisations. Moreover, Tolbert and Zucker (1983) rejected rationality and emphasised legitimacy rather than efficiency. These three isomorphic processes will be described in the following paragraphs.

Firstly, coercive isomorphism arises from formal and informal pressures that result from state authority. This authority emerges from the dependency of organisations on other organisations and the societal expectations within which organisations operate (DiMaggio and Powell, 1983). An important dimension to the characterisation of organisational responses to the environment is the variation in the capabilities of organisations in order to exercise power over external pressures (Oliver, 1991). In response to changing legislation, organisations may alter their practices to comply with these changes, but they may also change for more authentic reasons to satisfy societal preferences (Oliver, 1991). This loyalty to the preferences of the society by organisations can maintain resources, power, and action.

Secondly, mimetic isomorphism arises from uncertainty, which is a powerful incentive that promotes imitation (DiMaggio and Powell, 1983). More to the point, when there is symbolic uncertainty, unclear objectives, or a lack of understanding, organisations may imitate other organisations in terms of acquisition, diversification, strategies, and other processes. Adopting institutional designs of other organisations generates patterns more likely to be “variously, more modern appropriate, or professional” (Scott, 1987: 504). Furthermore, DiMaggio and Powell indicate that due to the limited variety of organisations that can be imitated as appropriate models, organisational structures have a tendency to be homogeneous. It can be understood that the effects of cognition are viewed as mimetic isomorphism by focusing on

'ambiguous' behaviour in response to cultural rationalisation (DiMaggio and Powell, 1983). However, Suchman (1995) argues that even without establishing such a model, organisations can protect their cognitive legitimacy by conforming to prevailing 'heuristics'.

Thirdly, normative isomorphism stems from the pressures associated with professionalisation, where professions depend on the normative processes and endeavour to establish cultural norms that are consistent with their objectives and beliefs (Scott, 1987). DiMaggio and Powell presented two aspects of normative isomorphism that are particularly interesting: (1) the legitimation of formal education in a cognitive base generated by university specialists, (2) the growth of professional ties that allow the rapid emergence of new activities and practices across organisations. Universities are central sources for promoting normative standards that produce professionals as these universities inspire the production of professional norms and values. Professionals, such as accountants, lawyers, and doctors, tend to have strong networks with their referent bodies, which establish the standards for professional behaviour (Greenwood et al., 2002).

It can be stated that new institutionalism shares similarities with old institutionalism as outlined by Powell and DiMaggio (1991: 12) in that:

Both the old and new approaches share skepticism toward rational-actor models of organization, and each views institutionalization as a state-dependent process that makes organizations less instrumentally rational by limiting the options they can pursue. Both emphasize the relationship between organizations and their environments, and both promise to reveal aspects of reality that are inconsistent with organizations' formal account. Each approach stresses the role of culture in shaping organizational reality.

Having outlined the common characteristics of both approaches, it is important to note that these similarities are important in terms of theory development, where the new approach departed from the old one as explained by Powell and DiMaggio (1991) in Table 3.1 as follows:

Table 3.1: The Old and the New Institutionalism

Source: Powell and DiMaggio (1991: 12)

	<i>Old</i>	<i>New</i>
Conflicts of interest	Central	Peripheral
Source of inertia	Vested interests	Legitimacy imperative
Structural emphasis	Informal structure	Symbolic role of formal structure
Organization embedded in	Local community	Field, sector, or society
Nature of embeddedness	Co-optation	Constitutive
Locus of institutionalization	Organization	Field or society
Organizational dynamics	Change	Persistence
Basis of critique of utilitarianism	Theory of interest aggregation	Theory of action
Evidence for critique of utilitarianism	Unanticipated consequences	Unreflective activity
Key forms of cognition	Values, norms, attitudes	Classifications, routines, scripts, schema
Social psychology	Socialization theory	Attribution theory
Cognitive basis or order	Commitment	Habit, practical action
Goals	Displaced	Ambiguous
Agenda	Policy relevance	Disciplinary

Following that, Powell and DiMaggio (1991: 12) also highlighted a number of differences between old and new institutionalism, in that:

They identify different sources of constraint, with the older emphasizing the vesting of interests within organizations as a result of political

tradeoffs and alliances, and the new stressing the relationship between stability and legitimacy and the power of common understandings that are seldom explicitly articulated.

A fundamental difference between old and new institutionalism is that the new institutionalism considers gaining legitimacy as the prime objective for organisations to secure their survival (Meyer and Rowan, 1977). However, the old institutionalism emphasises on the political aspects in its analysis of group conflicts and organisational strategies (Powell and DiMaggio, 1991). For instance, ‘conflict of interest’ is a central factor in old institutionalism but it is a marginal factor in new institutionalism (see Table 3.1).

This new institutionalism approach is important for this research study in terms of analysing what institutions might consist of in order to understand how these institutions might form and shape organisational structures. It is also important to understand what could inform the behaviour of a phenomenon (such as corporate governance) that may contribute to the development of the theory.

Up to this point, it can be understood that there is a wide range of viewpoints and directions in institutional theory. In light of this, a later set of ideas developed by Scott (1994) has a similar approach to institutional isomorphism. This set of ideas has been termed ‘institutional pillars’ and consists of three pillars: regulative (legal), normative (social), and cultural-cognitive (cultural). He argues that these pillars are the central building blocks of any institutional structure. Scott (2008) points out that these institutional pillars are making up and supporting institutions as they guide behaviour and resist change (see Table 3.2).

Table 3.2: Three Pillars of Institutions

Source: Scott (2008: 51)

	<i>Regulative</i>	<i>Normative</i>	<i>Cultural-Cognitive</i>
Basis of compliance	Expedience	Social obligation	Taken-for-grantedness Shared understanding
Basis of order	Regulative rules	Binding expectations	Constitutive schema
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules	Certification	Common beliefs
	Laws	Accreditation	Shared logics of action
	Sanctions		Isomorphism
Affect	Fear Guilt / Innocence	Shame / Honour	Certainty / Confusion
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognizable Culturally supported

Firstly, the regulative pillar, which includes a number of regulatory processes that most commonly take the form of rule-setting, monitoring, and sanctioning activities, in an attempt to influence future behaviour (Scott, 2008). Thus, these regulatory processes involve setting up and establishing rules, observing conformity, and handing out behaviour-influencing sanctions either through reward or punishment. This pillar uses legal sanctioning as a basis for legitimacy, which is based on instrumental logic. Organisations as a part of the society conform to rules so as to avoid suffering penalties for noncompliance (Hoffman, 1999). For instance, in response to conformity to environmental regulations, corporations may implement new technologies for controlling pollution; and in order to meet tax law requirements, non-profits

may hire accountants (DiMaggio and Powell, 1983). This cycle of behaviour is central within the framework of coercive isomorphism (Hirsch, 1997).

Secondly, the normative pillar involves “the creation of expectations that introduce a prescriptive, evaluative, and obligatory dimension into social life” (Scott, 2003b: 880). Legitimacy is embedded in societal beliefs and norms. Organisations comply with the normative rules out of moral or ethical obligation, or in conformance to norms established by trade sectors, professional institutions, and universities (Hoffman, 1999). The normative pillar allows for broadly designed studies of intentional, self-conscious actions and competing interests; the dynamics of change, social action, and policy issues; and power and conflict (Hirsch, 1997).

Thirdly, the cultural-cognitive pillar refers to the shared conceptions that make up social reality and the frameworks through which meaning is made (Scott, 2008). Organisations generally abide by these conceptions without conscious thought (Zucker, 1983). Legitimacy is rooted in cultural orthodoxy. Culturally legitimate constructions are largely imitated, understood, and performed within this framework of mimetic isomorphism (Hirsch, 1997). For instance, environmental activists pursue “idealistic or collectivist interests”, whereas corporations pursue “economic and materialistic goals” (Hoffman, 1999: 353). The cultural-cognitive dimension of institutions is a prime distinctive characteristic of neo-institutionalism within sociology and organisational studies (Scott, 2008).

The three pillars structure illustrates how significant issues are observed and proper actions are developed (Fligstein and Brantley, 1992). These three pillars

provide three “related but distinguishable bases of legitimacy” (Scott, 1995: 47). The three pillars also offer a foundation for analysis when it comes to organisational decision making (Grosse and Trevino, 2005). Moreover, the three pillars offer distinctive modes of support that assist to create the stability of social life (Scott, 2003a). Thus, they play a role when seeking stability. The next section will pay more attention to new institutionalism and will present its different approaches.

3.4 Neo-institutional Theory Approaches

The previous section presented the historical development of institutional theory and organisational analysis over time, and the emergence of new institutionalism. A number of approaches of neo-institutional theory were discussed by several influential scholars such as Peters (2005), Scapens (2006), and Scott (2008). Firstly, neo-institutional theory in economics focuses on the structures used to govern economic transactions (Williamson, 1991). Secondly, neo-institutional theory in political science assumes that individuals act autonomously as individuals, based on ‘socio-psychological’ characteristics or rational calculation of their personal utility (Peters, 2005). Thirdly, neo-institutional theory in sociology is concerned with the institutions that shape organisational structures and systems (Scott, 2008). This section will closely focus on these three main approaches of new institutionalism starting by neo-institutional theory in economics.

3.4.1 Neo-institutional Theory in Economics (NIE)

There is a range of theories, such as transaction cost theory, agency theory, property rights theory, and game theory that contribute to NIE. An interesting theory particularly relevant to this research study is transaction cost theory because it concerns governance systems. Therefore, this sub-section will focus primarily on this theory as a main basis for NIE.

Contemporary studies are built on Coase's (1937) explanation in that, there are costs behind using the price mechanisms, in which there are costs for negotiation and creating separate contract for each transaction. In other words, "it is because of these transaction costs that firms arise" (Scott, 2008: 28). Transaction cost economics (TCE)² concerns the rules, regulations, and governance systems that involve in guiding and managing economic exchanges. These governance systems can be found in different levels, from macro-regimes to micro-exchanges (Scott, 2008). Under a governance structure, some economic exchanges, that involve rules and hierarchical mechanisms, are conducted within firms, rather than directly considering the price mechanism in markets (Scott, 2008). TCE was elaborated considerably by Williamson (1975, 1985, 1991) who mainly brought TCE into the realm of NIE. Williamson (1985) argued that transaction costs increase when individual rationality faces uncertainty or complexity, and when opportunism is associated with other choices of exchange partners. Williamson's (1991: 269) main focus in NIE is on "the comparative efficacy with which alternative generic forms of governance—markets, hybrids, and hierarchies—economize on transactions costs". A broader focus to NIE was developed by North

² Please refer back to Chapter 2, Section 2.5, Transaction Cost Economics (TCE)

(1989, 1990) who examined the effect of cultural, political, and legal frameworks on economic processes. He treated these institutional frameworks as dependent variables to describe the different choices of actors of governance mechanisms (Hirsch and Lounsbury, 1996).

NIE uses transaction cost economics to explain why transactions are organised in particular ways and why corporations have hierarchical structures. It is helpful to understand these influences, but the economic factors are only tiny elements of a larger picture. Therefore, a broader approach beyond economics, such as NIS, is needed in order to offer better understandings of these influences (Scapens, 2006).

3.4.2 Neo-institutional Theory in Political Science

As discussed earlier in this chapter, early institutional theory dominated political science during the second half of the 19th century and the first two decades of the 20th century (Scott, 2008). March and Olsen (1984) made a major contribution to new institutionalism by adding a political perspective. They argue that new institutionalism is characterised by: contextualism, reductionism, utilitarianism, functionalism, and instrumentalism (Peters, 2012). Contextualism views that contemporary political science tends to subordinate political phenomena to contextual phenomena such as socioeconomic cleavages, economic growth, and class structure. Reductionism tends to reduce collective behaviour to individual behaviour. Utilitarianism tends to evaluate decisions for what they make for an individual, rather than as expressing the value of their own. Functionalism is concerned with history, as an effective process moving towards some form of equilibrium. Instrumentalism is

concerned with the domination of outcomes over process, identity, and some other socio-political values. These are the characteristics of new institutionalism from a political science perspective.

Peters (2012) argues that there are a number of institutionalisms that serve as the foundation of institutional theory in political science. The first approach is the normative institutionalism which has deep roots in the sociological study of organisations and institutions (Selznick, 1984). Normative institutionalists assume that the behaviour of institutions and individuals is shaped by the 'logic of appropriateness' that includes symbols, routines, values, and methods that individuals learn as long as they are members at the institution (Peters, 2010). The second approach is rational choice institutionalism which assumes that individuals act within institutions in order to serve their own interests (Weingast, 1996; Peters, 2012). Hall and Taylor (1996) outline four features of rational choice institutionalism: (1) it offers a distinctive image of politics; (2) it takes into account the role of strategic interaction on the determination of political outcomes; (3) it provides a superior technique to problems associated with describing how institutions originate; (4) actors have a fixed set of preferences, behave instrumentally, and do so in a strategic manner that presumes extensive calculation. The third approach is historical institutionalism, which assumes that once policies are adopted and organisations are established; those structures will persist until a major event occurs (Peters, 2012). Hall and Taylor (1996) outline four features of historical institutionalism: (1) it tends to conceptualise the relationship between individual behaviour and institutions in broad terms; (2) it takes into account the role of power associated with the development of institutions; (3) it emphasises path dependence and unintended consequences; (4) it engages

institutional analysis with other aspects, such as ideas, that can contribute to political outcomes. These are the most important approaches of institutional theory from the perspective of political science. The next sub-section will describe and discuss Neo-institutional Theory in Sociology (NIS).

3.4.3 Neo-institutional Theory in Sociology (NIS)

Scott (2008) argues that neo-institutional approaches to organisational sociology were drawn on developments from two theoretical roots: cognitive theory and culture theory. With regards to cognitive theory, pioneers in sociology focused on the effects of contextual factors, looking at individuals as passive, and convergence towards serving self-demands within their society (Simon, 1945/1997; Lewin, 1951). As a result, structuration theory and identity theory emerged in response to that and correct this over-socialised view of individuals through offering active and reflexive identity that maintains and changes social structures (Burke and Reitzes, 1981; Giddens, 1984). Culture theory was developed by Boas (1974) who posited that human nature encompasses infinity of possibilities, rather than a prison of constraints. Culture theorists highlight the importance of symbolic systems in social life arrangements; not only do they embody content, but also affect (Scott, 2008). Symbolic systems are identified as emotional and substantive in which ideas, feelings, and intentions are parts of the meaning of symbols (D'Andrade, 1984).

NIS helps to explain why organisations tend to be similar (Scapens, 2006). It explores the effect of political, social, and economic pressures on organisations. Within this approach, organisations tend to seek legitimacy

through complying with rules and norms that are established by societies and the institutions within them. Institutional isomorphism is the principal mechanism in NIS in which organisations adopt similar procedures through: coercive, mimetic, and normative isomorphisms as described earlier in this chapter (DiMaggio and Powell, 1983). Not only do organisations compete for resources, but they also seek legitimacy and political stability. It can be argued that the NIS approach explains similarities and change in organisational structures, rather than exploring differences (Greenwood and Hinings, 1996).

3.5 Summary of the Historical Development of Institutionalism and New Institutionalism

The historical development of institutionalism through its seminal works over time is summarised in Table 3.3 below. The summary takes into account the historical development of the standpoint, as discussed in earlier sections. It accounts for pioneer scholars only in the field of institutionalism. It illustrates the focus, position, and viewpoint of each scholar or each group of scholars in the same field.

Table 3.3: Summary of Institutional Theory Development

Field	Pioneer Scholars	Date	Focus / Position / View
Early institutional theory in economics	Kant and Hegel	Late 19 th century	The earliest institutional arguments
	Schmoller	1900-1904	Economic processes operate within a social context and shaped by cultural and historical forces.
	Menger	1883/1981	Institutions are social phenomena that need theoretical explanation
	Veblen	1898, 1919	Individual behaviour is governed by convention and habit
	Commons	1924	Transaction is a more appropriate unit

			of economic analysis
	Mitchell	1934	The concepts of economy should be established on facts as opposed to deductive theories
Early institutional theory in political science	Wilson, Willoughby, Burgess	1889, 1896, 1902 respectively	The administrative arrangements and legal frameworks that shape governance structures
Early institutional theory in Sociology	Spencer	1876, 1896, 1910	Comparing and contrasting the operation of institutions in different societies
	Sumner	1906	The origin and change of folkways
	Marx	1844/1972	The materialist world is the true one
	Durkheim	1893/1949	Symbolic systems (belief, knowledge, moral authority) are social institutions
	Weber	1924/1968	Cultural rules define social structures and govern social behaviour
	Parsons	1934, 1937	Normative frameworks emerged separately from social actors
Old institutionalism	Selznick	1948, 1949, 1957	An organisation is an expression of a social structure designated by logical actions for a specific goal
	Parsons	1956	Integrated organisations with other organisations in society through rules, contracts, and authority
New institutionalism	Meyer and Rowan	1977	The role of culture and cognition in institutional analysis from a macro perspective
	Zucker	1977	The taken-for-granted rules and the role of cultural persistence in institutional analysis from micro perspective
	DiMaggio and Powell	1983	Isomorphisms: coercive, mimetic, and normative
	Scott	1987	Pillars: regulative, normative, and cultural-cognitive
Neo-institutional theory in economics (NIE)	Williamson	1975, 1985, 1991	Brought TCE into the debate of NIE
	North	1989, 1990	The effect of institutional frameworks (cultural, political, and legal) on economic processes
Neo-institutional theory in political science	March and Olsen	1984	New institutionalism from political perspective is characterised by: Contextualism, Reductionism, Utilitarianism, Functionalism, and Instrumentalism

	Peters	1999	Three institutionalisms (normative, rational choice, and historical) are the foundation of institutional theory in political science
Neo-institutional theory in sociology (NIS)	Simon, Lewin	1945/1997, 1951 respectively	Cognitive theory: the effect of contextual factors within a society
	Boas	1974	Culture theory: the importance of symbolic systems in social life arrangements

3.6 Institutions

3.6.1 Defining Institutions

Having presented the historical development of institutional theory, it is necessary at this point to define ‘institution’. Seminal studies will be used to do this. There is a variety of definitions of institution anchored in different roots and disciplines starting from early to new institutionalism. Launching a research study based on a particular group of definitions of institution is essential to build the linkages between the activities of key actors and institutions (Barley and Tolbert, 1997). In addition, it is very important to conceptualise institutions and consider them as a starting point, because “the malleability of an institution can vary with the grain of analysis” (Dillard et al., 2004: 512). A number of definitions described by different scholars are highlighted in this section in order to offer a broader view of institutions before approaching to the main point of this research study. An early definition of institutions is introduced by Hamilton (1932: 84):

Institution is a verbal symbol which for want of a better describes a cluster of social usages. It connotes a way of thought or action of some

prevalence and permanence which is embedded in the habits of a group or the customs of a people. In ordinary speech it is another word for procedure, convention, or arrangement; in the language of books it is the singular of which the mores or the folkways are the plural. Institutions fix the confines of and impose form upon the activities of human beings. The world of use and wont, to which imperfectly we accommodate our lives, is a tangled unbroken web of institutions.

This definition was the centre of institutionalist's attention because they used to refer to it as the basis for their analysis, description, examination, and other theoretical evaluations. In particular, the definition was central to social science studies that refer to the socially conditioned behaviour of a rather repetitive nature (Hamilton, 1994). Based on Hamilton's definition, a number of further definitions emerged in order to define other parts of this holistic meta-view of institutions. An interesting one that focuses on the role of power is introduced by Stinchcombe (1968: 107) who defines an institution as "a structure in which powerful people are committed to some value or interest". This definition emphasises on the role of power and agency, in which values and interests are protected by people who only possess power. Another definition that concerns the role of power is given by Jepperson (1991: 145) who argues that institutions are patterns of social practice in that "depart[ing] from the pattern are counteracted in a regulated fashion, by repetitively activated, socially constructed, controls—that is by some set of rewards and sanctions". This definition takes into account the role of power in the form of repetitively activated control, which differentiates institutions from other social constructions (Phillips et al., 2004). This relationship between institutions and power is also bi-directional in that, institutions exist as long as they are powerful and affect the behaviour of actors, individuals, organisations, and societies (Lawrence, 2008). The above two definitions have a bearing in the

corporate governance debate because they take into account the role of power which is a central aspect of CG and thus of this research study.

Other definitions of institutions have focused on what influences human behaviour and human relationships. For example, Barley and Tolbert (1997: 96) define institutions as “shared rules and typifications that identify categories of social actors and their appropriate activities or relationships”. Burns and Scapens (2000: 8) expanded this definition and defined institutions as “the shared taken-for-granted assumptions which identify categories of human actors and their appropriate activities and relationships”. Both definitions refer to how actors’ activities and relationships are identified and influenced by social structures. They explain the influence of social structures on individuals actions within organisations, such as ‘verbal symbols’, ‘structures’, ‘shared rules’, and ‘shared taken-for-granted’. Thus, both definitions also have a bearing in the corporate governance debate because human behaviour and relationships that are influenced by social structures are central to the emergence and formation of corporate governance systems from an institutional perspective.

This research is investigating the influence of institutions on the emergence of corporate governance in an institutional context. As such, the role of power and human behaviour influenced by social structures is central to this research study. All the above definitions focus on these aspects of institutions and together they collectively form a meta paradigm that explains the meaning of institutions that, in turn, adequately establish the foundation and cornerstones of this research study.

For a comprehensive understanding of institutions, Scott (2001: 48) outlines a dense conception of the institutions that offers a broader view of institutions, in that:

- Institutions are social structures that have attained a high degree of resilience.
- Institutions are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life.
- Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines, and artefacts.
- Institutions operate at multiple levels of jurisdiction, from the world system to localised interpersonal relationships.
- Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous.

This conception contains a number of expressions, in which institutions are social structures, enduring patterns, stable but vulnerable to change, and operational on a macro to micro level. These are what distinguish institutions from organisations, whereas an organisation is “a consciously coordinated social unit, composed of two or more people, which functions on a relatively continuous basis to achieve a common goal or set of goals” (Robbins and Judges, 2007: 4). It is also about “the theory of formal organizations, systems of coordinated action among individuals and groups whose preferences, information, interests, or knowledge differ” (March and Simon, 1993: 300). Thus, ‘institution’ is not a synonym of, and not interchangeable with ‘organisation’ (Scott, 2001). Rather, the notion is about how social structures

influence human behaviour and action within an organisation (Scott, 2001). Based on the literature review, it appears that there is particular focus on studying family, kinship, bureaucratic state, religion, market, legal, and political institutions. As such, this research will primarily focus on these institutions.

3.6.2 Family Institution

Family institution has long been discussed among scholars in social sciences due to its central role in different fields. Family institution exists in every human society. However, its impact varies among societies due to its distinct nature in each context. In the early sociological literature, Laslett (1973) indicated that there are three main streams of discussions of family institution: (1) the development of nuclear family at the expense of extended family structures, (2) the progress of companionship compared to the classical or traditional family, and (3) the lack of functionality of the family in this era in comparison to the past. Each group attributes the change in the family to the development of its urban and industrial society that is concerned about the spirit of enterprise, responsibility, and solidarity (Belardinelli, 2002).

According to Leaptrott (2005: 218), the family is “an organization that has an identifiable structure”. This structure varies contextually. One set of descriptions of the family structure is illustrated by Kertzer (1991). He proposes that ‘nuclear family’ refers to a married couple and their children, ‘complex family’ refers to kinship beyond the nuclear family, ‘extended family’ refers to a household where kin beyond the nuclear family is present, ‘multiple family’ refers to a household where two or more nuclear families reside together.

As old institutionalism deals with structural change resulting from environmental pressures and new institutionalism deals with the symbolic nature of organisations, institutional theory offers great insights in terms of understanding phenomena in family institutions. For example, institutional theory helps to determine the heterogeneity in family businesses resulting from differences in their structure and symbolic nature (Leaptrott, 2005). In organisational studies, Fang et al. (2012) argue that institutional theory contributed considerably to the discussions that focus on the prevalence of family versus non-family firms, and organisational behaviour in an institutional context, such as the adoption of family norms, which tends to become isomorphic over time.

3.6.3 Kinship Institution

The subject of kinship has been greatly discussed in social anthropological literature. Studies in such literature tend to explore the basic principles that describe kinship systems (e.g. Radcliffe-Brown, 1941, 1950, 1952; Parsons, 1943). Radcliffe-Brown built a kinship structure based on an elementary family that consists of a husband and wife, and their children. The existence of the elementary family creates three orders of relationships as outlined by Radcliffe-Brown: the first order which is the relationship between parent and child, between children from the same parents (siblings), and between husband and wife as parents of the same children; the second order is the relationship between two elementary families through common members, and is such as wife's sister, father's father, mother's brother, and so on; the third order is relationships such as mother's brother's wife and father's brother's son. Based on this structure of kinship, Radcliffe-Brown (1941: 2) defined the kinship

system as “a system of dyadic relations between person and person in a community, the behaviour of any two persons in any of these relations being regulated in some way, and to a greater or less extent, by social usage”. Social purposes, such as certain duties and rights, or certain modes of behaviour, can also create these relationships in any society (Radcliffe-Brown, 1941).

Parsons (1943) was the first to intertwine social anthropological literature with sociology in terms of describing and analysing kinship systems. He attempted to bring the sociological debate (that focuses on individuals) into the anthropological literature that focuses on major structural aspects of a large-scale society. As a result, the kinship discussion has begun to emerge from a sociological perspective. From a sociological standpoint, Young and Willmott highlight the importance of kinship in a series of works (1957, 1986, 2012, 2013) and state that “kinship remains an important force in most people’s lives, and is in particular still overwhelmingly the main source of informal care and support” (2013: xxiii). It can be argued then, that they treat kinship as a distinct and separate institution from the family institution due to its high importance and influence in society.

A seminal series of works by Zucker, starting with a 1983 paper entitled ‘Organizations as Institutions’, has offered a detailed historical analysis of the institutionalisation of the organisational form in social science. One interesting analysis in this series of works focused on the articulation of work systems with kinship systems. Zucker’s analysis encompasses three principles that ultimately define three types of kinship systems: (1) the level or the degree that classifies or differentiates kin type such as the son of brother versus son of sister; (2) the length of the term; and (3) whether the term is compound,

specifically, comprises another kin term such as sister-in-law. These determinants reflect and perhaps affect the cultural centrality of the classifying systems (Zucker, 1983).

3.6.4 Bureaucratic State

Watson (2007) has asserted that organisations are authoritatively co-ordinated, human enterprises, businesses, corporations, and other public administrations that are all bureaucratically co-ordinated. This micro-level view of bureaucracy was conceptualised by Weber (1978) and placed authority, in the form of legitimised power, at the centre of organisational processes. However, Watson (2012) argues that this bureaucratisation view of work should be regarded through a wider set of historical processes that take into account further aspects of life that are influenced by instrumental styles of thinking. Based on this view, bureaucratisation as a general societal and historical process can vary considerably among societies. Moreover, its key principles can be clearly seen when organisations are ‘rationalised’ or ‘modernised’ (Watson, 2012). Thus, their influence can vary from supporting to problematic to a noticeable extent.

Indeed, the bureaucratic state is not always a constructive factor or supportive part of the society. Bourdieu (1994: 2) argues that “[s]tate bureaucracies and their representatives are great producers of ‘social problems’ [and] social science does little more than ratify whenever it takes them over as ‘sociological’ problems”. Bourdieu (1994) indicates that the state across societies and periods is often associated with specific problems, such as educational failure, poverty, and immigration. He also suggests that two important factors should be considered when explaining the historical and

cross-national variations, in that: (1) the underlying assumptions of the social world emphasised by the social demand for knowledge, which rely on the philosophy prevailing within state bureaucracies. Thus, an influential state may offer conditions favourable to the development of studies in social science that are independent from economic pressures but dependent on the state; (2) the degree of independence of the academic system and the scientific field (as constructive parts of the state) from economic and political pressures.

3.6.5 Religion Institution

Any attempt to speak without speaking any particular language is not more hopeless than the attempt to have a religion that shall be no religion in particular . . . Thus every living and healthy religion has a marked idiosyncrasy (Santayana, 1905/1982: 5-6).

Early scholars adopted different views of religion. Marx (1818/1883) viewed religion as a variable structure that depends on economics (Davie, 2006). Weber's (1864/1920) focus on meaning viewed religion as a system for ordering the world (Bowie, 2006). Durkheim's (1858/1917) symbolic functionalism viewed religion as a collective social act (Bowie, 2006). However, all of these scholars agreed on a central feature of religion in that religion explains what was happening, why it was happening, and what the consequences were (Davie, 2006). Asad (1993: 29) argues that "there cannot be a universal definition of religion, not only because its constituent elements and relationships are historically specific, but because that definition is itself the historical product of discursive processes". It can also be attributed to the very different characteristics of different types of religion, such as Christianity, Islam, Judaism, Hinduism, Buddhism, and Sikhism.

Sociologists conceive that there is a system of values or a common moral order that binds people together into a society or community that describes the phenomenon of social integration (Turner, 1991). These communal practices are regarded as a fundamental framework of social relations and thus they are vital in any communal activity. Within the realm of sociology, religion is often treated as a principal element of an integrative value system (Parsons, 1991). However, Beckford (2003) argues that this centrality of religion tends to be marginal in sociological perspectives over the 20th century for two reasons: (1) the ways that religion has been conceptualised as an object of study and (2) the changes that occurred in what regarded as a religion.

3.6.6 Market Institution

A range of theoretical schools have discussed diverse aspects of the market institution in different fields and contexts in order to better understand how it operates. Neo-classical economics views the market as a central category of economics (Chang, 2001). According to Lie (1997), this approach is led by Becker who asserted that the economic approach is applicable to all human behaviour and thus, all human behaviour can be viewed as “involving participants who maximize their utility from a stable set of preferences and accumulate an optimal amount of information and other inputs in a variety of markets” (Becker, 1976: 8). Moreover, neo-classical economics views non-market institutions, such as the state, as substitutes for markets (Aoki, 1996). In contrast, New Institutional Economics (NIE) views that the state plays a complementary role in advancing market institution when the latter is incomplete (Aoki, 1996: 18); one important insight is as follows:

the relationship between markets and other institutions, including legal rulings, contracts and organizations, cultural beliefs and norms, is not necessarily that of simple substitute, but may be understood as reflecting equilibrium strategies in underlying economic games.

The emergence of non-market institutions that aim to maximise efficiency is a result of the absence or imperfection of market institutions (Coase, 1938). In developed societies, market institution plays an important role in the attempt to create stable worlds and find social solutions to competition (Fligstein, 1996; Fligstein and Mara-Drita, 1996). La Porta et al. (2000) classify a number of developed societies, such as the United States and the United Kingdom, as market-centred systems due to the efficient and prevailing role of the market in these contexts. However, they argue that the laws were not addressed in response to market pressures because legal families originated before the presence of financial markets. Rather, it appears that legal families shape legal rules and this in turn influences financial markets (La Porta et al., 2000).

3.6.7 Political Institution

A body of work in the literature of political science has discussed the political institution and the characteristics it displays, such as its durability, its capacity to influence individuals' behaviour, and the legitimacy that inherited in these institutions (March and Olsen, 1984, 1989, 1996; Hall and Taylor, 1996; Peters, 2001, 2005, 2010). In principle, the fundamental assumptions of this institution were underpinned in old institutionalism and greatly advanced in new institutionalism in order to understand better political institution (Hall and Taylor, 1996). This new approach has deepened discussions about this institution with particular attention on the theory that informs behaviourism and rational choice analysis (Peters, 2005). March and Olsen (1989: 21),

pioneer scholars in the field, define political institutions as “collections of interrelated rules and routines that define appropriate actions in terms of relations between roles and situations. The process involves determining what the situation is, what role is being fulfilled, and what the obligation of that role in that situation is”. Such political institutions can be identified as legal systems, legislatures, political parties, bureaucracies, and mass media (March and Olsen, 1996). These political institutions generate the rules that regulate the possession and use of political rights and resources (March and Olsen, 1996). An interesting feature in the above conceptualisation is the appropriateness aspect of institutions that influences behaviour and perhaps shapes individuals’ actions. Another feature is the role theory, an element in political institutions described by Peters (2005) as a set of behavioural expectations for individuals in positions within the institution. In his research, Peters (2005) adopted two input measures for identifying the influence of the political institution, namely, voting for parties and measures of openness. Voting for parties refers to the electoral system that sets out the rules on how parties are elected to represent the parliament which, therefore, can form the government (Dow and Endersby, 2004). A basic measure of openness is defined by Leamer (1988), who points out that it is the trade intensity ratio: exports plus imports divided by Gross National Product (GNP). These two input measures are often used to explore the influence of political institutions (Peters, 2005).

3.6.8 Legal Institution

A body of work in the literature has discussed legal institution from different perspectives in terms of the legal behaviour and social norms that this

institution embodies, influences individuals' behaviour, and legitimises as inherent characteristics in these institutions (MacCormick, 1981; Weinberger, 1986, 1991; La Torre, 2010). For Weinberger (1986), action represents behaviour guided by thinking, while thinking itself is the processing of information. Based on this view, Weinberger built his work on the institutional theory of law and observed that norms exist as 'thought objects' and belong to the 'institutional facts' of our social existence. For MacCormick (1981), law is, on the one hand, a social reality, on the other hand, a system of norms. This has resulted in the emergence of 'normative regulatives' as integral parts of social reality (Weinberger, 1991).

Two conceptions are well recognised by scholars and writers in the area of legal and political theory. According to La Torre (2010), the first and more widespread is that law is an expression of power, and the second and less widespread is that law is the source of, or prerequisite for, or limit on power. These opposing viewpoints can be referred back to the structure of legal argumentation, and in particular, to what can be considered as a legally valid argument (La Torre, 2010). The next section will highlight the relationship between institutions and power.

3.7 Institutions and Power

It has been indicated earlier in this chapter that there is a close relationship between power and institutions, since institutions exist as long as they are powerful. This relationship was ignored in early new institutionalism but addressed, to some degree, in more recent works. These recent works point to the importance of incorporating power in organisational and institutional

studies as it is essential to understand the relationship between institutions and organisations and how institutions operate in a society (see Lounsbury, 2001; Lounsbury, Ventresca, and Hirsch, 2003; Maguire, Hardy, and Lawrence, 2004; Greenwood and Suddaby, 2006). However, the importance of power and its association with institutions is not addressed in this recent stream of research. As a result, a systematic and theoretical consideration of power relationships is highlighted and addressed in a number of contemporary studies (e.g. Clegg, 1989, 2010; Lawrence, 2008). Clegg (2010: 11) points out that “the concept of power is absolutely central to any understanding of society” and he attributes this lack of discussion of power to the absence of the state. Lawrence (2008) argues that there are three dimensions in the relationship between power and institutions—institutional control, institutional agency, and institutional resistance. Each element describes how actors relate to institutions within power relations. Institutional control describes the potential impacts of institutions on the beliefs and behaviours of individual and actors. Institutional agency represents actors influence and work to create and transform institutions. Institutional resistance involves the attempts of actors to impose limits on both institutional control and institutional agency (Lawrence, 2008). It can be understood from the above relationships between power and institutions that the emphasis here on power as an effect of social relations, rather than a capacity for effect or something an actor can have, hold, or keep. The interaction of these relationships establishes the evolution of institutions, networks, and positions that shape the experiences and opportunities of actors (Lawrence, 2008). The next section will highlight the relationship between institutions and legitimacy.

3.8 Institutions and Legitimacy

Theorists adopted the concept of legitimacy in early sociological studies (Parsons, 1956, 1960; Weber, 1978). Drawing from their work, scholars in the field tend to work under two distinct streams of legitimacy (Suchman, 1995). They are strategic approach (e.g. Pfeffer, 1981; Ashforth and Gibbs, 1990) and institutional approach (e.g. DiMaggio and Powell, 1983; Zucker, 1987; Meyer and Rowan, 1991). The strategic approach proposes that organisations instrumentally arrange and operate evocative symbols to obtain support from society. On the other hand, the institutional approach emphasises that structuration dynamics produce cultural forces that go beyond any organisational control. Scott (1995: 45) argues that “legitimacy is not a commodity to be possessed or exchanged but a condition reflecting cultural alignment, normative support, or consonance with relevant rules or laws”. A broad-based and inclusive definition of legitimacy that incorporates divergent theoretical orientations has been suggested by Suchman (1995: 574):

a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.

This definition takes into account three types of legitimacy which have been further explained by Deephouse and Suchman (2008). These different types of legitimacy are: (1) pragmatic, which is based on actor’s self-interest and comprises of interest, influence, exchange, and character, (2) moral, which is based on normative approval and includes procedures, structures, consequences, and persons, and (3) cognitive, which is based on comprehensibility and taken-for-grantedness and comprises of plausibility, permanence, predictability, and inevitability. According to Deephouse and

Suchman (2008), other theorists have identified more dimensions of legitimacy, such as cultural legitimacy (Archibald, 2004), and corporate environmental legitimacy (Bansal and Clelland, 2004). There are many reasons for seeking legitimacy. The two most important are: (a) pursuing credibility and continuity and (b) seeking support (Suchman, 1995). The next section will discuss the limitations of institutional theory.

3.9 Limitations of Institutional Theory

It has already been indicated that institutional theory is continually being developed via systematic critiques and revisions. As a result, new institutionalism has been derived primarily from old institutionalism (Meyer and Rowan, 1977). Institutional logics (Thornton and Ocasio, 2008) and institutional work (Lawrence and Suddaby, 2006) are the outcomes of this continuous development. This indicates that there is, to an extent, a limitation of institutional theory. Phillips et al. (2004) highlight its limited analysis of processes of institutionalisation (e.g. DiMaggio, 1988; Greenwood and Hinings, 1996; Sherer and Lee, 2002). More precisely, Phillips et al. (2004) claim that institutional theory needs to re-focus on power and politics. They attempted to complement institutional theory with insights drawn from discourse analysis. However, Phillips et al. (2004) focused on actors who enjoy discursive legitimacy, rather than on the operation of power and politics in the production, reproduction, or discrediting of the discursive institutional processes that “foster, bestow, sustain, or subvert” such legitimacy (Lok and Willmott, 2006: 478).

A number of theorists point out that institutional theory does not fully explain the broader view of the micro-processes inside organisations or why organisations influence and react to their environments (e.g. Powell and DiMaggio, 1991; Hirsch and Lounsbury, 1997). In response to this, Powell (1991) highlighted three areas of institutional theory that can be improved: (1) existing work under the framework of institutional theory highlights large differences between market sectors and institutionalised sectors, whereas they are not necessarily oppositional; (2) the understanding that organisational structures and practices are loosely coupled is a great insight to the field, but this has led to divergent lines of thoughts in that institutionalised organisations are passive, rather than substance; (3) further enhancement is needed in both the source of heterogeneity in institutional environments and the processes that produce institutional change. These three areas represent additional evidence in terms of the limitations of institutional theory. The next section will summarise this chapter.

3.10 Summary

This chapter has presented diverse viewpoints and dimensions of institutional theory based on existing literature. Scholars in this field employ old and new institutionalism in different disciplines, such as economics, political science, and sociology in order to understand how organisations become institutionalised. The historical background of institutional theory has been introduced to create a solid foundation for this research and offer a better understanding of the research topic. This historical background section has shown how neo-institutionalism emerged primarily from early institutionalism. Having presented the diverse viewpoints of old and new institutionalism, this

research study adopts the perspective of neo-institutionalism in order to explain and understand issues in corporate governance.

A number of definitions of institutions are offered. One of these definitions in particular focuses closely on a subject of interest. This research study has adopted a number of definitions that focus on the relationship between institutions, power and legitimacy as the power of rules and authorities are inherent in studies of CG. Institutional theory fails to fully account for power and politics. Since power relationships of rules and regulations are central characteristics of CG, the relationship between institutions, power and legitimacy has been discussed to show how institutions operate in a society (Lounsbury, 2001). In addition, the limitations of institutional theory have been discussed in that neo-institutionalism primarily departed from early institutionalism due to continuous critiques and revisions (Meyer and Rowan, 1977). The discussion will move ahead to show the bearing of institutional theory in the CG debate and the potential influence of institutions on the emergence of a CG regime in the next chapter.

Chapter 4:

Corporate Governance and Institutional Theory

4.1 Introduction

The previous chapter has described and discussed institutional theory as a perspective for this research study. It has presented the different views and dimensions of institutional theory based on existing literature in this area. This chapter will present corporate governance within an institutional theory framework. A definition of CG from an institutional theory perspective will be provided in order to set the context for discussion in this thesis. In order to investigate the influence of institutions on CG, a review of the literature on CG practices within institutional contexts will be presented based on the existing literature on this subject. This review of the literature will present the potential influence of institutions of family, kinship, religion, market, legal, politics, and bureaucratic state on the emergence of the CG regime and the development of CG practices. This literature review plays an important role in drawing a larger picture of the topic in order to understand the potential influence of institutions on the emergence of a CG regime in a non-Western, emerging society, one that is rarely addressed in literature and whose institutions operate differently from those in Western contexts.

The problem statement is presented in this chapter to show the significance of this research study. This includes a presentation of the major financial crises that were caused by poor corporate governance systems. This is followed by highlighting the objectives of this research study and the choice of the research context, Saudi Arabia. This leads to two research questions which will be

addressed in order to offer new insights that add to existing knowledge in this area.

This chapter is organised as follows. Section 4.2 will describe CG from an institutional theory perspective. Section 4.3 will present a review of the literature on CG practices within institutions. Section 4.4 will highlight the research problem along with the research setting and research questions. Section 4.5 will summarise what is learnt from this chapter.

4.2 Corporate Governance from an Institutional Theory Perspective

The theoretical logic of corporate governance from an agency theory perspective was presented in Chapter 2. Shleifer and Vishny (1997: 737) have posited that corporate governance is:

[the process that] deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.

This definition is grounded largely in the agency problem. However, Bradley et al. (1999: 11) argue that corporate governance is more than the simple relationship between the firm and its capital providers. They point out that:

corporate governance also implicates how the various constituencies that define the business enterprise serve, and are served by, the corporation. Implicit and explicit relationships between the corporation and its employees, creditors, suppliers, customers, host communities—and relationships among these constituencies themselves—fall within the ambit of a relevant definition of corporate governance.

Some users of institutional theory address authority and control structures. As such, it can provide significant contributions to the existing literature on corporate governance. As noted before, the contractarian view (i.e. the contract between the principal and the agent) of corporate governance has been the dominant paradigm in the literature since the 1980s (see for example Coffee, 1984; Brudney, 1985; Eisenhardt, 1989). However, a number of recent studies on corporate governance have started to move away from this view towards a more holistic view that accounts for a configuration of interdependent elements such as the relationship between stakeholders and corporations, and the relationship between corporations and society (Davis and Useem, 2002). This view also emphasises that corporate governance systems are embedded in larger institutional and legal frameworks (Davis and Useem, 2002).

The institutional approach to corporate governance presumes that corporate governance arrangements reflect political processes (Davis and Thompson, 1994). Governance models such as the Anglo-Saxon and the Continental models are comprised of implicit and explicit normative theories about power distribution and the priority or order of interests in the corporation. This means that governance models are coherent systems of meaning that represent the moral order as they rationalise the appropriate distribution of power and resources (Fiss, 2008). These governance models are equivalent to the concept of control as they reflect local orders that supply actors with cognitive frames in order to interpret theirs and the actions of others (Fligstein, 2001).

Corporate governance models looked at from an institutional perspective, as presented above, should be more dynamic and culturally constructed than that

in agent-principal practice. Given that power relations are central to corporate governance, such consideration is important and has to be addressed. From an institutional perspective, there is an account for not only the role of power, as in the contractarian view, but also for both sides of the power relationship; obedience to power and resistance to it (Clegg, 1989). In this sense, there is an account for the enactment and acceptance of institutions in addition to the forms of resistance to institutions which can take the shape of the actual enactment of institutional orders in governance (Davis, 2005). Furthermore, governance models through an institutional point of view are symbolic orders that require continuous treatment (by way of human (re)enactment) to be maintained rather than being thought of as rigid structures as in the contractarian approach (Fiss, 2008). Corporate governance systems might then erode in time if institutional change takes place or current institutional activities are substituted by alternative orders.

Fiss (2008) explains why CG models are more fragile and vulnerable to alternative theories in three points: (1) instability of CG models as the symbols that form them are open to different understandings that may empower different actors; (2) existing models should be reproduced, socialised, or converted with new members; and (3) CG models are vulnerable to technical and economic changes that lead to a divergence between actual experience and explanation offered by the normative narrative embodied in them (e.g. Goodrick et al., 1997). Another influential viewpoint regarding CG models and institutional theory is the relationship between taken-for-grantedness and purposive agency (Colyvas and Powell, 2006). This viewpoint suggests a continuum of CG practices from openly contested to the taken-for-granted. The taken-for-grantedness of CG aspects is explained by Comaroff and

Comaroff (1991: 23) in which they “go without saying, because, being axiomatic, they come without saying”. Even highly legitimated models are vulnerable to challenges, because symbolic orders are fragile in the first place and cannot be taken for granted (Thompson, 1990), and their maintenance is as problematic as its change in which the ideological work of repair and renovation is a non-ending project (Scott, 1985). That does not mean that CG regimes cannot be stable. The symbolic orders that form the building blocks of CG regimes can be strengthened by formal authority, such as legal or political authority (Fiss, 2008). But such regulations take time to have effect and to demonstrate stability. Therefore, what comes about eventually is influenced by historical and cultural narratives of power and control that upholds current orders or offers mechanisms for building new ones (Swidler, 1986).

These CG models are not elite systems of meaning. Rather, the action of institutions represented by everyday enactment and abstract meaning are visible in everyday experience. In order to understand how institutions operate, it is necessary to link them with action and daily practice (Fine and Sandstrom, 1993). Based on this, focusing on practices establishes a fruitful enquiry in corporate governance debate because the normative aspects of CG models are not always transformed into equivalent practices (Fiss, 2008). Exercising power may reflect opposition. Thus, concerned actors tend to turn this power into formal and structured practices. These formal and structured practices such as monitoring and auditing arrangements can be influenced by social situations (Covaleski et al., 1993). This shows the importance of focusing closely on CG practices. The discussion will proceed to present a review of the literature on CG practices within institutions.

4.3 Corporate Governance Practices within Institutions

Institutional theory represents an interesting paradigm to apply CG practices. While CG practices deal with a variety of aspects such as legitimacy, power, and control, institutional theory addresses aspects of norms and orders within cognitive and social arrangements. The institutional approach to CG indicates that CG practices diffuse into a pre-existing moral environment or cultural field (Comaroff and Comaroff, 1991) that offers insights into the institutionalisation of CG systems. A number of studies have adopted this approach to explain the role of institutions and their influence on the emergence of CG regimes and the development of CG practices in different institutional contexts (e.g. Becht et al., 2002; Gourevitch, 2003; North, 2005; Yeh and Woidtke, 2005; Yeung, 2006; McMillan, 2007; Young et al., 2008; Abu-Tapanjeh, 2009). These studies take into account a variety of institutions such as family, kinship, religion, market, political, legal, and bureaucratic state, depending on the contexts that these institutions interact in.

This research focuses on developing an understanding of how key institutions potentially influence the emergence of a CG regime in a non-Western, emerging society (Saudi Arabia). More recently, an increasing number of studies are beginning to probe into the emerging contexts and institutions that differ considerably from those in developed societies. Such studies are beginning to appreciate the influence of formal and informal institutions (Peng et al., 2008; Young et al., 2008). In emerging contexts, formal institutions (for example legal and state) are often weak, inefficient, or absent (Peng et al., 2008; Young et al., 2008), and do not promote 'mutually beneficial impersonal exchange' between social actors (North, 1990). As a result, informal

institutions (for example family and kinship) tend to be more prevalent in these contexts, and play a greater role in forming CG (Peng and Heath, 1996; Yeung, 2006). However, informal institutions tend to be less transparent and, therefore, a source of ‘uncertainty’ (Meyer and Nguyen, 2005).

Based on an extensive review of the literature, these formal and informal institutions will be discussed in the following sub-sections. The focus here will be on listed firms in stock exchange because compliance with the CG system in listed firms is mandatory and not voluntary as is the case for private or non-listed family businesses. Thus, they are more likely to be the concerned parties in the CG debate. The review of the literature of CG practices will begin by presenting the potential influence of the family institution on these practices.

4.3.1 Family Institution

As indicated previously, family institution has long been discussed among scholars in the social sciences due to its central role in different fields. With regards to discussing family institution within the domain of CG, it can be said that agency theory is extensively employed to explain the optimal contract between the agent (manager) and the principal (family owners) (e.g. Eisenhardt, 1989; Shleifer and Vishny, 1997). However, agency theory does not explain the different institutional environments. As a result, family institution has gained attention among sociologists and social scientists who are interested in understanding the aspects of this institution while taking into consideration the cultural and institutional differences (e.g. Aguilera and Jackson, 2003; Young et al., 2008).

The literature on family institution indicates that there is a prevalent impact of this institution on CG practices in developing and emerging societies where the family institution is dominant, whereas this impact is lesser to an extent on developed societies due to the minor strength of family institution versus the presence of robust rules and laws (Peng and Heath, 1996; Yeung, 2006). It is also partly due to the difficulty that the family has in trusting and monitoring people outside of a small circle of family and friends (Young et al., 2008). This impact takes different forms, such as family ownership, control, selection of board members, conflict, and resistance. This section will discuss these different influences of family institution on CG based on a review of the literature. It is worth noting that institutional theory has not focused much on the role of ownership and control, while family owners present an interesting case, as conflicts over economic versus social factors of investment are most likely to be prevalent (Fiss, 2008). The immediate family of a person refers to his/her spouse, children, parents, siblings, mother-in-law, father-in-law, sons and daughters-in-law, brothers and sisters-in-law (Yeh et al., 2008).

In terms of family ownership, an empirical study by Claessens et al. (2000) in a number of emerging societies sought to review the ownership concentration of families. They report that family control negatively impacts on firm performance due to the influence of ownership concentration of the family on driving the relationship between performance, cash-flow, and control rights and these elements are associated with CG efficiency. However, Ben-Amar and Andre (2006) did not observe that family ownership has an apparent impact on firm performance, and thus, on CG efficiency in Western societies. This contradiction in findings raises the question of why such institutional impact, represented by family ownership, is different across societies. Thus, it

is important to gain an understanding of these differences from an institutional theory perspective.

Morck and Yeung (2004) discuss family control in emerging societies and observe that the majority of listed firms have controlling shareholders such as wealthy families. This implies that the managers (mostly family members) serve the interests of those wealthy families, not the interest of public shareholders. Carney (2005) indicated a similar view in that family members coerce certain control rights over the firm's assets and exploit these rights to influence the decision-making process. It can be understood that the reliance only on family members can have such negative implications for CG processes. The task for this research then is to examine family control practices and how it links and adds to institutional theory and knowledge of CG systems in non-Western, emerging contexts.

In terms of family selection of board members, Yeh and Woidtke (2005) reported that controlling shareholders (family owners) do wield influence over board members' selection in emerging societies due to the robust domination of the family in these contexts. This implies that the controlling family can expropriate minority shareholders by appointing less mature, less qualified, less experienced members from the family in senior managerial positions in the firm (La Porta et al., 2000) to serve their own interests rather than those of shareholders. Selecting and appointing family members to the board has been found to have negative effects on CG practices in developed societies. Some research has shown a relationship between appointing family successors and poor corporate performance (Smith and Amoako-Ado, 1999), an element that is associated with CG. In addition, they observe that there is a slight decline of

stock prices when family successors are appointed into managerial positions in the firms. These examples show the drawback of appointing less-mature family members in the board of directors from a CG standpoint. As far as power is a chief component in institutional theory, it is interesting to understand how CG regime emerged and dealt with the matter of redistribution of power in a non-Western, emerging context.

With regards to family resistance of CG rules, Handler and Kram (1988) noted that the basis of conflict between family and business, which they consider a problem of resistance, is a function of diverging values and interests. This can be attributed to the conflict of interest between shareholders and family members, which forms a shape of resistance by the family. Calabro and Mussolino (2011) extend this line of thought in that family-controlled firms are generally characterised by a society that is constrained by resistance to change, which creates concerns over the continuation and survival of these firms in a global economy. It seems that family resistance is under-explored and expanding our knowledge on this part may add value to existing knowledge. Therefore, family resistance will be explored in this research study as it is important to address the problem of resisting power (Clegg, 1989).

In terms of conflict of interest between family owners and management which can be identified as the agency/principal problem, Young et al. (2008) conducted a review of CG in emerging societies. The authors observed that extensive family ownership and control can cause conflicts between controlling shareholders (mostly family members) and minority shareholders, which they identified as principal-principal conflict. This conflict alters the dynamics of the process of CG practices which in turn, needs different

treatment from those that deal with principal-agent conflicts, which remains the largely-discussed perspective in the literature under the agency/principal problem (Young et al., 2008). Conflict of interest caused by family members is an issue that not only impacts on emerging societies, but also developed societies. This highlights its danger and influence on CG practices, as demonstrated in a study by Vilaseca (2002) when he observed that appointing family members to the board of directors may reduce the level of commitment to the firm which can cause conflict of interest. The above studies presented a number of causes of conflict of interests but there might be more than what we already know in terms of conflicts caused by the family. Thus, this research study will explore thoroughly potential causes of conflict of interests created by the family in order to broaden our understanding of this subject.

It can be seen from reviewing the literature that the family institution has an impact on CG practices, particularly in emerging contexts where the family institution is dominant. This influence of the family institution is apparent in a number of aspects, such as family ownership, control, selection of board members, resistance, and conflict of interests. Understanding these impacts of the family institution on the emergence of CG regimes in emerging contexts and understanding how this impact differs from other developed societies offers additional understanding and new insights to the existing knowledge. The discussion will proceed to present the potential influence of kinship institution on the emergence of CG regimes.

4.3.2 Kinship Institution

As indicated previously, kinship has been greatly discussed in anthropological literature in order to explore the basic principles that describe kinship systems (e.g. Radcliffe-Brown, 1941, 1952). Within the realm of CG, the literature on kinship institutions indicates that there is an apparent impact of this institution on CG practices in emerging societies as kinship institution is strong, while this impact is limited in developed societies (Yeung, 2006; Young et al., 2008). This impact takes different forms, such as kinship control and the extent of independence of board members from the founding family. This section will discuss these different influences of kinship institution on CG practices based on a review of the literature. Kinship ties are generally relatives from the first degree (i.e. blood relationships) such as nephews, cousins, uncles, etc. (Young and Wilmott, 2012).

In terms of kinship control, Yeh and Woidtke (2005) conducted an empirical study in emerging societies to examine the determinants of board composition in listed firms. They found that boards dominated by members affiliated with the controlling family (kinship ties), is associated with poor CG practices. This indicates that kinship control, through the presence of family relatives in the board of directors, may have destructive implications on CG practices. This may be due to the view that they might make decisions that serve the interests of the family and relatives only, without caring about other shareholders' interests. It is necessary to understand the broader dimensions of kinship control and how it can potentially influence the emergence of CG systems in non-Western, emerging contexts in order to provide better understanding of this subject.

Focussing on the extent of independence of board members from family owners, Filatotchev et al. (2005) conducted an empirical study in an emerging society to examine the effects of ownership structure and board characteristics on performance (an associated element with CG) in listed firms that are mainly controlled by founding families. They conclude that board independence from the founding family has a positive impact on performance. In contrast, if board members are affiliated with the founding family, this is more likely to be associated with poor performance. There seems to be a relationship between the presence of relatives on the board of directors and CG effectiveness. It is interesting to consider what these kinship influences mean in terms of the nature of the emergence of a CG system and what is important to learn from this relationship.

It can be noted from reviewing the literature that kinship institution is relevant to and has some bearing on CG practices, specifically in emerging contexts where kinship institutions are particularly prevalent. The influence of kinship institution is noticeable in a number of aspects, such as kinship control and the extent of independence of board members from the family owners. Considering these influences from an institutional theory perspective may offer a broader understanding and a unique contribution to knowledge. The discussion will continue to present the potential influence of the bureaucratic state on the emergence of CG regimes and development of CG practices.

4.3.3 Bureaucratic State

A body of work in the literature addresses topics relating to the bureaucratic state. However, within the domain of CG, a limited amount of work focuses

on the influence of the bureaucratic state on the emergence of CG regimes. Therefore, this section will attempt to create a platform that will aid the investigation of the potential influences of the bureaucratic state on the development of CG practices. This section will focus mainly on compliance with CG rules and the implementation of CG practices.

In terms of the notion that CG is an imposed regime requiring compliance, Becht et al. (2002) offer an explanation of why CG rules are being imposed by regulatory authorities, since these rules apparently provide adequate protection to shareholders that helps to meet the objectives of CG. They argue that organisations, such as regulatory authorities, may not have all the detailed information available to offer efficient rules. Thus, they might impose rules favouring one group over another. Therefore, social actors may look at it from their point of view and then interpret it differently, perhaps seeing CG as an imposed system. In a non-Western, emerging society, Robertson et al. (2012) indicate that the stock market, in Saudi Arabia as an example, grew greatly in 2006 but this fast boom was a 'bubble' that burst in 2007, which in turn caused a collapse. This event led the Capital Market Authority (CMA) to issue a CG document to force listed firms to apply, implement, and comply with the rules of CG. This indicates that listed firms comply with institutional pressures to achieve legitimacy in their operating environment beyond legal compulsion alone. In the context of Saudi Arabia, it appears that the CMA is the main regulatory body that is supported by the state to apply the CG system to listed firms. For this reason, the CMA is addressed as the expression of the bureaucratic state in this research study and its influence on the emergence of the CG regime will be examined.

With regards to compliance with CG as required by the CMA in emerging contexts, Hussainey and Al-Nodel (2009) reported that listed firms, for example in Saudi Arabia, are required to inform the CMA about their compliance or the reasons for non-compliance with CG rules through comprehensive annual reports. The CMA reviews these annual reports to make sure that these listed firms comply with the required rules and standards (Hassan et al., 2009). In the event of non-compliance, the CMA takes action against the firm and this can lead to the suspension or de-listing of the firm (Hassan et al., 2009). On the other hand, listed firms have the choice to exceed minimum requirements and comply with the best practices internationally, such as complying with the 'Codes of Best Practice', which is voluntary in nature (Denis and McConnell, 2003). It appears that the degree of compliance with CG rules varies between listed firms in a particular context, from the standard compliance up to exceeding this standard to achieve the best practice. This variation in compliance is interesting as it raises the question: what potential institutional influences promote voluntary additional compliance that exceeds the bare minimum? To this end, this research explores institutional bureaucratic-state influence in complying with CG regulations.

With regards to CG implementation, Che and Qian (1998) argue that local authority is seen as a driving force in the development of societies as it is an empowered and constrained body. In this sense, the CMA for example, as it is empowered by the state, can drive the implementation of CG rules through speaking, sending letters, imposing penalties, and enforcing other correction procedures. On the other hand, it can encourage the implementation of CG through conducting workshops, raising awareness, cooperating with and advising firms, and other supportive procedures as the CMA proved to be the

most suitable source for information (Hassan et al., 2009). Thus, it seems that there are different roles played by the CMA to urge listed firms to implement CG practices. This can be regarded as an influence of an expression of the bureaucratic state on the development of CG practices. This represents an interesting avenue to investigate in this research study.

With regards to recent discussions in Western CG models, Mueller (2006) discussed the applicability of the Anglo-Saxon model in less-developed societies. He indicates that many firms in these societies have attractive investment opportunities which can be financed through various sources of capital, such as internal funds, bank loans, issuing bonds, issuing equity, and subsidies from the state. Mueller argues that these different investment opportunities and various sources of capital are the main reasons for the Anglo-Saxon model being inapplicable to these societies since it will lead to adverse long-term effects on the growth prospects of these societies. However, Mueller's study is focused on the effect of the state as an institution on the applicability of the Anglo-Saxon model only without considering contextual or institutional arrangements. Examining the role of such institutional arrangements on the emergence of corporate governance regimes in non-Western, emerging societies will broaden the views and provide better understanding of the issue.

Gugler et al. (2004) present evidence based on an empirical study using a sample of more than 19,000 firms from 61 developing societies across the world in favour of the argument that state intervention can improve the performance of firms. Gugler et al.'s observation is supported by Singh et al. (2005) who claim that the Anglo-Saxon model is ill-suited to less-developed

societies because the state as an institution plays an important role in supplying capital to firms in these societies. However, this might lead to a market failure due to the view that the state chooses which firms and industries should grow faster as a part of a development plan rather than just allowing the capital markets to make these choices (Singh et al., 2005). In other words, the state can make bad choices and create soft budget constraints for firms, propping up 'losers' rather than picking 'winners' (Mueller, 2006). These mixed findings can be attributed to the big variation of the institutional effect on the formation of corporate governance which, therefore, suggests the need for more investigation on the issue. Moreover, Gugler et al. (2004) and Singh et al. (2005) consider only the role of the state as an institution without considering the role of other institutions. Indeed, Fligstein and Choo (2005) argue that political and social factors are fundamental in shaping firms and economic growth. The review of the literature will proceed to present the potential influence of religion institution on CG practices.

4.3.4 Religion Institution

The literature suggests that there is an influence of the religion institution on CG practices in a range of societies. This influence varies across societies in terms of the types and strength of religious practices. A religion institution is common in many Western and non-Western, emerging societies where it is important to examine the influence of this institution on the emergence of the CG regime and the development of CG practices. In this section, the compatibility between religion and CG will be discussed using specific examples for illustration. Furthermore, the implementation and compliance of religion institutions with CG rules will be addressed.

With regards to the compatibility of principles between religion and CG, monotheistic religions, such as Islam, Christianity and Judaism, share common values and concepts with CG, such as justice, honesty, and public interests (Lewis, 2005). The presence of these ethical principles in a society is important in order to help protect shareholders' rights and achieve the best practice (Abu-Tapanjeh, 2009). Achieving the best practice is not only about gaining greatest profitability, fair trading, or best efficiency, but also it is about trying to lead and guide firms according to moral standards (for example religion) acceptable to the society (Gooden, 2001), where the religion has a role in shaping ethical behaviour (Rizk, 2008). This research study examines the influence of such ethical values on applying, implementing, and complying with CG practices in a non-Western, emerging context.

In terms of CG implementation, Bhatti and Bhatti (2010) argue that CG that is supported by a religion would encourage capital formation, foster strong markets, creates incentives to engage in value-maximising behaviour, and encourage judgment and transparency. Abu-Tapanjeh (2009) argues that any system that lacks an appropriate ethical and moral structure will most likely fail to create a proper system of governance. It appears that the religion institution influences the development of CG practices in a way. Therefore, this research study examines this influence and tries to understand how it contracts the emergence of CG activities in a non-Western, emerging society.

With regards to compliance with a CG system, listed firms in Islamic societies always have the choice to comply with Sharia-based law in all their legal and financial activities and it is optional as it is compatible with the ethos of CG and does not contradict it. Khalifa (2003) explains why some people in such

contexts prefer conducting businesses under Sharia-based rules. He argues that financial transactions within Sharia-based law have genuine concern for ethically and socially responsible activities as well as prohibiting involvement in illegal activities or those which are harmful to social and environmental well-being. This reflects underlying moral orders that illustrate how business and social relations can be conducted and whose interests have priority. Thus, the task of this research study is to explore the potential influences of compliance with Sharia-based rules on CG practices in non-Western, emerging societies. The discussion will continue to present the potential influence of the market institution on the emergence of a CG regime.

4.3.5 Market Institution

Young et al. (2008) observed that labour markets, product markets, and takeover markets appear to be ineffective or corrupt in emerging societies. As a result, these markets are less effective in informing appropriate corporate governance. McMillan (2007) attributes the lack of strong markets in emerging societies to the absence of formal institutions in these contexts. Lasserre and Schutte (1995) offer an explanation of how Asian business groups do successful work. They suggest that the actors in these business groups, through their close relationships, exploit the imperfection of the market by obtaining an 'insider' or access to privileged information in these emerging contexts. Lin (2001) argues that the key factor that influences CG in emerging societies is the view that markets and legal institutions are often underdeveloped. He also notes that many of the drawbacks of practicing CG in these contexts are derived from weaknesses in policies and institutional environments in addition to the different cultural governance traditions. Che

and Qian (1998) analyse the important and helpful role that community governments play in the governance of China's township-village enterprises in response to the imperfect institutional environment of the market in this emerging context. At an individual level, Lau (1998) perceives that market and political pressures formed institutional constraints on the chief executives of Chinese businesses and therefore, many firms in such emerging societies are vulnerable to face change that influenced by existing institutional factors.

Allen (2005) argues that it is not necessarily optimal to use the law to ensure good corporate governance in emerging societies since market institutions in these societies are 'imperfect' and 'incomplete'. He claims that other mechanisms such as competitive markets, trust relationships, and reputation may be preferable and he cites China as an example since it has fast economic growth even though corporate governance systems are weak. However, Mueller (2006) argues that trust relationships take a long time to develop and lack the flexibility of well-functioning impersonal markets.

It can be observed that the market institution plays a role in developed societies among various domains, some of which is CG practice. However, this role appears to be different in emerging contexts due to the existence of incomplete, incompetent, or corrupt market institutions in these societies. Therefore, this research study examines the role and potential impact of market institution on the development of CG practices in a non-Western, emerging context. Understanding this presents an opportunity to contribute significantly to existing knowledge in this field. The review of the literature will proceed to present the potential influence of political institution on the development of CG practices.

4.3.6 Political Institution

A limited amount of literature has explicitly discussed the influence of political institutions on CG practices and has mostly conducted research in developed societies. One of the tasks in this research is to determine if any themes arise during the data analysis. This section will provide a review of the literature in light of the existing studies in CG that are associated with political arrangements.

In a number of studies related to the American CG, Gilson (1996) points out that non-economic factors, such as politics, influence the formation of any nation's CG system and thus, institutional differences matter a great deal. North (1990) adds to this view by suggesting that institutions are considered as the incentive structure of a society, and political institution is an essential determinant of economic performance. Roe (2003: iii) offers an example of the influence of politics on CG arrangements by stating that "politics can press managers to stabilise employment, to forego some profit-maximising risks with the firm, and to use up capital in place rather than to downsize when markets no longer are aligned with the firm's production capabilities". In addition, he points out that "when we line up the world's richest nations on a left-right political continuum and then line them up on a close-to-diffuse ownership continuum, the two correlate powerfully". Observations from his study suggest that CG and ownership structures are associated with basic political configurations in Western societies. It appears that these studies generalise their findings to all levels of societies, while these studies were conducted in developed societies only without considering emerging or developing contexts. Thus, the task of this research study is to investigate

whether political institutions have an apparent influence on CG practices in a non-Western, emerging context or not. If there is any influence, how would this present itself in emerging societies, and in what ways and what forms? Answering such questions is important as there is an opportunity to bridge a significant gap in knowledge; that is, the behaviour of actors that shape actions within those institutions.

Gourevitch (2003: 1832) explains:

...yet what a country does with its legal tradition and system turns on politics: the rules that determine the extent of economic competition within and between countries; the laws and decrees that structure banking, corporate finance, and the securities industry; the rules that shape the markets for capital and labor; and the degree of state involvement in the economy.

The above statement highlights a number of factors that have some bearing in forming CG systems caused by the political institution. For example, the author highlighted the influence of the laws and decrees on organising the work of the banking sector, structuring financial systems, and issuing securities of firms. These motives signal the direct or indirect links of politics with CG systems. The task then is to explore these links in a non-Western, emerging context. The review of the literature will continue to discuss the potential influence of the legal institution on the emergence of a CG regime.

4.3.7 Legal Institution

A growing body of research has discussed the aspects of legal institution and their influence on the emergence of CG regimes, more apparently, in

developed societies. This section will attempt to provide a review of the literature characterised by the impact of legal institution on the development of CG activities.

Shleifer and Vishny (1997) observe that legal institutions in developed contexts have a considerable role in protecting investors and shareholders. They offered the case in the United States as an example where courts attempt to increase the protection of firms' assets through controlling managerial diversion towards serving their own interests. Milhaupt (1996) points out that, in developed contexts, the law in the form of legal rules shapes the basic structure of CG, defines the rights of actors, and sets the boundaries for the private ordering. He indicates that this influence can also appear in the form of a managerial market that controls managers and shrinks the divergence of interests between shareholders and managers. Cioffi (2000) posits that the law, in the form of company law, financial market regulation, and labour law, has an influence in determining the governance of corporations. He argues that this theoretical approach emphasises the juridical character of CG that emerged from neo-classical economic theory as a 'nexus of contracts'. These insights from developed societies indicate that legal institution has a great influence on the formation of CG in these contexts. The question now is whether or not this is also the case in emerging societies. The investigation must therefore account for the tendencies and forms of social activities in this respect in non-Western, emerging contexts.

Young et al. (2008) observe that emerging societies tend to have an ineffective and unpredictable rule of law which creates a weak or unhealthy environment for CG. They indicate that the emerging contexts adopted the legal

frameworks of developed societies, such as the Anglo-American system, due to either internal reforms or response to global prerequisites. However, they argue that, legal institution including disclosure parameters, accounting requirements, and securities trading boundaries is missing, incompetent, or does not work as required. As a result, other institutions, such as family and kinship ties, government connections, and business groups drive the role in the formation of CG systems in emerging societies (Yeung, 2006). Dharwadkar et al. (2000) argue that emerging societies lack efficient legal frameworks which make resolving the agency problem almost unachievable. They claim that bankruptcy laws in emerging contexts tend to be interpreted in favour of managers which, in turn, increase the agency problem.

It can be understood from reviewing the literature that there is an influence of the legal institution in developed societies, but this influence is less to an extent in emerging contexts. Taking such influence into account may offer a broader view of the picture which can increase the understanding on this regard. The following sections will present the research problem, research setting, and research questions.

4.4 Research Problem

Numerous studies indicate that major financial crises share the same fundamental reasons for failure. Corporate governance mechanisms have been shown to play a significant role in causing such crises (Radelet and Sachs, 1998; Johnson et al, 2000; Elson and Gyves, 2003; Holmstrom and Kaplan, 2003; Monas, 2003; Agrawal and Chadha, 2005; Millar et al., 2005; Cornett et al., 2010; Erkens et al., 2012). These studies suggest that poor corporate

governance mechanisms were significant reasons for such collapses. These financial crises such as, the East Asian crisis in 1997, Enron and WorldCom in the USA in 2001 and 2002, Ahold and Parmalat in Europe in 2003, and the global financial crisis in 2007, have proven the central role of effective corporate governance systems, thus, they emphasise the importance of improving corporate governance practices to help avoid such collapses in the future (see Table 4.1).

Table 4.1: World Major Crises

Crisis	Studies	Main Reasons for Crisis
Enron 2001 (USA)	Elson and Gyves, 2003	Conflict of interests between owners and top management; lack of board independence from family ownership
Ahold, Parmalat 2003 (Europe)	Millar et al., 2005	Lack of institutional transparency
WorldCom, Tyco, Adelphia, Global Crossing, and HealthSouth	Holmstrom and Kaplan, 2003	Poor corporate governance systems; illegal managerial behaviour; multiple board and regulations conflicts
	Agrawal and Chadha, 2005	Independence of board and executive managers from the family, poor audit systems
East Asian 1997 – 1998	Johnson et al., 2000	Weakness of formal institutions of corporate governance (i.e. bureaucratic state)
	Lemmon and Lins, 2003	Family ownership: entitlement and conflict of interests
Global Financial Crisis 2007	Erkens et al., 2012	High institutional ownership and low board independence due to diversified institutions with a relatively high appetite for risk

In the contemporary academic world, there has been an increasing interest in understanding the evolution of institutions across developed and less-developed societies. These institutions play an important role in the formation

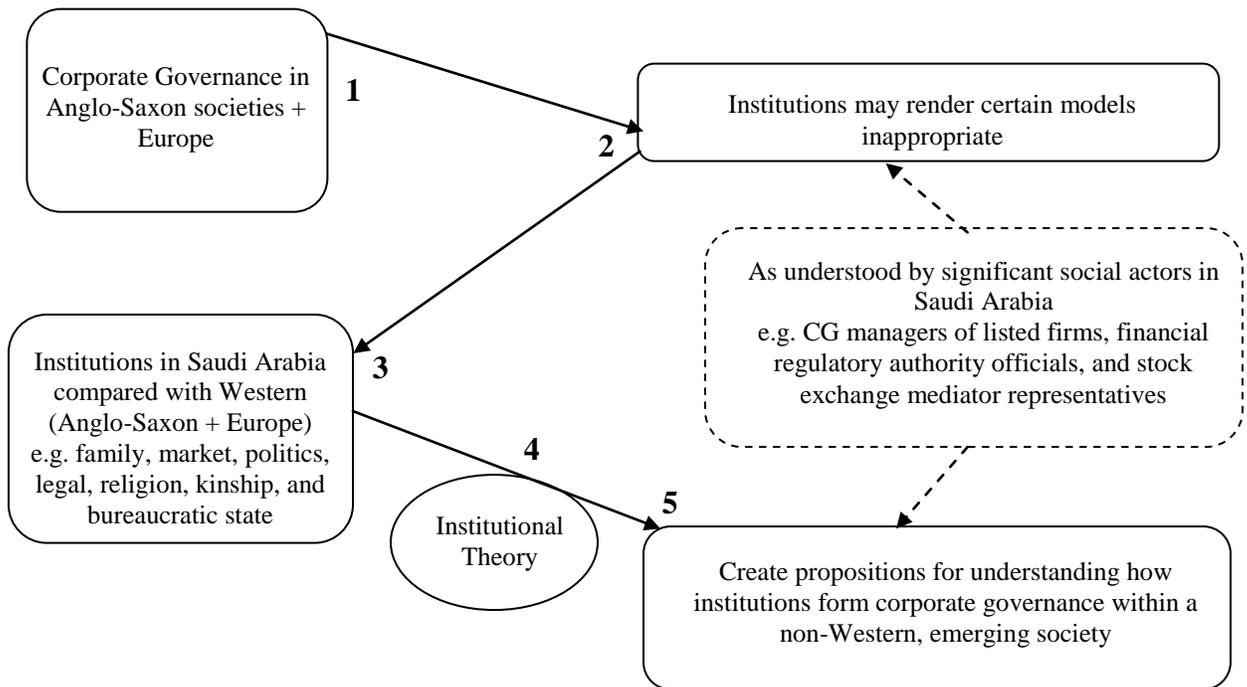
of corporate governance systems (Aguilera and Jackson, 2003). Bodies of literature in social science have begun to determine the role of social factors in the governance of developed and less-developed societies (La Porta et al. 2002a; Djankov et al. 2003; Rodrik, 2003). This research study will look at this role in order to provide better understanding of different institutions and examine their impact on the formation of corporate governance in a non-Western, emerging society.

From the literature review of CG within institutions that is presented earlier in this chapter, it seems that existing corporate governance models, such as the Anglo-Saxon and Continental models are inappropriate in certain contexts. These models may not fit with different types of markets which operate in different ways to more 'typical' markets in developed societies. This means that there is something rendering certain models inappropriate for a given context. There are a variety of possible explanations for this particular problem. For example, differences could be due to a national culture effect or the role of institutions such as, family, legal, political, religion, kinship, bureaucratic state and market in less developed societies. Investigating such differences in institutions is interesting as it brings institutions into the debate on corporate governance, which is rare and inadequately treated despite the fact that the institutions shape and inform behaviour and the emergence of activities. By understanding this from the institutional theory perspective, the contribution then is to reconcile how institutions potentially influence the emergence of corporate governance regimes in non-Western, emerging societies.

4.4.1 Research Setting

The main concern of this research study is to focus on the potential impact of different institutions on the emergence of the corporate governance regime in a non-Western, emerging society as understood by significant social actors in Saudi Arabia such as: CG managers of listed firms, financial regulatory authority officials, and stock exchange mediator representatives who have a background in corporate governance systems. Chapter 5 will attempt to provide a comprehensive description of the Saudi Arabian non-Western, emerging society along with its key actors in the field of corporate governance.

Figure 4.1: A Map for the Research Study



Competitive markets in Western capitalist societies have developed as both kinship and religion institutions have tended to weaken (Watson, 2012).

Currently, the market and managerial control are the dominant ones in these societies (Watson, 2012). This has highlighted the need for strong corporate governance systems as guidance within these societies. However, the Saudi Arabian non-Western, emerging society has different influential institutions from those in Western societies, for example, kinship and religion institutions are still strong (Altorki, 1980; Ali and Al-Shakis, 1985). Therefore, this less-researched context has been chosen to examine the potential effect of different institutions on the emergence of the corporate governance regime as perceived by significant social actors. In order to accomplish this objective, the following research questions were addressed.

4.4.2 Research Questions

- 1- What do non-Western, emerging society (Saudi Arabia) institutions consist of as perceived by significant social actors?
- 2- In light of these perceptions, what are the likely influences of these non-Western, emerging society institutions on the emergence and development of its corporate governance regime?

This research study is based on the perception of significant social actors in Saudi Arabia. Answering the above research questions will offer a better understanding of the nature of non-Western, emerging context institutions along with their potential influence on the development and emergence of the corporate governance regime. This is interesting as it brings institutional theory into the debate of corporate governance in the emerging contexts that have different institutions from those in developed societies. Understanding

this will contribute to knowledge and add further insight to the existing literature, and strengthen the ground for future research on institutions in non-Western, emerging societies. The next section will summarise what has been learnt from this chapter.

4.5 Summary

This chapter has attempted to engage the discussion on CG practice with institutions based on the existing literature in order to provide broader views about the topic and help achieve the intended objectives of this research study. Defining CG from an institutional theory perspective indicates the tendency of recent studies to move away from the simple relationship between the firm and its capital providers to a more holistic view that accounts for a configuration of interdependent elements such as the relationship between stakeholders and corporations, and the relationship between corporations and society. This holistic view of CG indicates that CG systems are embedded in larger institutional frameworks. This means that CG systems should be more dynamic and culturally constructed than the simple relationship of the agent-principal view.

From reviewing the literature, it appears that the emergence of CG regimes in emerging contexts is influenced by a number of institutions such as family, kinship, religion, bureaucratic state, political, legal, and market. This impact is not clearly defined and ranges from positive to negative in terms of the development of CG practices. It also appears that the impact of institutions in emerging societies differs from that in developed contexts due to the diverse nature and strength of institutions in each society. Understanding governance

arrangements and the role of family owners and the state in non-Western, emerging societies requires a holistic approach to CG, and the institutional perspective is well positioned to contribute such an approach (Fiss, 2008). The literature indicates that there is a need for more cross-national studies of CG that would go beyond national differences to examine the underlying dimensions along which institutional contexts vary (Fiss, 2008). Thus, the task of this research study is to explore the different impacts of institutions on CG in a non-Western, emerging society in order to broaden the views and offer new insights of the nature of institutions in this type of contexts. This area of exploration has the potential to contribute largely to the literature. The next chapter will describe and discuss the research context by presenting CG in the Saudi Arabian non-Western, emerging society.

Chapter 5: Corporate Governance in Non-Western, Emerging Societies: The Context of Saudi Arabia

5.1 Introduction

The previous chapter focused on the CG debate from an institutional theory perspective. It provided a review of the literature on the potential impact of institutions on CG practices based on the existing literature. This chapter intends to draw a broad picture for the research setting, Saudi Arabia, which according to a number of scholars, is best described as a non-Western, emerging society (e.g. Wright et al., 2005). Mitton (2002) argues that recent research highlights the importance of understanding CG in emerging societies in order to understand what causes financial crises in these contexts (e.g. La Porta et al., 1997, 1998, 1999, 2000). This chapter will provide a general overview of the Saudi Arabian non-Western, emerging society in order to understand what this context looks like. It will also present the historical beginnings of the CG regime in this society, the role of the regulatory authorities, and describe CG guidelines including the CG document and other official documents that must be followed by listed firms. This will help to simplify our understanding about the nature of institutions in this non-Western, emerging society in order to achieve the objectives of this research study.

Institutional theory appears to be one of the leading theories when probing into emerging societies (Wright et al., 2005). Institutions have an effect on organisational practices, they influence the framing of organisational strategies, and they affect a firm's actions (Feldman and Rafaeli, 2002; Peng, 2003; He et

al., 2007). However, the institutions in emerging societies are unstable, where formal institutions such as laws and regulations are absent, or inefficient, or do not operate as intended, and often do not promote ‘mutually beneficial impersonal exchange’ between actors (North, 1990, 1994; Young et al., 2008). This can be explained in that emerging societies tend to adopt legal frameworks of developed societies, such as the Anglo-Saxon or European systems, either to conform to internally driven reforms or to respond to international pressures (Young et al., 2008). As a result, informal institutions such as family and kinship ties, business groups, and government connections, are the prime guidance of organisations in emerging contexts (Peng and Heath, 1996; Jiang and Peng, 2011). The market institution, including its functions such as the product market, takeover market, and labour market are ineffective or corrupted in emerging societies and, as a result, are not so effective in governing managers and board members (Groves et al., 1995; La Porta et al., 1998; Djankov and Murrell, 2002). Investigating this issue is interesting to understand the relationship and influence of the market institution in non-Western, emerging contexts.

This chapter is organised as follows. Section 5.2 provides a general overview of the Saudi Arabian non-Western, emerging society context. Section 5.3 discusses the emergence of CG in the Saudi Arabian non-Western, emerging society. Section 5.4 describes the Capital Market Authority. Section 5.5 presents the Capital Market Law. Section 5.6 provides an idea about the Companies Act. Section 5.7 presents the company that is responsible for organising the Saudi stock exchange (Tadawul). Section 5.8 describes the Saudi Arabian Monetary Agency. Section 5.9 summarises this chapter.

5.2 General Overview

Since this research study is concerned with context, it is important to provide a general background about the Saudi Arabian non-Western, emerging society context and the culture to better understand the research site. Saudi Arabia is located in the South West of Asia, with a land area of about 865,000 square miles, with a population of around 28 million. It was founded by King Abdulaziz Al-Saud (1880-1953) and announced as the Kingdom of Saudi Arabia in 1932, after numerous attempts to unite it under one flag (Al-Turaiqi, 2008). Riyadh is the capital city and Jeddah is the second biggest city in the country in terms of size, population, and economic growth. The desert forms over 80% of the country from the North to South and includes the Empty Quarter, which is considered to be one of the largest sandy deserts in the world (see Figure 5.1). Saudi Arabia has a desert climate characterised by extreme heat ranging from 10 degrees in the winter up to 50 degrees in the summer. The national currency is Saudi Riyal (SR), where one sterling pound equals six riyals (an approximate exchange rate, where this rate may vary). Arabic is the first language and English is the business language.

Figure 5.1: Map of the Kingdom of Saudi Arabia

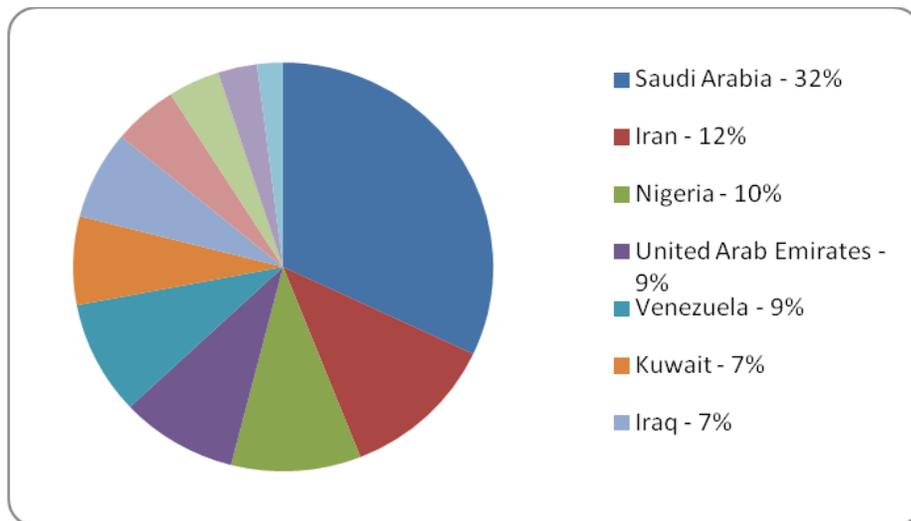
Source: www.bbc.co.uk



Saudi Arabia is a non-Western, emerging society and it can be classified as a “transition economy” as identified by Wright et al. (2005: 2). It is a part of the Gulf Co-operation Council (GCC), the Organisation of the Petroleum Exporting Countries (OPEC), and the World Trade Organisation (WTO). In the past, Saudi Arabia was a poor country and agriculture was the main source of income. In 1937, oil was discovered in different areas of the country which then became the main source of national income, producing and exporting large quantities of this ‘black gold’. Saudi Arabia possesses around one quarter of the world’s crude oil reserves and ranks as the dominant and largest exporter of oil with around 32% of oil exports (OPEC, 2013) (see Figure 5.2). Apart from oil, Saudi Arabia produces other materials such as gas, gold, iron, and copper. Although Saudi Arabia has a large land area that almost equals the area of the UK, Germany and France combined together, it lacks some important natural resources such as lakes and rivers due to the lack of rain. It produces about 23% of the world’s total production of water through saline water conversion.

Figure 5.2: OPEC Countries of Oil Exports (2013)

Source: www.ubc.ca



The legal system in Saudi Arabia is based on the Holy book (Quran) along with the Prophet Mohammed's speech (Hadith). Sharia-based law, which emerged from those two sources, is an Islamic law that provides the code of conduct or religious law. Thus, Saudi Arabia is deemed to be an Islamic state and Islamic principles affect social behaviour, business deals and daily operations. Any adopted system, such as a CG system, is altered to become compatible with the religion and accepted by the society. Moreover, Saudi Arabia, to a large extent, is a tribal society, in which people are influenced by the Arabic tradition, where there are strong family and kinship relationships. Additionally, this country has never been invaded by any other country. As a result, this society has developed its own institutions, national culture, and economy.

This is not to say that there are no external influences. Rather, there are political and economic ties between Saudi Arabia and Western societies that have, to an extent, influenced the culture of Saudi Arabia. In terms of marketing and commercial sectors, a number of Saudi Arabian firms would replicate Western plans, strategies, and procedures in their operations and practices. For example, Saudi ARAMCO, an oil production and refining company in Saudi Arabia, is a joint US-Saudi Arabian company. With regards to financial and accounting practices in Saudi Arabia, it can be said that they are, to an extent, influenced by Western practices (Askary, 2006). However, they are modified to be more compatible with the law of the country. The discussion will proceed to present the emergence of CG particularly in this context.

5.3 The Emergence of Corporate Governance in the Saudi Arabian Non-Western, Emerging Society

In the last two decades, the economy of Saudi Arabia has improved due to the strategic development in oil production and oil exporting, which has increased liquidity in the stock market exchange. Public shareholders have achieved significant profits, where a group of shares has risen up to 700% of its original value between 1999 and 2007. However, this boom deteriorated to one third of the market value between February and April in 2007 due to the loss of confidence amongst shareholders and investors, with an estimated loss of around £230 billion (Hassounah, 2007).

At that time, a formal CG system was just being introduced after it was initiated by the Capital Market Authority (CMA) in 2006. The weakness of the CG system was a key reason for this collapse in Saudi Arabia (AME info, 2007). A large number of minority shareholders lost their fortunes and there were some signs that public shareholders had lost their desire for trading in the Saudi Arabian stock market (Hassounah, 2007). However, Initial Public Offerings (IPOs) continued to be issued normally. A speech was given by the governor of the Saudi Arabian Monetary Agency (SAMA), Mr. Al-Sayari in May 2007 under the title 'Corporate Governance in Saudi Arabia'. In his speech, the governor stressed the importance of improving CG practices by proper compliance and implementation of CG rules and regulations to boost macro-economic development, growth, and to stabilise the Saudi Arabian economy (BIS, 2013).

By this stage, the strategy suggested by SAMA was to ensure full compliance and implementation of CG practices watched by the board of directors of

listed firms, supervised by senior management of listed firms, and set by the regulatory authority—the CMA. This was to maintain financial stability, which is a primary objective of CG. Since then the CMA became the prime authorised regulatory authority that observes, supervises, and guides the implementation of CG practices in listed firms in the country. The CMA attempted to adopt the best practices learnt from the West to enhance transparency and disclosure, educate investors, and motivate the private business sector to join the stock market and become public (the author will return to the role of the CMA in Saudi Arabia in detail in the next section).

It can clearly be seen from the above historical rise of CG that institutional factors are neglected, misunderstood, and under-explored. To a great extent, the influence of institutions is important as institutions shape and inform the behaviour of the emergence of CG practices in any institutional context. Having presented the emergence of Saudi-Arabian CG, it is now important to look at the main actor in this context, the Capital Market Authority.

5.4 The Saudi Arabian Capital Market Authority (CMA)

The CMA is the main regulating authority in this country for all listed firms and thus, it is considered as an expression of the bureaucratic state in this research study (see Sub-section 4.3.3). This authority was unofficially established in the 1950s and was running until the government created its basic regulations in the 1980s (CMA, 2013). In 2004, the CMA became an official government organisation through royal decree, in which it has full authority to play financial, legal, and administrative roles and furthermore directly shadows the prime minister. The main functions of the CMA are to

regulate and develop the stock market through issuing and applying the rules that conform to the Capital Market Law (this will be discussed further in Section 5.5). The main objectives of the CMA are to enhance the investment and stock exchange environment; develop an organised, transparent, fair financial market; advance confidence in the market; encourage listed firms to increase the level of transparency and disclosure; and maintain shareholders' rights and protect their interests from irregular activities in the stock market such as fraud, deceit, manipulation, or cheating (CMA, 2013).

In order to achieve this, the CMA conducts a number of tasks and duties on a regular basis:

- It aims to protect shareholders and investors from any bad practice, including manipulating, cheating, fraud, or any illegal trading.
- It attempts to reduce risk through developing proper measures and standards.
- It monitors the extent of disclosure of information produced by listed firms.
- It encourages listed firms to enhance the quality of transparency.
- It monitors all the transactions and activities in the stock market.
- It endeavours to regulate and develop the market and improve standards and techniques for better trade operations.
- It monitors all security-related issues and under-trading transactions.

As far as the CMA has financial, legal, and administrative roles, it has formed a board of directors that includes five full-time commissioners appointed by

royal decree. According to the CMA (2013), those members are not allowed to be involved in any commercial or special interests due to their job nature, where they are considered as insiders who have full access to future investments of any listed firm.

In 2006, the CMA applied CG rules on all listed firms through issuing a CG document which becomes the main guidance for listed firms to implement and comply with CG rules (see the appendix for more details of the Saudi CG document). This document has a total of nineteen pages and is available from the CMA in both languages, Arabic and English. The document includes five chapters, each with a number of articles. Chapter one, the preliminary provisions, presents a preamble and a number of definitions such as an independent member, non-executive director, first-degree relatives, stakeholders, accumulative voting, and minority shareholders. Chapter two, rights of shareholders and the general assembly, provides the general rights of shareholders, facilitation of shareholders' exercise of rights and access to information, shareholders' rights related to the general assembly, voting rights, and dividend rights of shareholders. Chapter three, disclosure and transparency, presents the policies and procedures related to disclosure where the firms should write disclosure procedures according to the CMA's law, and disclosure in the board of directors' report that should include a number of items, such as provisions that not have been implemented and why, and details of compensation and remuneration paid to the chairman, board members, and executive directors. Chapter four, board of directors, shows the main functions of the board, responsibilities of the board, formation of the board, committees of the board, audit committee, nomination and remuneration committee, meetings of the board, remuneration and indemnification of board

members, and conflict of interest within the board. Chapter five, closing provisions, includes publications and entry into force (CMA, 2013).

Listed firms should report about all the processes and procedures they perform to inform about their compliance with CG rules in accordance with the CG document. The CMA receives comprehensive annual reports from these listed firms which include the profit and loss, the risks, future investments, the activities of the firm and contracts, financial reports, committees, the auditors' report, the extent of compliance with CG rules, the reasons for non-compliance with any of the CG items, the remuneration of the board, and the disclosure of all mandatory and optional items. The CMA usually sets a deadline for submitting these reports each year and penalises those who fail to meet this deadline. This is to ensure an effective and smooth process of disclosure which is a key item in a CG system (Hussainey and Al-Nodel, 2008).

In summary, the CMA plays an important role in regulating and developing the stock market exchange through setting the rules and instructions that guide listed firms to behave appropriately in the market. This is to meet the objectives of the CMA and thus of CG that call for offering adequate protection to shareholders' rights and interests, and gaining financial stability and security in the market. This role of the CMA, as an expression of the bureaucratic state, will be examined in this research study in order to attempt to understand the roles and impact of the bureaucratic state institution on the emergence of CG practice which may offer a broader insight of the topic. As far as the CMA issues the rules that must conform to the Capital Market Law, it is important to present information about this law.

5.5 Capital Market Law (CML)

The CML is a set of rules that was created by the Saudi Arabian government in 2003 and approved by royal decree. This document includes 28 pages, 10 chapters, and 67 articles. These chapters, along with their articles, clearly address the rules, what is required and expected from concerned bodies, and help regulate and monitor the market. Chapter one comprises three articles and presents a number of basic definitions that are often used in the Saudi Arabian market such as the kingdom, the authority, the board, the chairman, the exchange, the committee, etc. Chapter two includes 16 articles and offers a broad description of the entity of the Capital Market Authority, its organisational structure, its functions, its responsibilities, its objectives, its authority and limitation, its financial resources, and its internal regulations and procedures. Chapter three consists of six articles and discusses the stock exchange, including a description of the joint-stock company—currently operated by Tadawul (I will return to this soon in Section 5.7)—terms and conditions, the way to place transactions and carry out trading in securities, and creating committees. Chapter four consists of five articles and provides details about the securities in the depositary centre. The chapter describes the roles and responsibilities of the depositary centre in terms of registration of ownership and property rights of securities traded on the exchange, confidentiality of information, and the roles of the board of the exchange. Chapter five includes eight articles and considers brokers' regulations. The chapter addresses the conditions and limitations of brokers, who are authorised to perform brokerage activities, and the requirements to grant a license. Chapter six comprises of one article that deals with investment funds and collective investment schemes and how to regulate them. Chapter seven

consists of nine articles and discusses, in detail, disclosure issues. It determines the conditions that must be covered for a prospectus' publication such as the information required by the authority's rules that provide detailed descriptions of the issuer, the nature of the business, board members, the securities to be issued, and the financial position of the issuer. The chapter also illustrates the contents and required information in the quarterly and annual reports, such as the balance sheet, profit and loss account, the cash flow statement, and other information required by the rules. Additionally, the annual report should also include a description of the firm, its business nature and activities, the members of the board and other staff, investors or major shareholders, future developments, and the confidentiality of information before submitting them. Two articles from chapter eight cover manipulations and insider trading. It outlines cases where a firm may fall in violation and then penalised such as creating a false or misleading impression of trading in a security that may be contrary to reality. The chapter also defines an insider as any person who obtains inside information through the family, business or contractual relationship, and defines insider information as information obtained by the insider which is not available to the general public. Chapter nine comprises four articles and describes the regulation of proxy solicitations, restricted purchase and restricted offer for shares. It deals with the restrictions of purchase of shares in case the ownership exceeds 10%, where announcing such ownership is required. Chapter ten consists of 13 articles that describe in detail the sanctions and penalties for violations. It states who is vulnerable to be penalised such as board members, senior officers and other staff, and major shareholders (SAGIA, 2013).

The CML has added further enhancements to the Saudi Arabian market through regulating and developing the stock market, which was needed since the implementation of the Companies Act in 1965 with its latest update in 1982 (this will be discussed further in Section 5.6). The CML also addresses a number of important rules such as disclosure, brokers' regulations, and insider trading, that are essential to organise and regulate the stock market efficiently. However, the rules of the CML appear to still be open for further development to promote an effective and efficient operation of CG practice in a fast growing emergent society. Since the Companies Act document is the first document issued in 1965 to regulate the work of companies, it is important to present it.

5.6 Companies Act (1965, 1982, 1985)

The Companies Act is the first document that was issued in 1965 to regulate and organise the work of all types of companies in Saudi Arabia. The document includes 15 chapters along with 234 articles and was issued by the Ministry of Commerce (MOC) based on royal decree. Part of the document considers the work of listed firms in a number of chapters in terms of how to form them, how to manage them, how to conduct general assemblies for shareholders, accounting and auditing, and increasing or decreasing capital. These rules were revised and amended in 1982 and again in 1985 through official decisions from the prime minister in order to fulfil modern requirements. All Saudi Arabian firms were required to comply with the rules of the Companies Act as it was the basic system issued in 1965. However, it was difficult at that time to adopt and comply with these rules due to the lack of adequate accounting and finance training and thus, a shortage of

professionals (Abdeen and Yavas, 1985). Moreover, there was an absence of an authorised professional body to audit, review and inspect the conduct of accounting and auditing practices (Shinawi and Crum, 1971). As a result, external auditors were permitted to perform auditing practices and listed firms are now required to submit their annual reports along with reviewed and checked financial statements through external auditors. A company was established in Saudi Arabia in 2007 to organise and facilitate stock exchange operations in the market, this company ‘The Saudi Stock Exchange’ will be presented next.

5.7 The Saudi Stock Exchange (Tadawul)

The term ‘Tadawul’ is an Arabic term that refers to the exchange of stocks and shares. The Saudi Stock Exchange (Tadawul) company was established in 2007 as the only authorised body to carry out trading in the Saudi Arabian market. It is a joint company that is owned by the Public Investment Fund (PIF). It works as a mediator between listed firms and their shareholders in which it facilitates stock exchange. This company has a number of objectives, such as supporting and educating investors, operating the stock market efficiently, developing the capability and competency of the stock exchange, supporting the capital raised for companies, providing diverse financial services, and attracting participation from national and international investors (Tadawul, 2013).

The board of directors in Tadawul consists of nine members that are nominated by the chairman of the CMA and then appointed by a decree of the council of ministers. Consistent with its sensitive position in the market,

Tadawul issued a comprehensive code of conduct for its employees as well as its board members. This code includes confidentiality of information, dealing with the press and the media, prohibition of disclosure of internal information, responsibilities, disciplinary penalties, conflict of interest, and acceptance of gifts and hospitality invitations (Tadawul, 2013).

Over the last decade there has been a considerable increase in the number of firms that changed from private or family to public due to the effort of the government in setting a clear scheme for helping firms to turn public through issuing Initial Public Offerings (IPOs). For example, between 2005 and 2010, the number of listed firms increased dramatically from 81 to 144 firms (Tadawul, 2013). Currently, the number of listed firms is almost 160 firms distributed in different fields of industry around the country. This increase indicates that the Saudi Arabian market becomes more stable and more attractive for local and foreign investors providing that the regulations are organised. Thus, the attempt of the bureaucratic state in developing CG practice in this society is apparent through establishing a mediator that is authorised to conduct the operations of the stock exchange securely. Therefore, this research study will attempt to examine the influence of the bureaucratic state on the development of CG practice in a non-Western, emerging society. Banking and insurance sectors in this context are regulated by two authorities, the CMA and the Saudi Arabian Monetary Agency (SAMA). Thus, a brief introduction about SAMA will be presented next.

5.8 Saudi Arabian Monetary Agency (SAMA)

SAMA is a governmental organisation that acts as the central bank of Saudi Arabia and was established in 1952. The main functions of SAMA are to issue national currency, act as a banker to the government, supervise all the local banks and insurance companies, control foreign exchange reserves, conduct monetary policy for maintaining exchange rate stability, and encourage the growth of the financial system (SAMA, 2013). The board of directors includes the governor, the vice governor, and three nominated members from the private sector. SAMA has its own internal audit department that reviews and evaluates the effectiveness and efficiency of operations.

SAMA is a regulatory body for all banks and insurance companies as they deal directly with money. This organisation looks after and observes the functions and activities of the banking and insurance sectors but has nothing to do with CG rules or practice. SAMA did have a direct connection with the CMA as they are both regulators in the country so they often sign a memorandum of understanding between them in order to avoid any overlap (CMA, 2013). It appears that this organisation has no direct relationship to CG and thus, it will not take part in the investigations of this research study. The next section will summarise what has been discussed in this chapter.

5.9 Summary

This chapter has discussed CG in the Saudi Arabian non-Western, emerging society. It has offered a general overview of this context. Compared to other societies, Saudi Arabia has a short history and its economy started from

agriculture and evolved to become a leading country in oil production. Its legal framework is to a large extent, based on religion. Its culture is influenced by the West in terms of commercial, financial, and accounting practices.

In terms of the emergence of CG in the Saudi Arabian non-Western, emerging society, oil production and exportation was the main factor in increasing the liquidity in the stock exchange. It has been indicated that the CG system is in its first stages and needs a lot of improvement in order to maintain financial stability. The discussion of this topic has revealed the importance of understanding the role of institutions in this non-Western, emerging context. Understanding this role may inform the behaviour of the emergence of CG practice that may broaden the knowledge in this field and contribute to the theory.

The Capital Market Authority is the main actor in the development of CG practice and thus, it is considered as an expression of the bureaucratic state in this society. It has issued a CG document that must be complied with by all listed firms in the stock market. This CG guideline conforms to the Capital Market Law. The CML, in turn, contributed to the development of the Saudi Arabian market by adding value to the existing Companies Act at that time. The Companies Act was the only main source of regulation before other authorities appeared. Any stock market needs a mediator body between listed firms and their shareholders to organise operating the stock exchange and for this purpose, the Tadawul Company was established. In this context, the banking and insurance sectors (as they deal directly with money) are regulated by two authorities, the CMA and SAMA. SAMA has an important role in maintaining exchange rate stability and improving financial systems. The

Chapter 5: Corporate Governance in Non-Western, Emerging Societies: The
Context of Saudi Arabia

following chapter will present the methodological techniques that have been used to conduct this research study.

Chapter 6: Research Methodology

6.1 Introduction

The previous chapters have critically reviewed the existing literature on institutional theory, its relation to CG studies, and the institutions that potentially impact the emergence of a CG regime in emerging societies. This chapter will discuss the methodology used for conducting this research study. The methodology takes into consideration the relationship between research objectives and research questions. The purpose of this research study, as discussed previously, is to explore the impact of institutions on the formation of corporate governance in a non-Western, emerging society. Thus, this chapter will describe the methodology that has been used to collect primary and secondary data in order to accomplish this goal. The research philosophy will be presented first. The research design will be presented second. The methods will be presented last.

6.2 Research Philosophy

Generally, research aims at answering questions relating to a particular phenomenon. In order to do this, the researcher needs to think about the design of the research in a logical sequence, starting from a particular philosophical position. Once a philosophical standpoint is established, the theoretical perspective, the methodology, and the method of conducting the research are developed (Creswell, 2003).

There are two approaches that all research should take in order to develop an understanding of (1) what the world is and (2) how the world can be known. These two approaches have been labelled ‘epistemology’ and ‘ontology’. Crotty (2007: 8) defines epistemology as “a way of understanding and explaining how we know what we know”. On the other hand, ontology is defined by Walliman (2006: 15) as “a theory of social entities that is concerned with what there exists to be investigated”. Epistemology is concerned with what is regarded as acceptable knowledge in a discipline (Bryman, 2008). Also, it deals with the nature of knowledge, its possibility, scope and general basis (Hamlyn, 1995). Moreover, it provides a philosophical grounding for deciding which forms of knowledge are possible and how the researcher can ensure they are legitimate and adequate (Maynard, 1994). On the other hand, ontology is concerned with ‘what is’, in terms of the nature of existence and the structure of reality (Crotty, 2007).

There is a range of epistemological standpoints that underpin social science and have been discussed by many scholars and philosophers. Two of these standpoints are positivism and constructionism (Hart, 1957; Papert and Harel, 1991; Burr, 2003; Caldwell, 2003). According to Denscombe (2002: 27), positivism is “an approach to social research that seeks to apply the natural science model of research to investigations of social phenomena and explanations of the social world”. Positivism involves deductive study and one main principle of deductivism is to create hypotheses that can be tested. Testing hypotheses allows for explanations and generalisable laws to be developed and examined under different conditions. This method of investigation offers objectivity and scientific control (Bryman, 2008). Deductivism is said to be objectivist as it revolves around scientific knowledge,

which is empirically measurable. In this sense, deductivism is less concerned with qualitative, subjective data that is collected using non-scientific methods (Crotty, 2007).

Crotty (2007: 55) has posited that “all knowledge, and therefore all meaningful reality as such, is contingent upon human practices, being constructed in and out of interaction between human beings and their world, and developed and transmitted within an essential social context”. This viewpoint explains how people’s minds recognise and interpret things and how they respond. Social constructionism can be viewed as a philosophical tradition in which ‘reality’ is determined by people rather than by objective and external factors. Thus, the task of the researcher is to understand the different constructs and meanings that people place upon their experience (Easterby-Smith et al., 2002).

The discussion of research philosophy has so far presented common positions that have been adopted by many research studies. However, a third position, which is neither positivist nor constructionist and is a highly flexible “meta-view” which has a place in both natural and social sciences, is known as ‘critical realism’ (Pratt, 2011: 16). Critical realism derives mainly from the work of Bhaskar (1975, 1979, 1989) and it prioritises ontology over epistemology (the theory of being over the theory of knowledge) in the way that the world is should guide the way knowledge of it can be obtained (Fleetwood and Ackroyd, 2004). Critical realism is relatively new to organisation and management studies and was previously known as ‘transcendental realism’ and ‘critical naturalism’ (Bhaskar, 1989). According to Bhaskar (1975: 25), critical realism “regards the objects of knowledge as the structures and mechanisms that generate phenomena; and the knowledge as produced in the social activity

of science”. Thus, it rejects positivism’s preoccupations with prediction, quantification and measurement which rely primarily on ‘scientific knowledge’ (Fleetwood and Ackroyd, 2004). Alternatively, it offers a different perception of the nature of the social world and of social explanation from that perceived by positivism (Reed, 2005a). Also, the phenomena being studied are the core structures and mechanisms which produce empirical events rather than the empirical events in themselves, as argued by positivists (Reed, 2005a).

Critical realism also rejects that scientific theories and the knowledge that human constructions produce cannot be evaluated or examined because they are socially constructed. Instead, these scientific theories accept the notion that the basic structures and mechanisms should be examined as they produce patterns of events and outcomes (Reed, 2005a). Similarly, critical realism rejects that a human’s socially constructed understanding and interpretation of reality is exhaustive of that reality (Trigg, 2001). In other words, both social constructionism and critical realism agree that a human’s understanding of the natural world is “socially mediated” (Newton et al., 2011: 9). However, a number of critical realists consider this as an over-socialised view of nature within a social constructionism perspective (Soper, 1995). In this sense, social actors from a critical realism perspective understand and interpret structures and mechanisms that produce the events they are attached to (Reed, 2005a).

The ontological proposition of critical realism sees the world as an open system with emergent properties (autopoiesis, i.e. self-production; complexity theory, i.e. a way of understanding organisations and achieving organisational change). Critical realism is neither a closed system (a determinist machine with stable properties), as positivists assume, nor an open system whereby “the

world is nothing but the meaning that we give to it” as the constructionists presume (Thorpe and Holt, 2008: 47). According to Bhaskar’s (1975) ontological view, both knowledge and the world are structured, differentiated, and changing. The world exists independently of knowledge, and experiences and the things it affords us are normally out of phase with one another (Bhaskar, 1975). This separation of thought (knowledge) and object (the world) can lead to a distinction between practice and structure (Al-Amoudi and Willmott, 2011). Knowledge can be divided into practices, such as linguistic, scientific, technical, aesthetic, and so on. Structures, which range from the atomic to the economic, are not exclusive to particular practices. Thus, the role of science is to examine them.

Sayer (2000) argues that critical realism is not what many people think it is, in that they assume it is the ‘truth’ and thus involves a form of ‘foundationalism’. However, this is inconsistent with realism. Sayer (2000: 2) argues that critical realism is “the belief that there is a world existing independently of our knowledge of it”. Thus, this independence of objects from knowledge weakens any content assumptions about the relation between them and renders it problematic (Sayer, 2000). What makes critical realism ‘critical’ is that the identification of generative mechanisms (which Bhaskar (1975) refers to) offers the prospect of introducing changes that can transform the status quo (i.e. stable things) (Bryman and Bell, 2007). The next sub-section will present the main characteristics of critical realism.

6.2.1 Characteristics of Critical Realism

There are fundamental characteristics of critical realism shared by widely regarded critical realists such as Margaret Archer, Roy Bhaskar, Andrew Collier, Tony Lawson and Alan Norrie who together edited ‘Critical Realism: Essential Readings’ (1998). These characteristics will be discussed as follows:

Transitive-Intransitive Dimensions: a fundamental aim of critical realism is to “sustain a clear concept of the reality of being—of the intransitive or ontological dimension—in the face of the relativity of our knowledge—in the transitive or epistemological dimension” (Bhaskar, 1998a: x). This means that our knowledge of the world is transitive. This transitive knowledge corresponds to established knowledge which is used to produce new knowledge. It includes established theories, facts, models, methods, and so on (Bhaskar, 1978). Science produces transitive objects. The intransitive dimension refers to the objects of knowledge. This includes structures, mechanisms, processes, events, and the possibilities of the world which exist independently of us in which science seeks to discover and investigate (Bhaskar, 1978).

In distinguishing between transitive and intransitive dimensions, Burkitt (1999), King (1999), and Newton (2007) share an understanding that interprets the ‘intransitive’ as the realm of the immutable objects of the natural world that exists independently of human activity and the ‘transitive’ as the historically transient realm of human activity (Al-Amoudi and Willmott, 2011). Thus, transitive and intransitive refer to two ontologically distinct realms of reality. For example, “there is a distinction between the theory that isolates the

tendency of the profit to fall, and the actual economic mechanisms in operation” (Joseph, 1998: 4). Another understanding highlights that the distinction between transitive and intransitive is similar to the distinction between reference (which is knowledge as noted by Bhaskar (1979)) and referent (which may or may not be knowledge). In this regard, transitive dimension holds a considerable part in the formation of intransitive dimension. The transitive is differentiated from the intransitive which informs that knowledge is inexistent in a separate world (Al-Amoudi and Willmott, 2011).

Generative Mechanisms and Causal Structures: Bhaskar (1998a: xvi) points out that “generative mechanisms” and “causal structures” of nature, according to critical realism, account for the basic phenomena of ‘human history’. Bhaskar (1998b) also argues that they must ‘exist’ and ‘act’ independently, so that they are ‘structured’ and ‘intransitive’. Similar to this, Bhaskar (1998b) argues that ‘events’ must occur independently of the ‘experiences’ of individuals. Mechanisms, events, and experiences comprise three overlapping domains of reality: (a) empirical: which expresses experiences; (b) actual: which expresses events along with experiences; (c) real: which includes mechanisms as well as experiences and events (Bhaskar, 1998b). Mechanisms refer to “a complex layering of natural and social forces which are not subject to human control, and which shape events (i.e. they provide causality)” (Pratt, 2011: 18). Generative mechanisms and causal structures are considered to be “real and distinct from the patterns of events that they generate; just as events are real and distinct from the experiences in which they are apprehended” (Bhaskar 1998b: 41). These mechanisms and structures operate in different ways which provide the world with a ‘multi-

layered' character; thus, critical realism is an in-depth realism (Al-Amoudi and Willmott, 2011). Sayer (2000) argues that stratification is an important feature of critical realism in which generative mechanisms belong to different strata, such as social, psychological, and chemical. The interaction between these mechanisms within a single stratum generates new phenomena at a higher level in the emergence process (Sayer, 2000).

Reality is viewed as complex and changing. Uni-dimensional positivism is different as it views knowledge purely as 'accumulated sense-data' (not necessarily an aspect of all positivists) (Pratt, 2011). Fleetwood (2005: 200) points out that the domain of real can include other modes of real, such as: "materially real" (i.e. material entities, such as the sun and the sea), "ideally real" (i.e. conceptual entities, such as discourse, beliefs, meanings, understandings, and theories), "artefactually real" (i.e. syntheses, such as computers and cosmetics), and "socially real" (i.e. social structures, such as rules, relations, and practices). Thus, critical realism is a project of enormous depth, dimension and scope (Pratt, 2011).

Reed (2005a) reflects on the relevance, nature, and consequences of adopting a critical realism approach as an investigative orientation in organisation and management studies. He points out that critical realism can offer 'coherent ontological' grounds and 'causal-explanatory' methods for determining fundamental structures and mechanisms which create 'observable events' and outcomes that may or may not be 'actualised' in particular historical contexts and social settings. Contu and Willmott (2005: 1646) indicate that "critical realism can assist in opening-up deep-seated issues in the philosophical standing of social and organizational analysis". Pratt (2011) asserts that the

critical realism approach seeks in-depth investigation of natural and social phenomena and attempts to identify the mechanisms operating in a given context. He also argues that critical realism attempts to go beyond the boundaries of experience by suggesting the reality behind it. Moreover, a social phenomenon can often be ‘understood’ but not often ‘meaningfully measured’, hence its preference for qualitative methods (Fleetwood and Ackroyd, 2004). Looking at the world from this perspective is better for exploratory and descriptive studies that seek to understand, investigate, and explain a phenomenon in depth.

For the above-mentioned reasons, this research study will look at the research problem from a critical realism perspective, which prioritises ontology (the theory of being) over epistemology (the theory of knowledge) and focuses on the mechanisms that produce events rather than the events themselves, as ‘structured’ and ‘differentiated’ (Bhaskar, 2008). Critical realism can be seen as “a philosophy of science that provides a theory and model of social scientific explanation, based on a systematic form of ... methodology, which combines historical, structural and processual analysis in a coherent and integrated framework” (Reed, 2005b: 1664). The next section will present the research design of this study.

6.3 Research Design

A research design is essentially a framework for collecting, analysing and interpreting data (Zikmund, 2003). It helps researchers to collect solid data sets and use them appropriately to answer research questions (de Vaus, 2001). Different methods may produce different depths of findings. As such, the

challenge is to tailor the research design and methods to the specific aims of the project (Patton, 2002). Social science research mainly falls into one of two approaches: deductive approach and inductive approach (Walliman, 2006). The deductive approach generally starts from general to specific. A research project usually begins with a theoretical consideration, which leads to hypotheses. This is followed by data collection, the testing of hypotheses, and then the confirmation or rejection of those hypotheses. The deductive approach is often used in a quantitative strategy (Bryman and Bell, 2007). On the other hand, inductive approach usually starts from specific observation to general theories. Such a research project usually begins with a specific observation, which in turn leads to the formation of tentative propositions. The inductive approach is often used in qualitative research strategy (Bryman and Bell, 2007). Thomas (2006) outlines the purpose of using an inductive approach in that it is used to: (a) condense extensive raw data into a brief format, (b) create understandable links between the objectives of the research and the outcomes of the raw data, and (c) develop a framework of the causal structure of the processes or experiences that arise in the raw data.

This research study aims to explore the influence of different institutions on the emergence and development of corporate governance in non-Western, emerging societies. Thus, the deductive approach is not suitable for this study due to the exploratory nature of this research. The inductive approach is the most suitable for this research study as it assists in exploring general patterns and themes relating to the impact of institutions on CG as perceived by significant social actors.

Business research can be classified based on the techniques used (e.g. interviews, surveys, and experiments) or the function (the nature of the problem that influences the choice of method) into three types: exploratory study, descriptive research, and experimental research (Zikmund, 2003). Exploratory study is often used when the problem is ambiguous and widespread. Research is needed in this case to provide insights and a better understanding of the dimensions of the problem. Descriptive research is mainly used to describe characteristics of an existing population or phenomenon. It helps to determine the answers to what, where, when, who, and how. Experimental research is often used to create statistical experimental controls to establish 'contrast groups'. These experiments can be conducted by both pragmatic business people for business development and by scholars for conceptual and empirical development.

As this research study aims at exploring the influence of different institutions on the formation of corporate governance in non-Western, emerging societies, exploratory study is the most suitable approach for this research. An exploratory study is most appropriate here because it is useful in new or under-explored areas where there is a lack of sufficient theory and concepts to describe, analyse, and explain what is going on (Robson, 2002). This exploratory study has been conducted in Saudi Arabia and gathered information provided by significant social actors, who have relevance for this research study. Thus, data have been generated and collected from semi-structured interviews and from archival sources. The next section details the methods used to collect the primary and secondary data.

6.4 Research Methods

Research methods dictate the way in which data is collected. There are two main types of research methods in social science: quantitative methods and qualitative methods. Bryman (2004: 62) describes quantitative research as:

...entailing the collection of numerical data and as exhibiting a view of the relationship between theory and research as deductive, a predilection for a natural science approach (and of positivism in particular), and as having an objectivist conception of social reality.

Quantitative data can be collected through four main methods: questionnaire surveys, interviews, tests/measures, and observation (Easterby-Smith et al., 2002). The objective of quantitative research is to develop empirical models and hypotheses relating to a particular domain. In quantitative research, the process of measurement is fundamental as any data is translated into numerical form so that relationships can be statistically examined. Thus, quantitative approaches are used in studies that seek to explain relationships between variables or to predict outcomes based on objective findings. Also, quantitative methods tend to measure differences among variables and assist in understanding the significance of those differences. Statistical measures can therefore be used to compare numerical differences in order to determine their degree of significance (Glitz, 1997). As such, this approach tends to seek out objective, scientific, statistical findings rather than qualitative, in-depth understandings of the 'true meaning' of phenomena. Social phenomena can often be 'understood' but not often 'meaningfully measured' from a critical realism point of view (Fleetwood and Ackroyd, 2004).

Other types of methods in social science are referred to as ‘qualitative’ as they are less concerned with generating numerically measurable, traditionally scientific data. Van Maanen (1983: 9) offers a definition:

[Qualitative approaches represent]...an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world.

Thus, qualitative methods allow for the flexibility and variety of interpretive techniques which are essential for understanding phenomena in social science studies. This is consistent with a critical realism perspective and the notion that it is a highly flexible “meta-view” (Pratt, 2011: 16). Creswell (1994: 24) points out that:

[a] research problem needs to be explored [when] little information exists on the topic. The variables are largely unknown and the researcher wants to focus on the context that may shape the understanding of the phenomenon being studied.

A qualitative approach is most appropriate when investigating a little-known or poorly-understood phenomenon. It is also best for areas that have not yet received much attention in the literature. These areas, which have unknown variables, need to be treated and covered sufficiently to give broad consent for future research, which, in turn, are necessary to broaden the views and provide insights that contribute to the literature.

Miles and Huberman (1994: 10) point out that one important feature of qualitative data is that “it focuses on naturally occurring, ordinary events in natural settings” which provides a sense of what ‘real life’ is like. Qualitative

research is concerned with the process of collecting data rather than the resulting outcomes (Merriam, 1988). It is also concerned with meaning—the way in which people generate a detailed perspective of personal lived experience and how they make sense of that experience (Merriam, 1988). These propositions are compatible with the ethos of critical realism. Moreover, when the research inquiry is on the basis of the participant’s perception and interpretation, then the collected data are subjective materials (Herndl and Nahrwold, 2000). Qualitative research is used to gain insights of an individual’s experience and to develop a sense of their reality (Herndl and Nahrwold, 2000). This is well-suited to the philosophy of critical realism. It is also used in research that explores where and why knowledge and practices are at odds (Marshall and Rossman, 1989).

The qualitative approach is often used for developing an in-depth understanding of the research topic through various instruments (Easterby-Smith et al., 2002). These instruments include interviews, observation, case studies, and focus groups (Creswell, 1994). Interview methods are well established in the study of institutions and their influence on people, organisations, and markets (Greenwood and Suddaby, 2006; Lounsbury, 2007; Lok, 2010).

This adds additional support to the use of this approach when conducting studies on different institutions as the qualitative approach is the best strategy for discovery and exploring a new area (Miles and Huberman, 1994). As mentioned previously, this study focuses on understanding different types of institutions in the Saudi Arabian non-Western, emerging society as perceived by significant social actors and the impact of these institutions on the

formation of corporate governance from an institutional theory perspective. In fact, the subject of corporate governance in the Arabian Gulf area has received very little attention in the literature due to the difficulty to access ‘actors’ as this subject is relatively new in the area, which results in a paucity of experts in the field. Therefore, the qualitative approach is the best for gathering in-depth information from the key actors in the field. Also, qualitative data has ‘richness’ and ‘holism’ characteristics with strong potential for revealing complexity, such data offer “thick descriptions” that are vivid and intense (Miles and Huberman, 1994: 10). Furthermore, the exploratory nature of this study along with the research questions necessitate the adoption of a qualitative approach, which is broadly seen as most suitable for understanding people’s perceptions and views of a particular phenomenon (Walliman, 2006). Such concepts are not measurable (in a quantitative sense) and difficult to understand without face-to-face interaction (Gephart, 2004). Moreover, Creswell (1994) recommends using qualitative approach in studies that attempt to discover, understand and explore processes, and describe experiences. This recommendation is highly relevant to the research questions of this study. For the reasons above, this research study employed the qualitative approach to explore what do non-Western, emerging society (Saudi Arabia) institutions consist of and what the potential influences of these institutions on the emergence of the CG regime in this context. The discussion will proceed to present ethical considerations that should be taken into account when conducting a research study.

6.4.1 Ethical Considerations

Qualitative methods commonly provoke discussion about ethics. This is due to the nature of qualitative research and the view that it tends to be more 'sensitive' and 'receptive' to human feelings and emotions (Easterby-Smith et al., 2002). Furthermore, qualitative methods tend to be personal and interpersonal; in-depth interviews reveal what is inside people, and they are naturally more 'intrusive' than quantitative approaches (Patton, 2002). In qualitative methods, the researcher is in a powerful position in relation to individuals in which he/she has more control of what information is gathered, how it is recorded, how it is interpreted, and how it is reported. Hence there is arguably heightened concern with ethical considerations in qualitative methods (Easterby-Smith et al., 2002).

Bryman (2012) points out that discussions about ethical principles in social research are broken down by Diener and Crandall (1978) into four main areas: (1) whether there is harm to participants, (2) whether there is a lack of informed consent, (3) whether there is an invasion of privacy, and (4) whether deception is involved. It is important to take these four areas into account when conducting any social research because they form a useful account for ethical principles in such types of research (Bryman, 2012). A number of professional associations such as the British Sociological Association (BSA), the Social Research Association (SRA), and the British Psychological Society (BPS), have formulated dense codes of ethics that can be useful when conducting a social research and are accessible from the Internet. Saunders et al. (2012) highlight a number of ethical principles which were taken into account throughout the data collection stage of this research study. These

principles are outlined in Table 6.1 along with actions taken by the researcher of this study during the data collection process.

Table 6.1: Ethical Principles and Actions Taken

Seq.	Ethical Principle	Actions Taken by the Researcher
1	Respect for others	The researcher has taken into account valuing the dignity and worth of all participants with particular regard to people's rights.
2	Integrity and objectivity of the researcher	Acting openly, being truthful, promoting accuracy, and avoiding deception and dishonesty are essential ethics that the quality of a research depends on. These have been largely taken into account by the researcher.
3	Avoidance of harm (non-maleficence)	Embarrassment, stress, discomfort, pain, and conflict are some forms of harm that must be avoided and these have been taken into account by the researcher.
4	Voluntary nature of participation and right to withdraw	This has been explained (verbally and written) to all participants prior to any interview.
5	Informed consent of those taking part	A sufficient information and assurance about participating in the interview were provided to all interviewees to allow them to understand the implications of participation and to help them make decisions whether to take a part or not freely and without any kind of pressure.
6	Ensuring confidentiality of data and maintenance of anonymity of those taking part	The anonymity of interviewees and their organisations was maintained by the researcher who used pseudonyms throughout this thesis. The data they provide were used by the researcher only for the purpose of this research study to ensure confidentiality of data.
7	Responsibility in the analysis of data and reporting of findings	The sources of data were acknowledged, the accuracy of outcomes was ensured, and the findings were reported fully and accurately irrespective of whether they contradict expected outcomes.

Voluntary participation or 'informed consent' in a research study signifies "the expressed or implied acknowledgement waiving an individual's right to privacy when he or she agrees to participate in a research study" (Zikmund, 2003: 78). Thus, confidentiality (which will be discussed further in the interview approach sub-section) was stressed when recruiting participants. Permission to

collect tape recordings and access to the data was also requested and attained. The design considered the anonymity of participants' data (excluding private and identifiable data of organisations and participants), respect for privacy (phrasing interview questions as neutral and non-intrusive), collecting only necessary data for the study, and preserving sensitive data from exposure for the interest of any other organisations or participants. The next sub-section presents the interview approach employed in this research study.

6.4.2 Interview Approach

Rubin and Rubin (2005: 4) assert that qualitative interviews are:

conversations in which a researcher gently guides a conversational partner in an extended discussion.

A fundamental assumption of an interview is that “perspective of others is meaningful, knowable, and able to be made explicit” (Patton, 1990: 278). Therefore, interviews are used to elicit detailed information about the research topic from the answers given by the participant (Rubin and Rubin, 2005), to minimise ‘cross cultural’ misunderstandings (Patton 1990), and to build trust to enable ‘cognitive access’ (Saunders et al., 2000).

Qualitative interviews are commonly classified into two main categories: Semi-structured interviews and unstructured interviews (Arksey and Knight, 1999; Easterby-Smith et al., 2002; Patton, 2002; Robson, 2002; Bryman, 2004). Unlike structured interviews, which are generally employed in social surveys (Arksey and Knight, 1999), a semi-structured interview is defined by Robson (2002: 270) as consisting of:

predetermined questions, but the order can be modified based upon the interviewer's perception of what seems most appropriate. Question wording can be changed and explanations given; particular questions which seem inappropriate with a particular interviewee can be omitted, or additional ones included.

This type of interview is narrower in focus than broader interviews which are known as unstructured interviews with open-ended questions (Rubin and Rubin, 2005). Qualitative interviews also differ in the subject of focus: whether they are about eliciting understandings or meanings or whether their purpose is to describe specific events or processes (Rubin and Rubin, 2005).

As this research is exploratory in nature, this research study has utilised semi-structured interviews that were derived from a prepared set of questions which were piloted and refined in line with Easterby-Smith et al.'s (2002) suggestions. This type of approach keeps the interview on track and guides interviewees to answer the interview questions in relation to the research topic. Moreover, semi-structured interviews keep the conversation in focus by asking a series of specific questions about the topic to elicit meanings. Semi-structured interview is selected here because it enables "rapport to be developed; allows participants to think, speak and be heard; and [is] well suited to in-depth and personal discussion" (Reid et al., 2005: 22). In this style of interviewing, participants are encouraged to talk informally, like friends rather than strangers (Madill, 2011). This allows vigorous rapport to be developed with each interviewee and enables them to speak freely and openly about their lived experiences (Smith, 2011), while remaining in the subject area. By asking clear and transparent questions, the level of confusion is minimised. It is also worth noting that excessive guidance can constitute 'leading' questions which is dangerous as it risks undermining the validity of the study. Also, some

interviewees might provide some potentially interesting ideas, so the interviewer should be also open to unexpected conversations during the interviews. This type of interviews offers the social actors an opportunity to give their perceptions on the influence of institutions on corporate governance without limiting them to specific areas. This can be achieved through building a rapport with participants (Bailey, 1996) to ensure they freely express as rich an opinion as possible.

There are different ways of establishing a rapport with interviewees. For example, researchers may dress in a business suit or look scholarly and speak free of bias of sex, accent, class, and race (or minimising or controlling them) (McNeill, 1990). Researchers can also aim at neutralising any cross-cultural misunderstanding (Patton, 1990) through their linguistic abilities (such as the case in this particular research, where the researcher is fluent in both Arabic and English languages). Researchers must also prepare well for the interview, start with a brief introduction of the research topic, and move in a sequence of present to past events or general to specific situations that helps to keep the interview on track (Patton, 1990). This also helps the collection of rich, high quality data.

There are different ways of conducting interviews. For example, face-to-face interviews, telephone interviews, and email interviews (Arksey and Knight, 1999; Fowler, 2002; Zikmund, 2003). All these ways of interviewing have certain strengths and weaknesses. For example, telephone and email interviews are helpful when it is difficult or impossible to physically travel to the respondents (Walliman, 2006). On the other hand, the interviewer cannot always judge the quality of responses that result from these methods as he/she

cannot use visual aids to explain poorly understood questions and to encourage respondents to be full in their answers. There are also no visual clues, such as eye contact, smiling, facial and hand gestures, and body language (Walliman, 2006). A face-to-face interview is a two-way conversation between an interviewer and a respondent which helps in obtaining complete and precise information (Zikmund, 2003), developing a larger picture of the topic, analysing the data in a more elaborative way, and networking (Fowler, 2002). In a face-to-face interview, the interviewer has more chance of judging the quality of responses on an on-going basis, noticing any poorly understood questions, encouraging interviewees to fully answer questions, and using visual signs such as smiles and gestures in order to gain the best response (Walliman, 2006). For these reasons, this research study has used face-to-face interviews.

Face-to-face interviews can take place in a variety of situations: at work, in the home, outdoors, or in any place that suits the interviewee (Zikmund, 2003; Walliman, 2006). For example, the interviews in this research study have been conducted at work and in restaurants. These interviews lasted in an around 60 to 90 minutes in order to obtain as rich information as possible without losing concentration (for more details, see Table 6.2). Confidentiality, which refers to “the obligation on the part of the researcher not to reveal the identity of an individual research subject” (Zikmund, 2003: 79), has been applied in all interviews. When some interviewees asked questions about other organisations or other participants, general and opaque replies were given. This approach has been adopted in order to maintain adequate privacy of sensitive data about each organisation, to ensure that rich and valid data can be obtained (as many participants often think that researchers have a moral duty to improve situations) (Knight, 2002), and to reduce the probability of causing participants

to feel in any way uncomfortable (Kvale 1996). A fieldwork diary entry was made before and after each interview in order to observe, link empirical data to a theoretical position/paradigm, and consider the possibility of alternative interpretations based on other positions (Goldpaugh and Rivers, 2003).

Table 6.2: Interviews' Details³

#	Date	Organisation	Place	Position	Rank	Length	N/V
1	18 Dec 11	Services-6	Work	Director of Corporate Development	SMT	60 min	Notes
2	19 Dec 11	Insurance-1	Restaurant	CG & Compliance Manager	MMT	2 hours	Voice
3	21 Dec 11	Industry-1	Work	CG & Compliance Manager	MMT	2:30 hours	Voice
4	24 Dec 11	Industry-3	Work	Compliance Manager	MMT	60 min	Notes
5	27 Dec 11	Petrochemical-1	Work	CG & Compliance Manager	MMT	50 min	Notes
6	07 Jan 12	Cement-1	Work	Business Dev. Dept. Manager	SMT	60 min	Notes
7	08 Jan 12	Bank-1	Work	VP & Head of Compliance Division	SMT	90 min	Voice
8	09 Jan 12	Services-1	Work	CEO	TMT	100 min	Voice
9	10 Jan 12	Services-3	Work	Director of Shareholders Affairs	MMT	50 min	Voice
10	23 Jan 12	Bank-2	Work	Legal Consultant	SMT	75 min	Notes
11	24 Jan 12	Services-2	Work	CG & Compliance Manager	MMT	2 hours	Voice
12	31 Jan 12	Bank-4	Work	Deputy Head, Financial Dept.	SMT	75 min	Voice
13	01 Feb 12	Bank-3	Work	Deputy Group	SMT	90 min	Notes

³ **Key:**

Length: duration of the interview

N/V: type of data taking (notes taking / voice recording)

Rank: level of authority: top management (TMT), senior management (SMT), middle management (MMT).

Location:

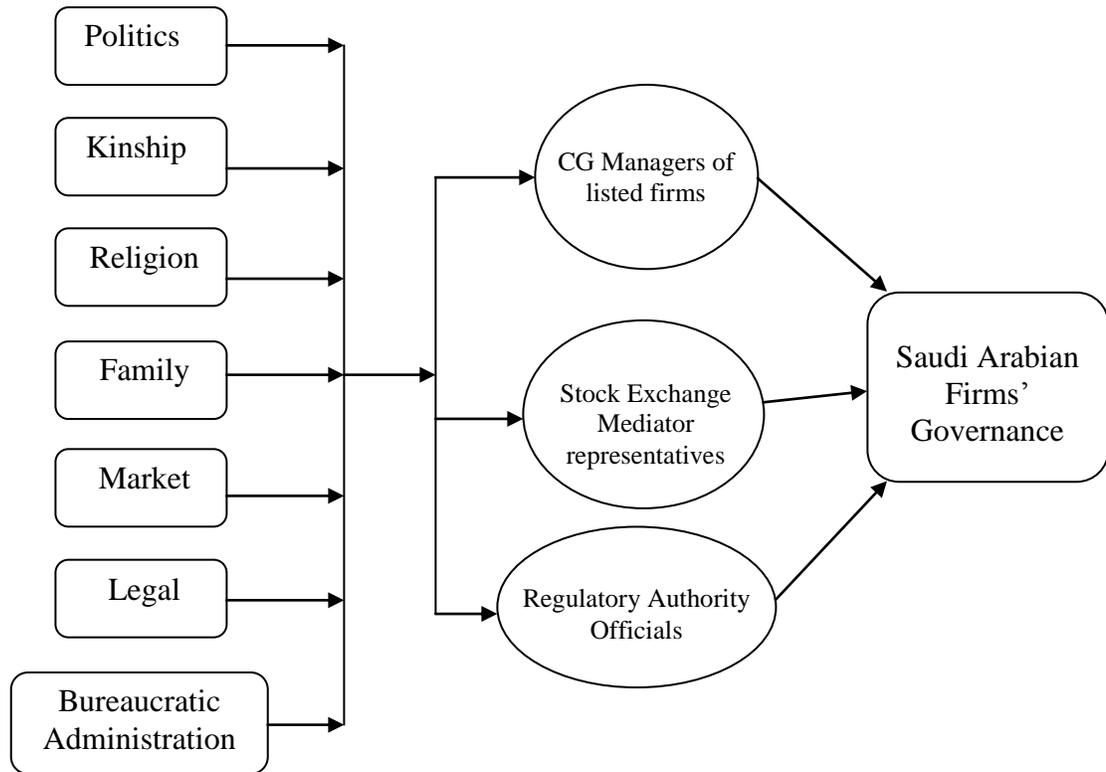
Interviews from 1 to 9 were conducted in Jeddah city.

Interviews from 10 to 23 were conducted in Riyadh city.

				General Manage			
14	05 Feb 12	Bank-5	Work	CG & Compliance Manager	MMT	60 min	Notes
15	06 Feb 12	Industry-2	Work	Director of Accounting and Internal Auditing	SMT	60 min	Notes
16	07 Feb 12	CMA	Work	Head of CG	TMT	90 min	Voice
17	07 Feb 12	CMA	Work	Advisor 1, Market Supervision	SMT	60 min	Notes
18	08 Feb 12	Services-4	Work	Director of Investor Relations + Secretary of the Board	SMT	45 min	Voice
19	11 Feb 12	Retail-1	Work	CG Division Head	MMT	60 min	Notes
20	12 Feb 12	Stock-Exchange	Work	Primary Market Manager	MMT	90 min	Voice
21	21 Feb 12	Bank-7	Work	Deputy Head, Finance Dept.	SMT	60 min	Notes
22	03 Mar 12	Services-5	Work	CG Division Head	MMT	60 min	Notes
23	05 Mar 12	Bank-6	Work	CG Dept. Head	MMT	60 min	Notes

Sampling: interviews were conducted with twenty three significant social actors. Nine interviews were conducted in Jeddah city between December 2011 and January 2012, and fourteen interviews were conducted in Riyadh city between January 2012 and March 2012. The sample included Saudi Arabian corporate governance managers of listed firms, Saudi Arabian regulatory authority officials, and Saudi stock exchange mediator representatives in order to elicit information about the research topic (see Figure 6.1).

Figure 6.1: Interview Sample Approach



Each interviewee was interviewed once in the first stage of interviews. The only condition for participation was that participants had to be closely linked to corporate governance in terms of their work. This condition was set to ensure that all questions about the role of institutions in the emergence of the CG regime in the Saudi Arabian non-Western, emerging society could be answered fully. In particular, each actor was interviewed to provide his inclusive perception about the influence of each institution (politics, kinship, religion, family, market, legal, bureaucratic administration) on the emergence of the governance regime in the Saudi Arabian non-Western, emerging society. In order to clarify the findings from the first stage of interviews, seven participants were re-interviewed in a second stage of interviews. Interviewing

social actors generated insights and themes from different perspectives in terms of the role played by institutions with respect to the emergence of corporate governance in the Saudi Arabian non-Western, emerging context. Table 6.3 below outlines interviewees' details.

Table 6.3: Interviewees' Details⁴

#	Organisation	Pseudonyms	Position	Rank	Qualification	Experience
1	Services-6	P22	Director of Corporate Development	SMT	MBA	17 years
2	Insurance-1	P3	CG & Compliance Manager	MMT	MSc Management	8 years
3	Industry-1	P6	CG & Compliance Manager	MMT	MSc acc. & fin., PhD res in CG	7 years in CG
4	Industry-3	P20	Compliance Manager	MMT	Not supplied	6 years in CG
5	Petrochemical-1	P10	CG & Compliance Manager	MMT	BSc in accounting	5 years in CG
6	Cement-1	P8	Business Dev. Dept. Mgr. and CG Supervisor	SMT	BSc in Business Administration	6 months in CG, total: 16 years
7	Bank-1	P1	VP & Head of Compliance Division	SMT	Diploma	3 years in CG
8	Services-1	P2	CEO	TMT	BSc Law	5 years in CG
9	Services-3	P7	Director of Shareholders Affairs	MMT	BSc Industrial Engineering	5 years in CG
10	Bank-2	P5	Legal Consultant	SMT	Not supplied	25 years
11	Services-2	P4	CG & Compliance Manager	MMT	MBA	1 year in CG
12	Bank-4	P14	Deputy Head, Financial Dept.	SMT	BSc Accounting	CG: 3, Banking: 11
13	Bank-3	P9	Deputy Group General Manage	SMT	Not supplied	CG: over 10 years
14	Bank-5	P15	CG &	MMT	BSc in Accounting	6 years in CG

⁴ **Key:**

Rank: level of authority: top management (TMT), senior management (SMT), middle management (MMT).

			Compliance Manager			
15	Industry-2	P17	Director of Accounting and Internal Auditing	SMT	Not supplied	Not supplied
16	CMA	P12	Head of CG	TMT	BSc Accounting, Dip	CG:4, central banks:16
17	CMA	AG	Advisor 1, Market Supervision	SMT	BSc in accounting	CG: 6 years, Collective: 21 years
18	Services-4	P11	Director of Investor Relations + Secretary of the Board	SMT	BSc Industrial Engineering	CG: 6, total: 9
19	Retail-1	P16	CG Division Head	MMT	BSc in Economics	6 years in CG
20	Stock-Exchange	P23	Primary Market Manager	MMT	Not supplied	Not supplied
21	Bank-7	P19	Deputy Head, Finance Dept.	SMT	Not supplied	6 years in CG
22	Services-5	P21	CG Division Head	MMT	BSc in Business Administration	6 years in CG
23	Bank-6	P18	CG Dept. Head	MMT	MSc in Accounting	2 years in CG

Access to interviewees was initially achieved through the researcher's personal connections to a number of corporate governance bodies in Saudi Arabia. Then, direct communication with concerned participants was been made through phone calls in order to develop more contacts for interview. It is worth noting that participants' contact information is available on the website of the Saudi stock exchange company (Tadawul). This approach is used most frequently to conduct explorative and qualitative research, primarily through interviews. The researcher's introduction about himself and a brief introduction about the research topic along with its purpose and objective to some degree reduced the problems associated with obtaining the trust of respondents, as the interviewees know that they will be asked some sensitive questions. Thus, this approach helped in terms of obtaining details and real

facts about existing problems instead of getting superficial information as long as the interviewer has built initial rapport in phone calls. A good advantage of this approach is reaching to the most suitable people for this study, that have a background in corporate governance systems. Those people can potentially provide rich and high quality information relevant to the research questions of this study.

The direct approach strategy was secured through preparation by the interviewer. An access document along with an interview guide was written to selected participants after initial project approval. The access document is bilingual (written in English and in Arabic), and provides a brief description of the research topic and the objectives of pursuing such a study in the Saudi Arabian context and the potential benefits to the participants.

Building Trust: gathering rich data can be obtained through building trust between the interviewer and the respondents (Easterby-Smith et al., 2002). Easterby-Smith et al. (2002) suggest that building trust can be achieved through the following steps: firstly, by ensuring that the researcher is well informed about the organisation by using annual reports and publications in advance; secondly, by avoiding being over-anxious about collecting all the data in one attempt as relationships take time to develop such that ensuring repeat access and discussion will be beneficial; finally, by overseeing the potential effects of using audio recording during the interviews, which mainly depends on an interviewee's anxiety about confidentiality, such as keeping names, positions, and an organisation's confidential data. These steps have been followed during the interviews, as building trust is an important factor in obtaining rich, in-depth information from the respondents.

Attracting Participants: interviewees were attracted to participate in these interviews in two ways: first, explaining to them that there are potential barriers to the development of corporate governance in the area, and demonstrating the fact that numerous financial crises have occurred due to poor corporate governance mechanisms (Radelet and Sachs, 1998; Mitton, 2002; Daily et al., 2003; Millar et al., 2005); second, offering to provide them an executive summary of the results from this research study.

Question Design: there are some important issues about wording and phrasing that were taken into account when designing the interview questions. This is because the wording and the way in which a question is asked affects the interviewee's response (Patton, 2002). Arksey and Knight (1999) suggest some recommendations when designing questions which can be applied to all types of interviews:

- *Vocabulary:* choosing clear and understandable words for the particular cultural or social sample being interviewed.
- *Prejudicial language:* avoiding reinforcing particular beliefs or prejudices.
- *Ambiguity:* avoiding the misunderstanding of words that can be interpreted in different ways.
- *Leading questions:* avoiding using questions that suggest or lead interviewees towards a particular answer.
- *Double-barrelled questions:* avoiding questions that ask two in one.

These recommendations have been taken into account when the interview questions have been designed. These suggestions have helped obtaining rich information about the research topic. In addition, the interview questions were

prepared in English, translated to Arabic, then all the collected data from interviews in Arabic were translated back to English by the researcher.

Sequence of Questions: with regards to the sequence of interview questions, Patton (2002) prefers to begin with noncontroversial present situations and then progress to past events. He also suggests beginning with general questions and moving into more specific, detailed questions. As such, the interview schedule was aligned to some of Leech's (2002) recommendations in that 'grand tour' questions are used to open the interview and more specific, probing questions then follow. This structure enables participants to settle into the interview, introduce some broad issues, and then delve into the finer details (Leech, 2002). A commonly used sequence is outlined by Robson (2002) in five stages as follows. Firstly, an introduction, where the interviewer commences the interview by introducing himself and explaining the purpose of the interview should be provided. Secondly, warming up, where general questions should be asked in order to settle down the conversation should occur. Thirdly, the main body of the interview, where deep and detailed questions can be asked should take place. It is suggested to ask risky questions late at this stage so that, if the respondent refuses to carry on, less information will be lost. Fourthly, a 'cool-off' period should take place, where straightforward questions can be asked to clarify things already mentioned during the interview and also to defuse tensions that might have come across. Finally, 'closure' should happen, where the notebook is away and the recorder is off then showing gratitude and appreciation by the interviewer is recommended at all times. Some interesting topics may well arise towards the end of the interview. At this stage, the interviewee can be asked for suggesting a suitable participant for this research as he has developed a good idea about

the research topic. These steps can allow the interviewer to gain more information from the interview which may further help in answering the research questions and meeting the objectives of this research. Therefore, this sequence of interview questions was followed in this research.

Tape Recording, Note-taking, and Transcription: tape recording is a suitable method in qualitative interviews as it keeps the researcher concentrating on what is said (Arksey and Knight, 1999). It also increases the accuracy of data collection (Patton, 1990). It is always required to have the interviewee's permission for tape recording. However, using tape recording does not eliminate the need for taking notes as it helps to formulate new questions, to check out something said earlier, to facilitate data analysis at a later date (Patton, 1990). In case permission of tape recording is not granted, then a much more thorough and comprehensive note-taking exercise is required. Arksey and Knight (1999) advise any researcher who is going to take notes to devise his own shorthand or customise his speedwriting. Patton (1990) points out that a useful aid is using a form containing headings to organise the notes into sections of different areas of the topic while interviewing. Arksey and Knight (1999) suggest expanding on what was said immediately after the interview as the longer the researcher waits the more details are likely to be forgotten. These suggestions were taken into account when the interviews were conducted with social actors in order to collect thorough data and meet the objectives of this research. Tape recordings were collected where respondents' permission was gained, along with detailed note-taking with the remaining interviewees. The recordings were transcribed into text document for analysis by the researcher.

Pilot Study: in the context of exploratory research, a pilot study is a research project that pre-tests selected research methods on a smaller sample and on a smaller scale (Zikmund, 2003). The purpose of a pilot study in qualitative research is to “identify and rectify logical and analytical difficulties in the research design, ambiguous questions, incorrect routing” (Scott and Marshall 2003: 497). Conducting a pilot study is an important step because when the researcher conducts a trial run to the selected method, he/she will become aware of any shortcomings and can make any appropriate amends (Arksey and Knight, 1999).

Table 6.4: Pilot Studies⁵

#	Date	Organisation	Location	Place	Position	N/V
1	12 Dec 11	Insurance-1	Jeddah city	Work	CG & Compliance Manager	Voice
2	13 Dec 11	Industry-1	Jeddah city	Work	CG & Compliance Manager	Voice
3	17 Dec 11	Services-6	Jeddah city	Restaurant	Director of Corporate Development	Notes

A pilot study was conducted with corporate governance managers of three different listed firms in Jeddah city in December 2011 (see Table 6.4). Those interviewees were interviewed again during the main interviews. The interview questions have been pre-tested on them to assess whether the questions are clear, understandable, and unambiguous. Any questions that created confusion were omitted or re-phrased in the final interview schedule. Pilot studies also tend to help researchers to realise how long it takes to run the interview (Arksey and Knight, 1999). The next subsection presents the interview guide used during the interviews.

⁵ **Key:**

N/V: type of data taking (notes taking / voice recording)

6.4.3 Interview Guide

The depth of interview guides depends wholly on the interviewer and their ability to specify key issues in advance. One advantage of interview guides is to allow the interviewer to make the best decisions on how to efficiently use the length of time available for the interview. This keeps the interview focused whilst allowing observations and experiences to arise (Patton, 2002). Table 6.5 lists the set of questions which have been prepared and used when the interviews have been conducted in order to meet the objectives of this research. Key words, such as an ‘institution’, have been defined and explained to the interviewee in advance to avoid ambiguity or misunderstanding. This interview guide in Table 6.5 is the final outcome following refinements from the pilot study.

Table 6.5: Interview Questions

Seq	Main Questions	Additional Questions
1	What are the main activities of the organisation?	On which basis have they been selected?
2	Is CG division separate or embedded within the board?	Why?
3	What is the CG structure in the company?	
4	What is the mechanism of selecting the members of the board of directors in the company?	
5	Before applying CG by the CMA in 2006, who was appointed as (or what was the mechanism of selection and on which basis): Chairman, MD, CEO, CFO, and the members of the board?	
6	Can you talk about the relationship between your company with each of the following: The CMA, SAMA, MOC, Tadawul Stock Exchange.	
7	Is the company complying with the audit committee and nomination and remuneration committee?	Can you talk more about this?
8	Are there any factors or pressures that might control the organisation in setting up the policies and	Can you give more details?

	procedures?	
9	What are your main tasks as you work in the field of CG?	
10	How does CG work in this organisation?	
11	Have you noticed any changes in the Saudi Arabian CG in the past few years?	Can you expand more?
12	Is/Was there any resistance to change from the company side?	
13	CG document which was issued by the CMA, how was it been formed?	
14	Did the CMA send you a draft of the CG document (to make comments on it) before issuing it?	
15	It is stated in the CG document that: “the annual report of any company should disclose about the details of compensation of the board of directors”. To what extent does your company comply with this statement?	
16	What is the influence of the CMA on listed companies in order to drive CG or implement CG?	Are there any pressures?
17	Is there any role played by culture or society in setting up the rules or implementing/applying CG in Saudi Arabia?	
18	How do you feel that the Saudi Arabian CG system is different to those apparent globally?	
19	Do you have any comments, observations, or anything more you feel it is important for this research but we did not talk about?	

6.4.4 Interview Bias

There is always a possibility that the process of interviewing may create or suffer from bias. However, this can be reduced by using simple, clear, short, and precise questions, avoiding technical, vague, and slang language (Choi and Pak, 2005). Easterby-Smith et al. (2002) suggest that ‘probes’ can be used as an intervention technique to sharpen responses in the following ways: repeating the initial question, building onto incomplete answers, focusing on specific information, offering the interviewee suggestions or ideas to think about, and mirroring or reflecting the respondent’s answers using different words. They

also indicate that ‘probes’ should never lead the interviewee but to leave questions open to avoid bias. Following these techniques, alongside using open questions, has been useful for this research study as it appears that they have improved the interviewees’ responses. The next sub-section highlights the importance of using archival sources for conducting data analysis.

6.4.5 Archival Sources

The second data collection method is to use data from archival sources, including published reports and papers by the financial authorities in Saudi Arabia, such as the Capital Market Authority (CMA) and the Saudi Arabian Monetary Agency (SAMA), annual reports of listed firms, related private sector publications, and historical documents. However, a major difficulty associated with archival sources is that these data are not published for the purpose of this research. Thus, they did not particularly help in answering the research questions of this study to some extent. The task was to look at these archival sources and try to elicit any data that could reveal information about any influences of institutions on the formation of governance systems in Saudi Arabia. In particular, any influences on how different organisations are managed and how rules and regulations are applied.

Another difficulty that has arisen when archival sources were used was that this research study was in danger of absorbing any errors or biases that may have been included within these documents. Thus, triangulation—a technique that uses “more than one method or source of data in the study of social phenomena” to increase the validity of results (Bryman and Bell, 2007: 412)—was useful in this case. The study has employed this technique for comparing

data collected from interviews and archival sources to provide a more balanced picture and “thick description” (Miles and Huberman, 1994: 10).

Among all these different types of archival sources, it was found that the annual reports of listed firms were somewhat helpful as they included in-depth information relevant to the research topic. These comprehensive annual reports contain useful information, such as the firm’s size and age, the capital, detailed financial statements, the activity of the firm, shareholders’ rights, future plans, the extent of complying with the corporate governance document, many disclosure items (e.g. the ownership and awards of the board members), and detailed descriptions of the responsibilities of the board of directors and emerged committees from the board. These annual reports were obtained from the Saudi stock exchange website (Tadawul).

Using archival sources helps to understand the nature of institutions which is essential to understand how these institutions affect the emergence of a corporate governance regime in a non-Western, emerging society. Both data collection methods (conducting interviews and using archival sources) have assisted this research study in obtaining reliable and meaningful information and also in obtaining information that is a tangible reflection of the situation. The next sub-section presents the approach used to analyse and interpret the collected data.

6.4.6 Data Analysis

The purpose of data analysis is to interpret the data collected and make inferences and conclusions in order to answer the research questions

(Tashakkori and Teddlie, 1998). In qualitative research, data analysis is performed simultaneously with data collection (Eisenhardt, 1989). Miles and Huberman (1994) outline three activities of analysis: data reduction (i.e. selecting, focusing, simplifying, abstracting, and transforming), data display (i.e. an organised, compressed assembly of information that allows conclusion drawing and action), and conclusion drawing and verification (i.e. what things mean, noting regularities, causal flows, patterns, possible configurations, explanations, and propositions). This research study has employed conceptual analysis to analyse and interpret the data from interviews and archival sources. For analysing the data from interviews in the field, thematic analysis has been used, which started to be a common approach in analysing qualitative data in different fields (Boyatzis, 1998). According to Braun and Clarke (2006: 6), thematic analysis is “a method for identifying, analysing, and reporting patterns (themes) within data”. However, Boyatzis (1998) argues that thematic analysis is wider than this view as it also interprets various aspects of the research topic. One of the most important features of thematic analysis is its flexibility (Braun and Clarke, 2006) which is compatible with the highly flexible paradigm of critical realism (Pratt, 2011). For example, conversation analysis and interpretative phenomenological analysis have relatively limited variability in applying the method within that framework (Braun and Clarke, 2006). Furthermore, grounded theory, discourse analysis, and narrative analysis, have a technique that guides analysis and have different manifestations of the method from within the broad theoretical framework (Braun and Clarke, 2006). On the other hand, thematic analysis is independent of theory and can be applied across a wide-range of theoretical, epistemological, and ontological approaches (Braun and Clarke, 2006). Through this theoretical freedom,

thematic analysis offers a practical and flexible tool of analysis, which may offer a rich, thick, detailed, and complex account of data (Boyatzis, 1998).

Aronson (1994) and Braun and Clarke (2006) offer useful guidance on how to perform thematic analysis which can be outlined as follows:

- *Data collection*: notes taking and recording of interviews.
- *Familiarisation with the data*: transcribing the data, reading it, and highlighting initial ideas.
- *Producing initial codes*: coding interesting pieces of data and patterns of experiences coming from direct quotes or paraphrased common ideas.
- *Searching for themes*: combining relevant codes or patterns into potential themes, where themes are defined as patterns such as “conversation topics, vocabulary, recurring activities, meanings, feelings, or folk sayings and proverbs” (Taylor and Bogdan, 1984: 131).
- *Reviewing themes*: checking the relevance of the themes with the coded extracts and the entire data set, and creating a thematic map of the analysis.
- *Defining and naming themes*: refining the themes and the overall story they tell to draw a comprehensive picture from the collective experience.
- *Producing the report*: selecting vivid examples, relating the analysis to the research questions, objectives, and literature, and producing a scholarly report from the emerging patterns.
- *Obtaining feedback*: discussing the findings with the participant in follow-up interviews.
- *Building a valid argument*: reading the existing literature in the field, making inferences, and developing a story line.

Once the literature connects with the outcomes, the story that the researcher constructed becomes valid. A developed narrative helps the reader to understand the entire process of the research (Aronson, 1994). These steps of conducting data analysis have been followed in this research study in order to develop important inferences and themes from the data set. The next section summarises the chapter.

6.5 Summary

This chapter has thoroughly discussed and described the methodology used in this research study and has justified the reasons for selecting and adopting such methods in this study. This research study is considered from a critical realism perspective as the focal philosophical position. This philosophical paradigm prioritises ontology over epistemology (i.e. the theory of being over the theory of knowledge) in the way that the world is should guide the way knowledge of it can be obtained (Fleetwood and Ackroyd, 2004). A fundamental feature of critical realism is that it is a highly flexible ‘meta-view’ in which, it has the ability to contain inquiry in both natural and social science (Pratt, 2011). Moreover, it tends to support theory development over time. This perspective assumes that both knowledge and the world are structured, differentiated, and changing (Bhaskar, 1979). The critical realism paradigm takes into account the importance of social context which is a fundamental aspect of institutional theory.

This research study aims to explore the influence of institutions on the emergence of the corporate governance regime in a non-Western, emerging

context, where there is a lack of theory and concepts that describe, analyse, and explain what is going on. Exploratory study is needed in this case to provide insights and a better understanding of the dimensions of the problem. As far as this research study is exploratory in nature, it has been designed towards an inductive approach that assists in exploring general patterns that adjust the focus area through the perception of social actors as well as secondary data outcomes. In addition, the inductive approach is useful when creating meaningful links between research objectives and the outcomes of raw data, and when developing a framework of the basic structure of experiences that arise in the raw data.

The qualitative approach is the research method used in this research study to investigate little known and poorly understood aspects of the emergence of corporate governance. Adopting such a strategy was useful for discovering and exploring new influences of institutions on the development of corporate governance in a non-Western, emerging context. This has been conducted through employing semi-structured interviews to collect data from significant social actors. The sample consisted of corporate governance managers of listed firms, stock exchange mediator representatives, and regulatory authority officials. Three pilot studies were conducted with three CG managers of listed firms. Subsequently, twenty three face-to-face semi-structured interviews were conducted with managers, representatives, and officials. Next, seven follow-up interviews were conducted with seven CG managers of listed firms.

The collected data from these interviews were analysed using thematic analysis techniques. This technique has helped in identifying a number of emergent themes from the transcribed and translated data. These emergent themes

represent the main outcomes of analysis as they have been interpreted and as a result, important inferences have been obtained in two stages as shown in the next two chapters.

Chapter 7: First Stage of Data Analysis: Emergent Themes

7.1 Introduction

The previous chapter focused on the methods used to conduct this research study. It identified the philosophical position of the researcher, the research design, the methods, and the approach of data analysis that has been adopted to analyse and interpret the collected data from semi-structured interviews with significant social actors in a non-Western, emerging context. As mentioned previously, the objective of this research study is to focus on understanding different institutions in a non-Western, emerging society and their influence on the development of a corporate governance regime from an institutional theory perspective.

This chapter primarily focuses on the description, evaluation, interpretation, and analysis of the data collected from the interviews. The annual reports of listed firms have also been looked at in order to increase the validity of the outcomes. Upon conducting this, this chapter attempts to obtain inferences to answer the research questions. Thematic analysis is the basic approach employed for this task. The analysis and interpretation start by identifying the emergent themes; followed by, describing and evaluating these themes.

This chapter is organised as follows. The first section outlines the emergent themes. The second section describes and evaluates the emergent themes. The third section shows a comparative analysis. The fourth section presents an

attempt to quantify the data. The fifth section shows cross-links among institutions.

7.2 Emergent Themes

In this stage, the data collected from semi-structured interviews were recorded then translated by the researcher. A number of themes emerged from the collected data through interviews of significant social actors in Saudi Arabia. Table 7.1 was created to show the ‘processes’ of conducting data analysis (Pratt, 2009). It shows the emergent themes from the collected data supported by some evidence. Also, it shows initial interpretations to give sense and meaning to the emergent themes. Moreover, it shows possible associated themes with other themes to draw cross relations between the themes.

Table 7.1: Emergent Themes

First Order	Second Order			
Key Institution	Emerging Themes	Example Quotes (Evidence)	Initial Interpretation	Associated Themes
An Expression of the Bureaucratic State (The Capital Market Authority)	Imposed compliance	<ul style="list-style-type: none"> - Audit committee exists in the bank before it was imposed by the CMA. (Bank-1) - The CMA imposes penalties to companies for not complying with the rules. (Insurance-1) - We adopted audit and nomination and remuneration committees based on the compulsion of the CMA. (Bank-4) 	Some listed companies consider CG as an imposed system that must be followed.	-
	Bare minimum compliance	<ul style="list-style-type: none"> - We implement CG regulations as required. (Cement-1) - We do disclose about this statement, it is mandatory by the CMA. (Bank-2) - We have to follow CG rules and comply with it. (Bank-7) 	Some listed companies comply with minimum CG to avoid penalties.	Imposed compliance
	Exceeding minimum compliance (Best practice)	<ul style="list-style-type: none"> - Our CG is comprehensive to all the standards whether they are mandatory or optional items. (Services-1) - In our company we follow best practices. (Services-2) - We comply with CG items much more than those in CG document of the CMA. (Services-4) 	Some listed companies try to achieve best practice in CG compliance.	Supportive Role (Religion)

Chapter 7: First Stage of Data Analysis: Emergent Themes

	Implementation: The regulatory role	<ul style="list-style-type: none"> - If we don't see a response from a company, we start our procedures in warning them and imposing penalties against them. (CMA) - Penalties increase the awareness of people to implement CG. I think the number of penalties is increasing in order to force listed companies to implement CG practices. (Bank-1) 	The regulator plays the standard role with companies that do not have self-motivation to implement CG.	Imposed compliance; Bare minimum compliance; Regulations failure
	Implementation: The awareness / cooperative / partnership role	<ul style="list-style-type: none"> - We seek help from the CMA whenever we struggle, and they are so cooperative with us. (Petrochemical-1) - We seek their help (the CMA) if we don't understand any item in the document. (Retail-1) - We help and cooperate with listed companies most of the time. (CMA) 	The regulator plays the partnership role with companies that are interested in implementing CG and developing practices.	Exceeding minimum compliance
	Regulations failure	<ul style="list-style-type: none"> - The CMA has not grown in a complete shape, and the standards are still incomplete. (Services-1) - We are still in the first steps of CG and we are still trying to understand it. (Insurance-1) - The problem is not in CG document itself, it is in the implementation itself. (Bank-1) 	There can be regulations failure due to improper implementation, less education and awareness, or lack of diffusion.	-
Family	Resistance	<ul style="list-style-type: none"> - CG appears in the country because of the accumulation of family members in the board who are against or refuse CG. (Services-2) - Family members don't want to disclose for their awards and other information. (Cement-1) - It is only the sensitivity of disclosing about personal information. This is the thing that faces most resistance. (CMA) 	Family companies appear to resist control, transparency and disclosure.	-
	Abuse (Selecting board members)	<ul style="list-style-type: none"> - It is normal to find a manager as one of the family members. (Stock-Exchange) - The mechanism was selecting family members with some qualifications and experiences. (Bank-6) - Selecting family members with qualifications. (Services-6) 	Family owners appear to appoint less qualified members of the family on the board of directors	Control; Conflict of interest; Entitlement; Resistance
	Conflict of interests	<ul style="list-style-type: none"> - The board of directors not to exploit the company for their own interests. (Services-1) - There shouldn't be any executive member in audit committee in order to avoid conflict of interests. (Services-2) - There were some factors that affected the procedures here in the company to serve specific interests to some family members because some of them own a large number of shares. (Retail-1) 	Managers appear to serve their own interests without looking for shareholders or other stakeholders' interests.	-

Chapter 7: First Stage of Data Analysis: Emergent Themes

	Control (Decision Making)	<ul style="list-style-type: none"> - The family and their relatives affect negatively on the development of CG in terms of decision making, abusing, exploiting, etc. (Insurance-1) - The family has no more power in controlling the company since the CMA applied CG in 2006. (Cement-1) - CG comes to make a control on decision making. (Services-5) 	Decisions influenced by the family appear to serve their personal interests.	Conflict of interest
	Entitlement (Separation of ownership and control)	<ul style="list-style-type: none"> - Family companies face a big challenge which is separation of ownership and control. (CMA) - When a family company becomes a public company, there must be already family settings exist from the existing majority. (Services-1) - The penalties that been imposed by the CMA are more against family companies that turned to public due to the problem of separation of ownership and control. (CMA) 	Some family settings still exist when the company turns to a public company which might affect the continuation of the company.	Conflict of interest; Control; Abuse; Resistance
Kinship	Abuse (Independence)	<ul style="list-style-type: none"> - Family control is quite strong in this country, many companies appoint their relatives from the 1st degree in high positions. (Bank-3) - CG document comes to limit these abuses (appointing relatives in the board). (Bank-4) - There should not be a member in the board of directors classified as an 'independent' while he has a relationship from the first degree with a member in the board of directors or executive directors. (CMA) 	Appointing relatives from the 1 st degree in the board of directors might create accumulation in the board which may lead to imbalance in making decisions and conflict of interests.	Control, Conflict of interest
	Control (Decision Making)	<ul style="list-style-type: none"> - The control of the relatives is a barrier to CG. That's why CG appears in the country. (Services-2) - Kinship still exists. In banking sector it is somewhat there, we can't hide it. (Bank-1) - The influence of family members or their relatives appears clearly in the decision making. (Services-5) 	There can be imbalance in decisions made by relatives from the 1 st degree which may not serve shareholders' interests.	Conflict of interest
Religion	Association (Similar principles)	<ul style="list-style-type: none"> - CG has similar principles to the religion. (Industry-3) - CG is compatible with the religion and the religion supports CG system. (Services-4) - The law is compatible with the religion in the country as well as CG principles. (Bank-2) 	The religion and CG share similar principles and agree in objectives.	-
	Implementation: Supportive Role	<ul style="list-style-type: none"> - The religion is considered as a motivator to CG and supports it. (Bank-5) - CG principles emerged from the religion. So the religion is a driver. (Stock-Exchange) - The religion is not a pressure, but a motive to comply with CG. (Services-1) 	The religion supports and motivates CG to accomplish their same objectives.	Association

	Compliance (Sharia Comp.)	- Our tasks are to protect shareholders' rights, make sure that the work process is under Sharia compliance, make sure that we follow and implement CG rules. (Bank-5) - Our activity is investments under Sharia-based law. (Services-6) - We provide Sharia compliance banking services, which are supervised by an external Sharia board. (Bank-1)	Sharia-based companies find it easier to apply a CG system due to similar principles of Sharia and CG.	Association
--	---------------------------	---	--	-------------

The themes that emerged under each key institution are as follows:

7.2.1 An Expression of the Bureaucratic State

This key institution emerged due to the important role of the regulatory body 'The Capital Market Authority' (the CMA), as viewed by significant social actors, in driving corporate governance in the country which is considered as an expression of the bureaucratic state in this research context. The regulator plays different roles and has different styles in applying CG on all listed companies in order to correctly implement CG rules. The CMA mainly plays two roles: (a) the standard regulatory role, and (b) the cooperative/awareness/partnership role which will be expanded in the next section. A number of themes emerged under this institution. These themes are as follows.

7.2.1.1 Imposed compliance.

7.2.1.2 Bare minimum compliance.

7.2.1.3 Exceeding minimum compliance (best practice).

7.2.1.4 Implementation: the regulatory role.

7.2.1.5 Implementation: the awareness/cooperative/partnership role.

7.2.1.6 Regulations failure.

7.2.2 Family Ties

This institution is the most obvious one that emerged during the first stage of data analysis. It concerns the power of family businesses and its prevailing impact on the development of CG in the Saudi Arabian non-Western, emerging society. The initial analysis, as perceived by significant social actors, indicated negative roles by the family institution centred on conflict of interests. The Themes that emerged under this institution are as follows.

7.2.2.1 Entitlement (separation of ownership and control).

7.2.2.2 Control (decision making).

7.2.2.3 Conflict of interests.

7.2.2.4 Abuse (selecting and appointing board members).

7.2.2.5 Resistance to change.

7.2.3 Kinship Networks

This institution emerged separately but some interviewees consider it as an extension to family ties due to the nature of culture in this country. This institution captures all blood relationships to the families such as relatives and their influence on the CG regime in the Saudi Arabian non-Western, emerging society. The Themes that emerged under this institution are as follows.

7.2.3.1 Abuse (independence of board members).

7.2.3.2 Control (decision making).

7.2.4 Religion

This institution emerged due to the dominant religion in the Saudi Arabian non-Western, emerging society. It differs from family ties and kinship networks in a way that it has a supportive influence to the emergence of CG in the Saudi Arabian emerging society as any monotheistic religion concurs entirely with CG concepts and principles as viewed by some interviewees, whereas family ties and kinship networks are considered as barriers to the development of CG in this society. The Themes that emerged under this institution are as follows.

7.2.4.1 Association (similar principles): trust, credibility, justice, transparency, disclosure, protecting shareholders' rights, penalties (punishments), cooperation, fair competition, giving advice, not cheating, not harming, no obscene profit, etc.

7.2.4.2 Implementation: supportive role.

7.2.4.3 Compliance (Sharia compliance).

In this research study, Microsoft Word 2007 was used manually by the researcher to facilitate the extraction of pieces of material, copying and pasting them into cells in a table, sorting similar ideas, and linking quotes. This method follows ideas by Pratt (2009). This method was used due to its simplicity and capability to deal with both languages, English and Arabic. The next section gives a comprehensive description and evaluation of the emergent themes.

7.3 Meta-narrative

This ‘meta-narrative’ section is an overarching account by the author. The section provides a broad description and evaluation of the emergent themes and supports these with evidence from the interviews of data. It is an attempt to give a comprehensive explanation to the phenomenon being studied and to elicit meanings from the collected data to offer a better understanding.

7.3.1 An Expression of the Bureaucratic State

This institution was mentioned frequently among all interviewees through its key actor ‘The Capital Market Authority (The CMA)’ to show its effective role in applying and implementing CG rules in all listed firms making it a key institution in this research study. Six themes emerged under this key institution. These themes fall into two main categories: compliance and implementation. These are described and evaluated as follows, starting with compliance.

7.3.1.1 Imposed Compliance

It was inferred that there are some companies that consider the CG system as an imposed system that must be complied with in order to avoid punishment. When P1 from Bank-1 was asked if the market forms any pressures on CG, he points out that:

The market in Saudi Arabia is not mature yet to impose its opinion ...
The one who imposes the rules, is the CMA through its CG system.

So, there is a sign in this evidence that reveals CG is an imposed system implying scope for resistance in its implementation or one in which implementation varies based on the extent to which the firm complies only to the bare minimum that is necessary versus others who view the system more favourable (I return to this in a later discussion of themes, for example, Sub-section 7.3.1.2 below). He also considers that an audit committee is an imposed committee by the CMA that must be created in any listed company. The evidence also shows that it is only a matter of time before the market institution will have an influence on the emergence of a CG regime in this society. Thus, time is an important factor in this respect. Finally, when P1 from Bank-1 was asked about the influence of the CMA on listed firms in order to drive CG or implement CG, he reports that:

The CMA issues regulations and gives time limit to implement them (pressure) ... I think the number of penalties is increasing in order to force listed companies to implement CG practices.

This is another sign which reveals that the CMA forces listed firms to implement CG practices. P14 from Bank-4 notes that the nomination and remuneration committee was created in the bank based on the compulsion of the CMA which reveals that it was not created to follow best practice. P3 from Insurance-1 was asked if there is any resistance to change from the company side, he replies:

No there isn't. On the contrary, we have to comply with the regulations, otherwise we will be penalised.

So, it does not seem to be a matter of following best practice but rather an avoidance of penalties by complying with what the CMA requires. He also

insists that the CMA imposes penalties to companies that do not comply with CG rules and this punishment can be extended to suspend the stock exchange of this company. Suspension is the worst scenario faced by a company as it affects their reputation and credibility in the market, their stock price, and their relationship with other parties such as the CMA and the Ministry of Commerce (MOC). Moreover, the MOC has the power to stop a company's activity, so as a result, the firm becomes unable to sell products or conduct projects as explained by P3 from Insurance-1.

7.3.1.2 Bare Minimum Compliance

This theme emerged when it was observed that some companies comply with the minimum requirements of CG. P14 from Bank-4 reports that the annual report contains many items such as company results, reasons of deviation, shareholders' and ownership rights, listing rules, etc., but they tend to mention the minimum and do not go beyond this minimum. This could be a sign of aiming only to achieve minimum compliance. P5 from Bank-2 similarly notes that both audit, and nomination and remuneration, committees are mandatory items by the CMA and they have to be adopted and followed which means they wouldn't be created if optional. Thus, it is a sign of bare minimum compliance and not an effort towards best practice. P12 from the CMA reveals that both committees are the minimum required from listed firms in order to activate the role of the board of directors. He indicates that the board of directors should create committees based on the needs and the nature of the company. So these two committees are the minimum requirement but all other committees such as, risk committee, executive committee, and investment committee are optional to all listed companies based on their needs

as mentioned in the CG document of the CMA. This means listed companies have the choice to create committees as much as they need whenever they suit their activity, work nature, and size. He was also asked if CG causes a financial burden to listed firms such as extra employees and divisions. He concludes that:

That's why CG asks for the minimum. The CMA doesn't want any financial burdens as of applying CG which make it harder to those large and small companies. Therefore, whenever the company size becomes larger, the CG document allows it to go beyond and exceed the minimum, such as creating more committees based on the needs and nature of the company and based on what the board of directors sees because these committees need money. However, other companies consider that creating more committees and meetings could be an extra expense that cannot be afforded, especially if they have small and simple structures. Therefore, there is a minimum that must be applied and there is flexibility for who wants to implement CG in a way that serves them.

This evidence shows that CG does not appear to make extra financial burdens on listed firms, in contrast, it asks for compliance with the minimum standards in order to meet the objectives of CG. Thus, the CMA wants to keep the burden as low as possible in order to be affordable to all listed companies, so they would not have an excuse for non-compliance with CG regulations. However, it can be seen from some previous statements of the firms that, in some instances, compliance is seen as an expense. Some firms appear to cooperate with the minimum only to avoid penalties and do not go beyond the minimum, which implies a lack of genuine interest and effort towards CG in some cases.

7.3.1.3 Exceeding Minimum Compliance (Best Practice)

This theme emerged when it was inferred from the data that a large number of companies tend to exceed the minimum compliance of the CG document by complying with more optional items in order to achieve best practice. A number of companies such as, Industry-1, Services-2, and Petrochemical-1, created a separate division for CG in order to follow best practice. P6 from Industry-1 points out that:

We are trying to do our best to comply with the maximum regulations of S&P (Standard and Poor's—an American financial services company) as S&P has got 110 disclosure items. This means not only compliance with local CG but also with international one. For example, forecast and ownership concentration.

This evidence demonstrates the intention of this company to comply with the maximum requirements of CG to follow best practice which shows a genuine interest and effort towards CG. This means more transparency and disclosure can be added in the favour of shareholders. Thus, it may increase the credibility of this company to its shareholders. This participant added two examples of international CG practices: forecast (e.g. IPO forecast decision) and ownership concentration (e.g. family members' concentration on the board of directors). When P2 from Services-1 was asked about the way that CG works in their company, he notes that:

The task then is to make updates by applying the highest standards suggested by the CMA or available at the market in a way that they always keep updating and implementing their procedures as a best practice. In our company, whenever we see something suggested or optional, we apply it without waiting for it to become mandatory whenever we find it effective, in line with the executive management, and

gives higher standards in transparency. So why don't we apply it? So in our company we comply with the best practice whether it is mandatory or optional which is totally compatible with protecting shareholders and doesn't affect our work nature.

After looking at the background of this company from its annual report, along with the evidence from the interview, it seems that this firm is looking towards gaining greater legitimacy because they follow Sharia-based rules (this will be discussed later in this chapter) and has obvious CG objectives, as revealed by the interviewee. It can also be seen that they are looking to gain more credibility and trust from their shareholders by attempting to take care of them well beyond any minimum expectation, such as being more transparent and trying to protect their rights and serve their interests. Furthermore, it can be inferred that some companies are moving towards complying with best practice for many reasons such as achieving best results, protecting shareholders' rights, and gaining more credibility to attract investors. This inference appears to be in favour of serving shareholders' interests. Regarding the formation of the CG document which was issued by the CMA, P13 from the CMA points out that:

It is a collective work inspired by the Companies Act regulations, CG of benchmarking countries such as the USA and the UK, and OECD practices (an international Organisation for Economic Co-operation and Development). So the target is always to look for best practice.

This evidence reveals the intention of the CMA towards achieving best practice. This intention is obvious through the role played by the CMA in cooperating, advising, and assisting listed firms to implement CG as required which will be discussed later in this section. The evidence also shows that the CG document was not created due to the multiple collapses and historical

experiences of this country just as those which occurred in the Western World have subsequently sparked the movement towards CG. In contrast, it was adopted from different resources and customised to fit in this context in a way that pursues best practice. The evaluation will now move from compliance to describe the implementation.

7.3.1.4 Implementation: the Regulatory Role

This theme emerged as a role played by the CMA with less responsive firms to CG rules. The CMA needs to take action against these companies as reported by P12 from the CMA:

If we find a company doesn't have self-motivation, neglects, and prejudices in the requirements here the role of the regulator comes through speaking, sending letters, imposing penalties and other correction procedures.

So these correction procedures are being applied on companies that do not have self-motivation to implement CG rules but the nature of the statement by P12 implies that the approach is somewhat punitive and coercive as opposed to a narrative or discursive based approach to engage companies with CG. P13 from the CMA agrees with his colleague and points out that:

If we don't see a response from a company, we start our procedures in warning them and imposing penalties against them.

This is another piece of evidence that shows the regulatory role played by the CMA with less responsive companies in order to engage these firms with CG. This appears reasonable because if listed companies do not respond and

comply with CG regulations, then CG objectives will not be achieved which can lead to a recession or perhaps a financial crisis. These procedures would increase transaction costs for the CMA from a new institutional economics perspective. Both interviewees from the CMA suggest to look at the Saudi stock exchange website and to evaluate the penalties imposed against listed companies. They are trying to highlight the type and amount of violations of listed companies which are relatively high and concentrated in disclosure items as per both interviewees. This implies that there is a trend in not disclosing properly, or as required, which contradicts the vision of CG. That's why this role of the CMA appears reasonable and can help to achieve CG objectives. P1 from Bank-1 emphasises what has been said and indicates that:

The penalties that were imposed by the CMA are more in disclosure than in other CG items. So more than 95% of these penalties were due to disclosure issues.

This evidence also reveals the reason behind the failure of some companies to comply with CG rules—the lack of disclosure. This CG item forms a high percentage of the overall number of penalties. Thus, this leads to two inferences: (a) listed companies do not want to disclose as required and as stated in the CG document for different reasons, (b) there is a difficulty in determining the level of disclosure needed. The first proposition is a problem caused by firms, because listed companies are not so interested in properly disclosing their revenues, future plans, and awards of the board of directors as they consider this to be private information that isn't for the public domain. This is why the CMA is serious on this matter and always pushes to disclose as required in favour of protecting shareholders' rights. The second proposition is a problem caused by the CMA, which means that there is possibly a lack of

awareness and shortage of information provided from the CMA side. In this case, diffusing sufficient awareness and proper education to broaden people's understanding and knowledge can be helpful.

7.3.1.5 Implementation: the Awareness/Cooperative/Partnership Role

This theme emerged as a role played by the CMA with firms that are self-motivated and are interested in applying CG rules as revealed by P12 from the CMA:

Sometimes we play as one team with listed firms in order to develop practices. This happens in case we find the company is really interested in applying and implementing CG.

AG from the CMA agrees with his colleague and reports that:

We help and cooperate with listed companies most of the time.

So the CMA helps, cooperates, and opens doors for those who are interested in the subject of CG as confirmed by P17 from Industry-2:

The CMA is so effective and cooperative to clarify and explain any misunderstandings.

Another respondent agrees with this and points out that:

The CMA follows up with all listed firms, cooperates with them, and answers their enquiries. (P16 from Retail-1)

These statements imply that there is an obvious role played by the CMA in order to drive CG in the country which is the cooperation and awareness role. This appears as a positive role of the CMA towards listed companies who respond to the instructions of the CMA and implement CG as required or more which signals for better improvement and development of CG in the society. A number of listed firms seem to be happy with the way in which the CMA deals with them as the CMA cooperates, helps, and assists them in their daily work within this field. This implies that these companies do not mind working with the CMA in order to apply, implement, and comply with CG. When P8 from Cement-1 was asked about the way in which the CMA drives CG, he replied:

Through imposing penalties. The reputation of the company can be affected because the penalties are being announced in detail on the website. However, they are very cooperative with us.

This evidence illustrates that there is another negative side of not responding to CG rules which is the reputation of the company that can be affected through increased violations that are announced on the stock exchange website. Thus, good reputation can be a motive to listed companies to properly comply with CG rules which in turn attracts the investors to invest more in this firm.

7.3.1.6 Regulations Failure

CG regulation might fail as noted by a participant when he was talking about the factors that might control the organisation in setting up the policies and procedures. He gives an example for regulations failure in that:

What happened in the financial crisis in 2007/2008, although there are hard rules and regulations that are very strict, so we are talking about the Ministry of Commerce (MOC), the CMA, Central Banks, Basel Committee (for banks), risk reduction, and with all of that, neither owners nor administrators were able to catch the aggressive side of investors which is greed, power, and avariciousness and such bad behaviours. (P1 from Bank-1)

There is a sign in this evidence which implies that the regulations might fail due to negative human behaviour. Even the regulations could not stop these actions which could be a reason for why crises occur. It can be inferred that the regulations are constrained by people's behaviour and actions and may not protect people even if they are perfect. In this sense, this interviewee expands on this point and gives an explanation by saying that:

The problem is not in the CG document itself, it is in the implementation.

Thus, the implementation appears to be a major factor in regulation failures and crises which reflects the 'bad' behaviour and actions of some people. These failures can also be attributed to a lesser understanding by people of the subject of CG as highlighted by P3 from Insurance-1:

We are still in the first steps of CG and we are still trying to understand it.

Thus, little understanding and less knowledge or the background of people responsible for CG can lead to vagueness and ambiguity which might cause regulation failures. Thus, it is the role of both the firm and the CMA, to learn more about CG and become familiar with it in order to gain a better understanding of the nature of CG and realise that implementing CG is

something good for the population and society. One more possible reason for regulation failure is outlined by P2 from Services-1, he points out that:

The CMA has not grown in a complete shape, and the standards are still incomplete.

He indicates that CG is still growing in Saudi Arabia, it is in its initial stages, and has not been completely formed. This was also confirmed by P12 from the CMA when he was asked if CG is presently at a satisfactory level in the country or not, he argued that:

Are you pointing to have we got to the required level? No. There are more steps and expectations from listed firms and other elements in the market that contribute to motivate and add quality to support and enhance CG culture in the country.

This statement by the head of CG in the CMA implies that it is the responsibility of listed companies to enhance and promote CG, not the CMA's responsibility. The CMA expects more from listed firms and the improvements should arise from the listed companies' side. This emphasises what P2 from Services-1 said about the CMA as it has not grown in a complete form. It seems that it is a matter of time in order to enhance CG culture in the society. So the time factor seems important in strengthening the CMA to drive the CG system in this society. The task then, is to work harder on CG implementation from the listed companies' side and from the CMA in order to achieve best practice.

7.3.2 Family Ties

A total of 19 participants observed that the family is a reason for applying CG in Saudi Arabia, which can be considered as a key institution in this research study. This institution includes five themes which are described and evaluated as follows.

7.3.2.1 Entitlement (Separation of Ownership and Control)

One of the biggest challenges that family firms may face whenever they want to become public firms is the separation of ownership and control which was pointed out by a number of practitioners. P12 from the CMA observes that:

... family companies face a big challenge which is separation of ownership and control. It is a big challenge in the continuation of the company.

This evidence shows the danger of this 'unhealthy' aspect that can have a direct impact on the success and continuation of a firm. P12 considers this as 'a big challenge' which implies his experience in this matter in which he comes across a number of cases that may have either failed to continue or barely passed the challenge. This implies how serious and significant this matter is. This can be attributed to the indirect or little control of shareholders on management decisions which does not seem to be something that owners (family members) approve of.

Most of the firms in Saudi Arabia are family firms and some of these become public firms. So when a family company becomes a public one, there must already be 'family settings' exist from the existing majority, the

management of family companies is totally different as they make the decisions that suit them. As they are in a board of directors, nobody from outside can intervene because it's their own money ... but now, they can't act anymore as when it was a family company. (P2 from Services-1)

This is evidence that demonstrates the difficulty of separating ownership and control because the family is no longer able to 'act' as when it was simply a family firm. In the past, family members used to control, organise, direct, and manage the firm in their own way that suits their business and serves their interests. Also, those members do not look after their shareholders and their rights. However, this is changed now after the CMA applied CG regulations on all listed companies in 2006 in Saudi Arabia. So neither senior management nor family members are able to exceed their authority. It can also be inferred from this evidence that the time interval is an important factor here. It seems that family domination is being weakened by the regulatory authority, provided that they are unable to act as they did previously. Furthermore, some family settings (i.e. behaviours), such as serving own interests and appointing family members onto the board, still exist when the company becomes a public company which can be attributed to collective action problems and poor coordination.

The penalties that are imposed by the CMA are more against family firms that become public due to the problem of separation of ownership and control. (AG, from the CMA).

This reveals that the problem of separation still exists and CG comes to treat such a problem through warnings and punishments which can be a solution to reduce these practices from family companies. This can be seen as a divorce between shareholders (ownership) and managers (control) which in other words, both have clashing views. This is dangerous to a large extent because it

can distort corporate decisions and create deviation of a firm's investments if not properly or sufficiently controlled or governed.

There is evidence that CG is, to an extent, improved in this matter as it reduces the power and domination of the family by the gradual process of implementing CG rules by the CMA. P8 from Cement-1 points out that:

CG is improved a lot by the gradual process that the CMA practices in implementing CG items. Many actions and decisions of the family that we used to see in the past disappeared, such as making decisions that serve specific interests and might not go with the firm's objectives. The domination of the family in this company is totally changed. The family has no more power in controlling the company since the CMA applied CG in 2006.

This evidence points to the gradual process followed by the CMA. At the beginning they issued the CG document with only the basic rules. Then they started to gradually turn optional items into mandatory ones such as audit, and nomination and remuneration committees that recently became mandatory and must be found in any listed firm. This approach seems to be logical and gives the chance for listed companies to learn how to implement CG practices properly on a gradual basis.

7.3.2.2 Control (Decision Making)

This theme is frequently mentioned during the interviews which emphasises its importance and its influence on the topic. P1 from Bank-1 was asked about the influence of the family when there were no mechanisms for selecting members of the board in the past, he argues that:

The family has a negative impact on CG. They mix between general and private. Family firms think that the decisions are personal and of interest to the family only and not to shareholders.

Given this evidence, it can be seen that the family institution appears to be a barrier to the development of CG in which the decisions are of interest to the family only if it is not well treated. Mixing between public and private ownership is a problem and can be attributed to the lack of awareness and knowledge about the nature of public firms. Moreover, when P19 from Bank-7 was asked if there are any factors or pressures that might control the organisation in setting up the policies and procedures, he confirms that:

In the past, yes there were ... the board of directors was dominated by family members that have a strong influence in decision making and applying rules.

This is another example which shows how decision making is influenced by the family before applying a CG system in the country which can affect setting up the policies and procedures of companies. It can also be inferred from this evidence that the time plays a role in changing the degree of family control. The regulatory authority plays this role in reducing the power of the family which increases, at the same time, the power of the regulatory authority. P2 from Services-1 gives an example about his company when it changed from a family company to a public one. He notes that the members of the family became guided by the rules of CG in making decisions:

For example, when our company has changed from a family business to a public company, the board of directors, including the members who are majority shareholders (own the highest percentage), have limits and a roadmap to walk on when making decisions ... The managers are being watched with every decision taken, so I think it is a positive thing.

The top management has a specific and clear guidance to follow which is the CG document. This guidance illustrates all items in detail, such as authorities and responsibilities in order to control the decision making in these firms. He indicates that this guidance of CG is a positive thing to everybody: shareholders, investors, employees, and other stakeholders. When P16 from Retail-1 was asked about the mechanism of selecting board members before applying CG by the CMA in 2006, he reports that members of the family used to be appointed onto the board of directors in addition to the executive directors. Consequently, he was asked if he feels any domination of the family in decision making. He points out that:

Yes, in the past, the decision making of the family was so obvious and much stronger than now, but after the CMA applied its CG system, many of these practices disappeared.

It can be clearly inferred from this statement that CG dealt with some practices that family members would otherwise dominate such as decision making. This shows the efforts of the CMA to eliminate this aspect due to its negative impact. When P21 from Services-5 was talking about the pressures that might control setting up the policies and procedures of the company, he claimed that:

CG aims to take control on decision making ... through identifying the responsibilities of each member.

This control on decision making can be achieved through specifying authorities, responsibilities, and limitations of the members of the board of directors and executive directors, so it would reduce the domination of the family in making decisions. It can be inferred from this that some members of

top management do not know exactly their boundaries and limitations. So they might take some actions that are not within their authority which may negatively impact the growth, development, and continuation of the firms. This could be attributed to the lack of proficiency of the organisations.

7.3.2.3 Conflict of Interests

This theme seems to be a dilemma in which the CG system attempts to eliminate its impact on stakeholders. The intention here is to focus and capture any conflict of interest owing to the family dominance. Conflict of interest occurs usually between the owners (the family) and the managers (the agents) or with other non-family shareholders or stakeholders when the agent is involved in multiple interests. It can also occur when the board of directors wants to exploit the company for their own interests as indicated by P2 from Services-1 when he points out that “[t]he main point of CG is shareholders’ protection, and the board of directors not to exploit the company for their own interests”. P8 from Cement-1 was asked if there were any factors or pressures that might control the organisation in setting up the policies and procedures, he observes that:

In the past, there were some pressures. For example, when the board of directors consisted of members of the family (the owners), there were some actions, authorities, decisions, and orders that serve their own interests without looking after shareholders’ interests because there were no clear rules to control that, but now, since the existence of the CMA , this cannot happen.

This evidence indicates that there was a clear conflict of interest from family firms due to the absence of rules. The CMA worked this out to overcome this

problem through its CG system. It can be inferred from this evidence that absence of rules and lack of diffusion can drive the investments and trades to an unknown direction based on people's behaviour and attitude. It can also be inferred that the domination of the family through the high occurrence of conflict of interest is being reduced by the CMA. This shows the importance of the time factor in this respect. P2 from Services-1 was asked to talk and give details on audit committee and its responsibilities. He gave a good example based on his own position in the company:

As I'm a CEO in this company, I can't be a member of the audit committee in order to avoid conflict of interest (this committee should be under the board of directors not the CEO). However, the CEO or the CFO can be members 'officially' but that's not a best practice because I can't be a member in this committee when this committee checks my work.

What this interviewee says sounds logical because if he becomes a member in the audit committee and a CEO at the same time, then a conflict of interest can easily occur as he would be able to influence the committee's auditing processes. There is strong evidence to suggest that CG afforded an attempt to eliminate conflict of interest caused by the family institution through creating an audit committee. P14 from Bank-4 also indicates that making sure that there is no conflict of interest is the duty of the audit committee whereas three other respondents report that it is the duty of the nomination and remuneration committee in their firms. These three interviewees are P18 from Bank-6, P15 from Bank-5, and P10 from Petrochemical-1. When P21 from Services-5 was asked if there were any factors or pressures that might control the organisation in setting up the policies and procedures, he replies that:

I don't see any pressures, but as I said previously when I've talked about the influence of the family, conflict of interest was a big issue in the company and I think CG came along to treat such problems, also it came along to specify the responsibilities of the members of the board and top management in order not to exploit their positions which serve their own interests.

It can be seen that conflict of interest caused by the family institution is a major factor impacting on the continuation and success of a company as the owner (the family) wants to maximise the profits, but the manager wants to serve his own interests. Thus, the interviewee indicates that CG appears to treat such problems by specifying the authorities, responsibilities, and limitations of the board members and executive directors in order to give a clear vision about the tasks and duties of each person. P1 from Bank-1 argues that:

The concept of conflict of interest needs to be clarified [treating it] to give the sense of distinguishing between family companies and public companies where shareholders are the minority in this case.

It appears that the causes of conflict of interests are still unclear to some owners (the family), managers, and shareholders. This can be attributed to the lack of awareness, diffusion, and education in this topic. This problem can be treated through practising CG accurately and raising awareness and knowledge on this matter to give better understanding about its causes and impacts. P2 from Services-1 observes that:

Now there is no conflict of interest in our company although the family are themselves the majority shareholders. So CG has removed the embarrassment from the executive management with the board of directors, which means that any decisions made are specific and clear

standards of CG. So there is no prejudice towards anyone whether they own thousands of shares or just one share.

It appears that CG rules worked to some extent in this company as there is no more embarrassment between the executive directors and the board of directors, such as overlapping authorities, orders, and actions which can affect the development of the firm. It appears that CG attempted to eliminate this major dilemma, which is to the favour of stakeholders. It can be inferred from the above evaluation that there are different dimensions of family domination that can cause a conflict of interest. Some of these include: family domination through the decisions and authorities, and lack of raising awareness and education of family members. This signals that conflict of interest is a matter that needs to be handled well.

7.3.2.4 Abuse (Selecting and Appointing Board Members)

This theme arose mainly when the respondents answered question number five in the interview schedule (see Table 6.5). The question tried to determine the mechanism of selecting board members, the chairman, MD, CEO, and CFO in the organisation before applying CG by the CMA in 2006. Twelve interviewees reported that the selection criteria was based on a range of relationships such as family members, relatives, qualified friends, and business relationships because there were no active rules for nominating, selecting, and appointing members. P12 from the CMA points out that:

Prior to 2006, the CMA wasn't as powerful as it is now. So there were no active rules that control the selection of these individuals. Each company has its own way to do it. Family companies (that turned to ownership) have their own way; partners have their own way too.

All of the twelve interviewees pointed out that the CMA dealt with such a dilemma by creating a 'nomination and remuneration' committee and made it compulsory for all listed firms, so there is no more family control on selecting and appointing members. Also, the CMA issued clear written rules in its CG document for selecting board members which in turn, the nomination and remuneration committee can rely on when selecting those individuals. This committee has different tasks as P3 from Insurance-1 concludes:

Nomination and remuneration committee nominates the members of the board of directors and executive management based on their experience and qualifications, it makes the policy of awards for the board members and executive management, and it evaluates the performance of the board members.

A nomination and remuneration committee is also interested in management contracts (P4 from Services-2), project development issues (P17 from Industry-2), and nominates the selected names to the public (shareholders) for voting in the general assembly (P6 from Industry-1). The tasks of this committee seem to be efficient in terms of reducing the impact of family control which is one of the objectives of CG in order to protect shareholders' rights and maintain integrity in the stock market. This serves as another example of how the CG system appears to be predominantly focused on not only professionalising conduct but also on reducing the danger of the family institution compromising the position of other stakeholders.

7.3.2.5 Resistance to Change

Resistance to change is a theme that emerged when question number twelve was asked to all interviewees to find out if there was any resistance to change

from the company after changes were made to CG over the past few years. A number of interviewees reported that there was a resistance to change from the founders (mostly when they were family companies) as P4 from Services-2 points out:

There is a strong resistance from the owners of some companies against the CMA and CG because they are unable to practice whatever they want and like as before. They don't like control and they don't want to disclose too much news and financial information.

This resistance (by some listed companies but not all) appeared when the CMA started to apply and activate CG items gradually on listed firms to regulate them. It is only natural that any change faces a degree of resistance in different forms that lies mainly in the loss of power. P4 explains the forms of resistance as not completely refusing CG, but either by creating a department that works as a defensive front for the company and deals with the CMA to get rid of their requests and problems, or by announcing incomplete news just in a way that they guarantee avoiding violations without telling the full story. Both forms of resistance indicate that some people do not believe that CG is something good and healthy for society. In contrast, they believe it is something obligatory that must be applied and followed without thinking about the advantages and financial return. P19 from Bank-7 reveals another form of resistance to change when he was asked the same question, he replies:

Yes, there was a little resistance in the past. CG is against conflict of interest which some people do not like, such as family members of the board.

This implies that serving only family members' own interests can be considered as a form of resistance because they are not serving the interests of

anyone else involved such as other shareholders and other stakeholders. Three interviewees (P16 from Retail-1, P21 from Services-5, and P8 from Cement-1) reveal that there was a resistance to change from the founders who were family members in which it was hard for them to be transparent about the financial statements, awards and bonuses of the members of the board, and some other information that they considered to be sensitive. However, it appears that this is treated to some extent as P16 from Retail-1 points out:

It has gradually disappeared with the follow-ups of the CMA, CG team, and the audit committee.

This evidence connects with bare minimum compliance as discussed earlier, implying scope of resistance in implementing CG rules which varies based on the extent to which the firm complies with CG rules as the bare minimum or to a greater extent. The evidence here to some extent also implies subversive or partial compliance such as the points made previously about releasing information but not the entire facts. It is worth noting that there is still an obvious type of resistance which still exists—the disclosure by family firms that become public as revealed earlier when the discussion highlighted the amount and type of penalties against listed companies in the regulatory role theme. Thus, it indicates that ‘bad’ behaviour is still present even after the CG system was introduced.

7.3.3 Kinship Networks

When asked about the mechanism of selecting board members and executive management before applying CG in Saudi Arabia, fourteen participants observed there is an influence of kinship, mainly relatives from the first

degree, such as a parent, sibling, or child, that affects the emergence of CG system in the Saudi Arabian emerging society. Many interviewees consider kinship as an extension to family institution due to the nature of culture in this society. This is the reason behind having two similar themes in both family and kinship institutions that are: abuse and control. These two aspects emerged and are highlighted as follows.

7.3.3.1 Abuse (Independence of Board Members)

This theme appeared several times during the interviews when talking about kinship which seems to indicate its importance and influence on the development of CG. P2 from Services-1 reports that:

The board of directors cannot appoint more than a specific number from one family, first degree relatives, or major shareholders. There must be independent parties with financial or legal backgrounds that have no blood relations to the family, so there will be no imbalance on the board of directors. There must be a balance and to have this balance there is no place for kinship control. The board of directors is responsible in front of the public to achieve good results. So it is difficult for the board of directors to select members of the family or relatives without good reason, as they become responsible for any consequences.

This implies that CG is against any imbalance on the board such as appointing half the number of members from first degree relatives. Therefore, the indications are that there are clear rules for assigning independent members and appointing relatives from the first degree onto the board of directors. There should be standards for qualifications and there are a specific number of relatives that can be assigned onto the board which cannot be exceeded. This

is important to maintain balance in the company when making decisions as P12 from the CMA points out:

We still have in Saudi Arabia selection of board members with kinship relations. That's why the CG document was introduced and states that one third of the members should be independent. That means independent from the ownership and control, thus, there will be a balance when making decisions.

This evidence defines the term 'independent members' as they are independent from ownership and control. Also it shows the legal percentage of independent members on the board as one third. Thus, this regulation ensures having balance on the board will include independent members, non-executive members, and a managing director. So there will be no opportunity for kinship accumulation on the board of directors to have control of the firm. It can also be implied from the evidence that the aspect of appointing relatives onto the board of directors is being reduced over time through the increased supervision by the CMA. This shows the importance of time as a factor in changing the selection criteria which is an important item in CG systems. A number of interviewees such as, P10 from Petrochemical-1, P3 from Insurance-1, and P9 from Bank-3 indicate that one of the tasks of the nomination and remuneration committee in their companies is to make sure of the independence of independent members so there can be no conflict of interest. As a result, the CG system dealt, to a large extent, the problem of appointing first degree relatives by creating a nomination and remuneration committee that verifies the independence of members, specifies the percentage of independent members on the board, and specifies the standards of qualifications for board members.

7.3.3.2 Control (Decision Making)

This theme also emerged during the process due to its importance and influence on CG in this society. P12 from the CMA indicates that:

We still have in Saudi Arabia the selection of board members with kinship relations. That's why the CG document appears and states that one third of the members should be independent ... thus, there will be a balance when making decisions.

This evidence emphasises that there is an influence of kinship on CG and reveals that CG came along to treat kinship problems, stop 'bad' behaviour of relatives, and provide guidance for appointing relatives onto the board. The evidence also shows that it is very important to maintain balance when making decisions in order to protect shareholders' rights. This can be achieved through specifying the allowed number of relatives, independent members, and non-executive members on the board of directors. P21 from Services-5 agrees with this evidence and notes that:

The influence of family members or their relatives appears clearly in decision making. They might make decisions that do not serve everyone who is involved in this company, whether they are shareholders or other stakeholders.

The evidence implies that in the past there were some 'unhealthy' decisions made in the firm by family members and their relatives who occupy top positions in the organisation. This can affect the growth, revenue, future plans of the firm, and the interests of shareholders as mentioned previously. A number of interviewees such as, P4 from Services-2, P1 from Bank-1, and P3 from Insurance-1 observe that kinship has a negative influence on the

development of CG in terms of decision making, manipulation, exploitation etc. and consider it as a barrier to CG development. Relatives from the first degree can have power and control similar to family members in this context. They can 'act' in lieu of the owners (the family) as long as they have their agreement and have enough trust from the family members to manage the firm. Thus, it can be said that the danger of the kinship institution is similar to that in the family institution.

7.3.4 Religion

Eleven interviewees observed that the religion of this society has a positive role in applying and implementing CG. This role appears in a way that the religion supports CG, motivates CG, and shares similar principles that call for protecting shareholders' rights in the eyes of significant social actors. This key institution contains three themes that show the role of religion from three different angles.

7.3.4.1 Association (Similar Principles)

This theme emerged when the respondents described or talked about CG principles. They observed that CG principles share similar principles of the religion in Saudi Arabia. Some of which are as described by P1 from Bank-1:

Trading in our religion is based on not cheating, not harming, no obscene profit, etc.

CG calls for similar ethics mentioned in the above evidence as these behaviours can have a direct influence on the reform and development of CG

in society. It can be inferred that complying with CG principles is considered as a compliance with the religion in this country that leads to achieving the same objectives. P2 from Services-1 emphasises this evidence and points out:

The standards of the religion are similar to the standards of CG: honesty, sincerity, and competence. If we leave CG and comply with Sharia in our contracts: Sharia has standards much more [demanding] than CG itself.

P2 adds that CG can be considered as a part of Sharia-based law (which will be discussed later in Sub-section 7.3.4.3). If people comply entirely with Sharia, then this would cover all CG requirements and more, as perceived by P2. However, people's compliance to Sharia in Saudi Arabia varies from full compliance down to low or non-compliance depending on the extent of people's faith. That's why there must be a written document such as a CG document, along with supervisors such as the CMA, in order to observe the compliance and behaviour of people towards CG regulations. P6 from Industry-1 agrees with this belief and argues that:

I believe that CG has emerged from our religion. The thing that CG has added is linking the values and concepts with the firms. For example, justice, CG links justice with shareholders and protecting their rights. So any monotheistic religion concurs entirely with CG concepts.

P6 shows how CG connects the principles of the religion to daily life in companies by providing an example of justice which is a principle in the religion as perceived by him and its role in protecting shareholders' rights. This protection can be achieved through applying disclosure as explained by P12 from the CMA, he points out:

The aim of the CMA is the justice in the market through applying disclosure items. We always emphasise that the person who owns 20 shares is exactly similar to someone who owns 20 million shares in terms of the timing of receiving information. In the past, the person owns 20 million shares believed that he owns the company and he was getting information which may lead to him making investment decisions in the firm, such as increasing his ownership up to 25 million shares because the company is making profit or distributing extra shares or making contracts, as he has information [sic] that the one who owns 20 shares doesn't have. Now it is totally different. Nobody can get any information unless it is announced on the Tadawul website (stock exchange website). So they all get the information at exactly the same time. The shareholders are equal in getting information.

This evidence underlines the importance of applying an important element of CG which is disclosure. This element is also emphasised by the religion when the same respondent continues that:

Prophet Mohammed (PBUH) said: 'Righteousness is good character, and sin is that which wavers in your heart and which you do not want people to know about.' This is total disclosure and transparency. It is as he is saying: hey companies do not keep any info [sic] with you. Please disclose about it, if there is something that you don't want people to know about, then there is something wrong. (P12 from the CMA)

So the emphasis on disclosure by the religion, for reasons of justice, fair competition and protection of people's rights can be clearly seen in this evidence. Also, the CMA is highly concerned about the topic of disclosure as seen previously when the CMA imposed 95% of the overall penalties against listed firms due to improper disclosure by these companies. This shows the 'bad' side of people's behaviour in dealing with an important issue of disclosure items which reflects their lack of interest in complying with both Sharia and CG rules, protecting shareholders' rights, and cooperating by providing sufficient information about their business. Some interviewees such

as P11 from Services-4 and P2 from Services-1 are happy with applying CG in society because they believe that it leads to better religious practice. Other interviewees such as, P5 from Bank-2 and P20 from Industry-3 agree that CG has similar principles to the religion of the country.

7.3.4.2 Implementation: Supportive Role

This theme emerged when a number of respondents perceived that the religion in this society has a supportive role to CG. P1 from Bank-1 points out:

The religion in this country is just as any monotheistic religion that serves CG and doesn't harm it ... it has a motive and is positive and has no problems with CG.

This evidence shows that they believe that any monotheistic religion agrees with and serves CG because they have similar principles and call for the same objectives in the eyes of those participants. P2 from Services-1 agrees with this by considering the religion as a drive for CG, not a pressure. P12 from the CMA adds on this and reveals:

The religion has an influential role in all local organisations. This means that there is no system is established here that contradicts the religion in this country. And I don't think that any overseas system that has been adopted in this country contradicts the religion. The religion is not a barrier to CG; it is a motivator for it. The religion is a major supporter for CG. There are some texts from both the holy Quran and Hadith (prophet's speech) which emphasise the principles of CG for multiple reasons, some of which is fair competition.

The evidence highlights the supportive role of the religion for CG in this context and also shows one reason why the religion plays this supportive role for CG, which is fair competition, one of the objectives of both the religion and CG. The evidence also indicates that if the subject of CG contradicts the religion in the country, then there is no chance to adopt it and apply it. In contrast, the religion supports, recommends, motivates, urges and emphasises the implementation of CG rules as perceived by the interviewee. When P5 from Bank-2 was asked if there was any role played by the religion that may influence the development of CG in the country, he highlighted the motive and supportive role of the religion for CG. P15 from Bank-5 and P23 from Stock-Exchange indicate similar views.

7.3.4.3 Compliance (Sharia Compliance)

This theme emerged when six respondents revealed that they adopt Sharia-based law in all contracts within their firms and comply with it. This compliance is supervised by either an internal or external Sharia board that guides or reviews all the contracts of these firms in order to achieve best compliance with Sharia. It is worth noting that applying Sharia-based rules on listed companies is something selective and optional to any listed firm who wants to apply it, and comply with it, but it isn't mandatory.

P1 from Bank-1 points out that they provide Sharia compliance banking services to their customers which are reviewed by an external Sharia board. P22 from Services-6 reveals that all their investments are Sharia-based. P2 from Services-1 notes that all contracts in his company are Sharia compliant because this calls for fair competition and they wanted and approved this

because of the ease of implementing a CG system, as perceived by the participant. P15 from Bank-5 reports that one of his tasks in the field of CG is to make sure that the work process is Sharia compliant. When P5 from Bank-2 was asked if the religion had any role in the CG of the bank as it is under Sharia compliance, he points out:

We work under Sharia-based law. We have our own Sharia board that works and supervises in order to get products compatible with Sharia. For example, loans should be without interest, but there can be a product in the middle to buy and sell, to gain some form of benefit.

So he mentions an example of how to avoid contracts with interest, which can be done through buying and selling products in order to make it Sharia compliant which can be considered as an advantage in trading in the eyes of AD. P2 from Services-1 also offers a similar example of how to comply with Sharia in all contracts, he outlines:

We brought an external Sharia board to audit our work and show us which contracts are compatible with Sharia and which ones are not. Thus, we have made some changes in our contracts such as purchasing cars through trade or 'Murabaha' (Sharia financing method) and eliminated other bank contracts with interests.

So this is the way of this company to comply with one element of Sharia which is conducting contracts that are only interest free. It can be inferred that some companies have a genuine interest in applying both Sharia law and CG rules which can be considered as a 'good' behaviour of these companies towards their society. P20 from Industry-3 argues that:

Many people in this country look for more trades within Sharia compliance due to the tangible improvement in these trades [for them].

He highlights the intention of people to move towards trades under Sharia and he links this to the improvements that can be achieved. It can be said that Sharia compliant companies find it easier to apply a CG system than in non-Sharia compliant ones because CG rules are simply compatible with Sharia principles as perceived by a number of significant social actors.

7.4 Archival Sources Evaluation

Each listed firm must submit an annual report as mentioned previously. These reports have been obtained from the Saudi stock exchange website (Tadawul). Reports from years 2011, 2010, and 2009 have been mainly reviewed and evaluated. This evaluation has captured some inferences mainly from year 2011 and some from 2010 and 2009. These inferences have direct influence on the research topic. These have been organised in the following table.

Table 7.2: Annual Reports Evaluation

Listed Firm	Year of Report	Evaluation
Insurance-1	2011, 2010, 2009	This firm follows the regulations of both the CMA and SAMA as it is an insurance listed company. It appears that it complies with CG system to the bare minimum.
Services-1	2011, 2010, 2009	This firm looks towards gaining greater legitimacy through following Sharia based rules.
Bank-1	2011, 2010, 2009	This firm follows Sharia based rules. An external Sharia board audits and reviews all the contracts of this firm. This may attract investors.
Services-2	2011, 2010, 2009	This firm has created condensed annual reports with many pages. It complies with many optional items which show an interest towards exceeding minimum compliance.
Bank-2	2011, 2010, 2009	This firm has more obvious objectives of CG, such as being more transparent with their shareholders through stating a lot of details about their current activities and future investments.
Industry-1	2011, 2010, 2009	This firm has created detailed reports and followed international best practices which reveal its interest towards exceeding bare minimum compliance.
Services-3	2011, 2010, 2009	This firm has created a decent annual report that contains the mandatory items only. This shows its compliance to the bare minimum.

Cement-1	2011, 2010, 2009	This firm is relatively new in the stock market. It has created a basic annual report that includes compliance with mandatory items only.
Bank-3	2011, 2010, 2009	The annual reports of this firm have detailed financial reports with many pages. These financial reports have been reviewed by great and well-known external auditors. This may attract investors.
Petrochemical-1	2011, 2010, 2009	This firm has not complied with a number of items but it has disclosed that in its annual report. Non-compliance with some items must be mentioned in the report with valid reasons as well.
Services-4	2011, 2010, 2009	This firm has big future investment plans. This may increase the appetite of investors for investing in this firm.
Bank-4	2011, 2010, 2009	This firm conducts many meetings which they see as successful strategy for the continuation of the firm.
Bank-5	2011, 2010, 2009	This firm follows Sharia based rules to obtain greater legitimacy.
Retail-1	2011, 2010, 2009	The annual report of this firm includes many charts that show the growth and development of the firm in the past five years, and the benefits from its stock exchange. This may increase the confidence of the investors.
Industry-2	2011, 2010, 2009	The annual report of this firm includes a very detailed disclosure of the remunerations of the board members and executive directors. it seems that it has a strong nomination and remuneration committee.
Bank-6	2011, 2010, 2009	This firm has a risk committee. This committee seems important in the banking sector in order to minimize risks.
Bank-7	2011, 2010, 2009	The annual report of this firm reveals for the multiple contracts of this firm with other firms in details. This disclosure might be important for some shareholders.
Industry-3	2011, 2010, 2009	The annual reports of this firm discloses for detailed ownership of major shareholders with detailed information about them. This shows an interest towards being transparent with other shareholders.
Services-5	2011, 2010, 2009	It can be seen from the annual report of this firm the multiple contracts with other companies as it has construction activities. This might be important to some investors.
Services-6	2011, 2010, 2009	This firm follows Sharia based rules in an attempt to increase its reputation and credibility.

7.5 Comparative Analysis

The research sample included twenty three interviewees from different levels of authority such as TMT, SMT, and MMT. These interviews were conducted in different organisations from a range of sectors such as, banks, food industry, real estate and construction, petrochemicals, telecommunications, energy, retail, transport, and the regulatory authority, along with stock exchange mediators.

For categorisation purposes, a table is created to illustrate the institutions mentioned in each organisation (the frequency). The institutions are classified into three categories: supportive institutions to CG, institutions compromising CG, and institutions with no apparent influence to affect the development of CG, based on the data of the interviews. The bureaucratic state expressed by the CMA as a key institution is not added in this table as it was mentioned in all interviews. This will be followed by a comparative analysis. Please see Table 7.3.

Table 7.3: The Frequency of Emergent Themes in all Organisations

Organisation	Supportive Institutions to CG	Institutions Compromising CG	Institutions with no Apparent Influence to Affect CG
Bank-1	Religion / politics	Family / kinship	Market / legal
Services-1	Religion	Culture / family / kinship	Politics / market
Insurance-1	-	Family / kinship	Market / legal / politics
Services-2	Market	Family / kinship	Politics
Bank-2	Religion / legal	Family / kinship	Market / politics
Industry-1	Religion	Market	Politics
Services-3	-	Family / kinship	Politics
Cement-1	-	Family	Market
Bank-3	-	Family / kinship	Legal / politics
Petrochemical-1	-	Family	Politics
Services-4	Religion	Market	Politics / legal
CMA	Politics / legal / religion	Market / family / kinship	-
CMA	Politics / legal	Family / kinship	-
Bank-4	Religion	Family / kinship	Market
Bank-5	Religion	-	-
Retail-1	-	Family	-
Industry-2	-	Family	Market
Bank-6	-	Family / kinship	-
Bank-7	-	Family / kinship	-
Industry-3	Religion	-	-
Services-5	-	Family / kinship	-
Services-6	Religion / legal	Family / kinship	-
Stock-Exchange	Religion	Family / market	-

Results (Frequency)	(Religion = 11)	(Family = 19)	Market = 7
	Legal = 4	(Kinship = 14)	Politics = 9
	Politics = 3	Market = 3	Legal = 3
	Market = 1	-	-

It can be seen from Table 7.3 that two apparent institutions, namely, family and kinship, are seen as compromising a CG system due to their high frequency. Family institution was mentioned in 19 out of 23 interviews, and kinship institution was mentioned in 14 out of 23 interviews. This would be a sign of their influence on the development of CG since they scored high frequencies. It can be said, based on the interviews, that both institutions are considered as barriers to CG because they do not help to achieve the objectives of CG. Hence, they are classified as institutions that compromise CG. Another apparent institution that was mentioned frequently by respondents is the religion institution. It was mentioned in 11 interviews out of 23. This would signal its influence on the development of CG since it has a high degree of frequency. Based on the interviews, it can be said that this institution is considered as a supportive institution to CG because it helps to achieve the objectives of CG. Hence, it is classified as an institution that supports CG.

Other institutions also emerged during this stage of analysis. These institutions are: legal, politics, and market. The interviewees do not agree or have similar observations on the influence of these institutions on the development of CG. In other words, there might be an effect but each respondent perceives a different one (please see Table 7.3). Therefore, these institutions are classified as institutions with no apparent influence to affect the development of CG. Also, no common characteristic of the interviews such as, age, gender, position, and sector, is observed in order to classify these institutions in a common category. However, the emergence of these institutions is helpful when discussing the first research question that asks about what non-Western,

emerging society (Saudi Arabian) institutions consist of, as perceived by significant social actors.

7.6 Quantifying the Data

It is possible to quantify qualitative data by counting the number of frequencies of a particular word, theme, or content in textual material. It is used not only to infer meaning, but also to explore usage (Hsieh and Shannon, 2005). Thus, the purpose of quantifying the data is to illustrate them, reveal better insights, and give a sense of the number of firms raising similar observations. However, it is not for statistics, quantification purposes, or conducting any statistical analyses due to the sample size.

In this phase of data analysis, the data are quantified based on the number of interviews. For example, if 9 respondents out of 23 mentioned the theme 'conflict of interest' then 39% of the respondents highlight or support this idea. Moreover, the theme that scores the highest percentage in each key institution is considered as a main theme. For example, if a key institution has 30%, 26%, and 26% of themes, then the 30% one is the main theme. Please see Table 7.4 along with the evaluation below.

Table 7.4: Quantifying the Frequency of Themes

<i>Themes</i>	<i>Frequency</i>
1. An Expression of the Bureaucratic State (the CMA)	
1.1 Imposed compliance	13%
1.2 Bare minimum compliance	30%
1.3 Exceeding minimum compliance (best practice)	60%
1.4 Implementation: the regulatory role	13%
1.5 Implementation: the awareness/cooperative/partnership role	26%
1.6 Regulations failure	13%
2. Family	
2.1 Resistance	21%
2.2 Abuse (selecting board members)	52%
2.3 Conflict of interests	39%
2.4 Control (decision making)	34%
2.5 Entitlement (separation of ownership and control)	17%
3. Kinship	
3.1 Abuse (independence)	21%
3.2 Control (decision making)	21%
4. Religion	
4.1 Association (similar principles)	30%
4.2 Implementation: supportive role	26%
4.3 Compliance (Sharia compliance)	26%

7.6.1 Evaluation

7.6.1.1 An Expression of the Bureaucratic State (the CMA)

The theme 'Exceeding minimum compliance (best practice)' was mentioned by the majority of respondents, making it the most frequent topic at 60%. This reveals the intention of many people towards following best practice by exceeding the minimum compliance of CG. For example, a number of respondents note that they created committees more than the mandatory ones such as executive committee and risk committee. This theme can also be achieved through the supportive role played by the religion which will be discussed later in this section. The second highest theme is 'Bare minimum compliance' which was mentioned frequently by the respondents at 30%. This reveals that fewer companies intend to comply with CG at its minimum or standard requirements. For instance, there is much useful information that can be mentioned in the annual reports; however, a number of respondents used the reports to mention the minimum only without disclosing further information that could be of interest to shareholders. It can be said that listed firms tend to comply with the minimum because they consider the CG system as an imposed system. Naturally, the least mentioned theme is 'imposed compliance' at 13% which shows that only a few companies consider the CG system as an imposed system that must be followed. For example, a number of respondents point out that the nomination and remuneration committee and audit committee are imposed by the CMA which means that they have to create them in order to comply with a CG system and avoid penalties.

In regards to the roles played by the CMA to implement a CG system in listed firms, it played two roles. The first role, which was mentioned frequently by the respondents at 26%, is the awareness, cooperative and partnership role. This is a more obvious role played by the CMA as long as listed companies try to achieve best practice through exceeding minimum compliance of CG. P12, the head of CG department in the CMA, notes that:

We play the role of partnership with companies. So sometimes we play as one team in order to develop best practice. This happens in case we find the company is really interested in applying and implementing CG. However, if we find the company doesn't have the motivation, neglects and prejudices the requirements; then here the role of the regulator comes through discussion, letters, and imposing penalties and other corrective procedures.

Thus, the second role of the CMA is the regulatory role that was mentioned by the respondents at 13%. This role appears to be played with less responsive firms to CG rules that consider the CG system as an imposed system or only comply with the minimum. P1 from Bank-1 believes that the number of penalties is increasing in order to force listed companies to implement CG rules. Implementing CG rules is important and neglecting these rules may cause a regulations failure, as highlighted by P1 from Bank-1 when he gives an example of a regulations failure:

What happened in the financial crisis in 2007/2008, although there are hard rules and regulations that are very strict, so we are talking about Ministry of Commerce, the CMA, Central Banks, Basel Committee (for banks), risk reduction, and with all of that, neither owners nor administrators were able to catch the aggressive side of investors which is greed, power, and avariciousness and such bad behaviours. Although I personally hate bureaucracy, it serves in reducing the risk and gamble of

the investor (and the administrator if we take it from a positive side in this case).

Thus, it is important to comply with CG and implement its rules properly in order to avoid such crisis. This can be emphasised through educational schemes and raising awareness because the topic of CG is still in its early stages in Saudi Arabia, as revealed by some respondents.

7.6.1.2 Family

The theme ‘Abuse’ which mostly comes in the form of selecting board members is the most frequent topic that was mentioned by respondents at 52%. Appointing family members onto the board of directors seems to be a clear dilemma in listed firms which can have a direct impact on the market in terms of control (decision making), conflict of interest, entitlement (separation of ownership and control), and resistance. For example, some interviewees note that the selection of board members before applying CG in 2006 was based on family, blood, and other relationships which can be considered as an abuse. A number of respondents observe that this is a major aspect that CG addresses. Others point out that this aspect is gradually disappearing after CG was applied on listed companies.

‘Conflict of interest’ is also a big issue as it was mentioned frequently by respondents at 39%. Some respondents consider it as a major aspect that should be handled and clarified more to give the sense of distinguishing between family firms and public ones. A third theme which was also mentioned frequently by the respondents at 34% is ‘control’ which comes mostly in the form of decision making. Decisions made by the management,

especially if they are family members, can have a large impact on the market which can create a conflict of interest. For instance, a number of interviewees highlight that family members think that decisions are personal and of interest to the family too, not only shareholders. More clarification and awareness can be helpful in this case.

The fourth theme which was mentioned frequently by the respondents at 21% is 'resistance'. This resistance can have different forms as described previously. This resistance could occur when separating ownership and control because family members are unable to exercise whatever they want and like as before. They are being controlled and scrutinised by the regulators. The role of the CG division within each company is then to bring all the different views together and work as a consultancy body, as noted by P4 from Services-2.

The last theme which was mentioned by a few interviewees at 17% is 'entitlement' which comes in the form of separation of ownership and control. Although it was mentioned a few times by the respondents, it forms a big challenge in the continuation of family firms that want to become public ones, as observed by P12 from the CMA. This theme can have a clear influence on decision making, conflict of interest, abuse, and may cause resistance.

7.6.1.3 Kinship

The theme 'Abuse' which can mainly come in the form of independence was mentioned by a number of respondents at 21%. Relatives from the first degree must be independent from control, in this case, to comply with CG rules. This theme can have an influence on control (decision making) and cause a conflict

of interest. The other theme that was mentioned frequently by the respondents at 21% is 'control' which mostly comes in the form of decision making. It has a similar format to the control of family which can have an impact on the market by causing a conflict of interest.

7.6.1.4 Religion

The theme 'Association' that comes in the form of similar principles between the religion and CG was mentioned frequently by the respondents at 30%. These shared principles that were mentioned by respondents are trust, credibility, justice, honesty, sincerity, proficiency, transparency, disclosure, protecting shareholders' rights, penalties (punishments), cooperation, fair competition, advice giving, not cheating, not harming, and no obscene profit. This can lead to achieving a CG objective which is protecting shareholders' rights that are also supported by the religion, as perceived by a number of significant social actors. The other two themes 'implementation: supportive role' and 'Sharia compliant' were mentioned equally by the respondents at 26% for each. The religion supports and motivates CG in order to accomplish the CG objective which is shareholders' protection. Sharia-based companies find it easy to comply with a CG system because of similarity in principles. Both themes can be associated with the 'association' theme.

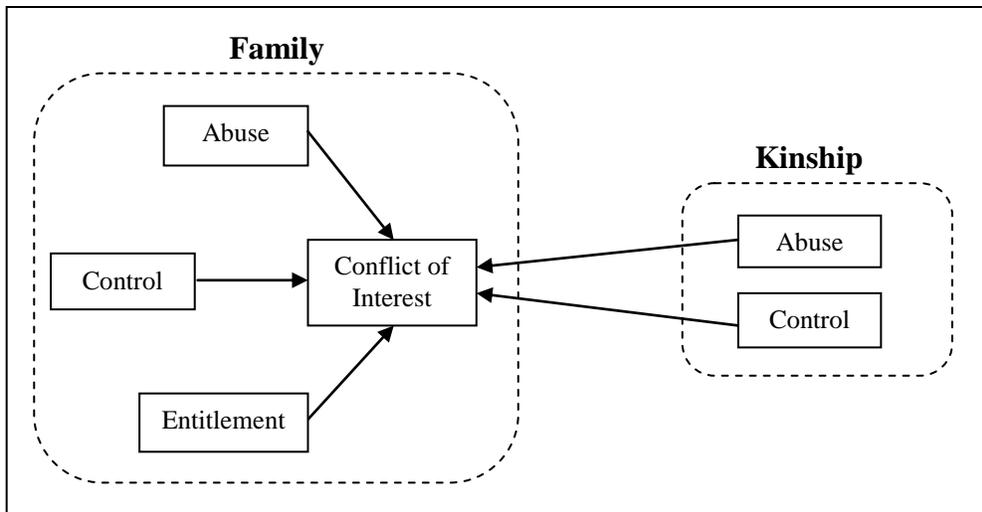
7.6.1.5 Outcomes

From the above evaluation, it seems that there are some causes for 'conflict of interest' which can be summarised in the following table.

Table 7.5: The Causes of Conflict of Interest

<i>Themes</i>		<i>Frequency</i>
1.	Family Abuse (selecting board members)	52%
2.	Family Control (decision making)	34%
3.	Kinship Abuse (independence)	21%
4.	Kinship Control (decision making)	21%
5.	Family: Entitlement (separation of ownership and control)	17%

Figure 7.1: The Causes of Conflict of Interest

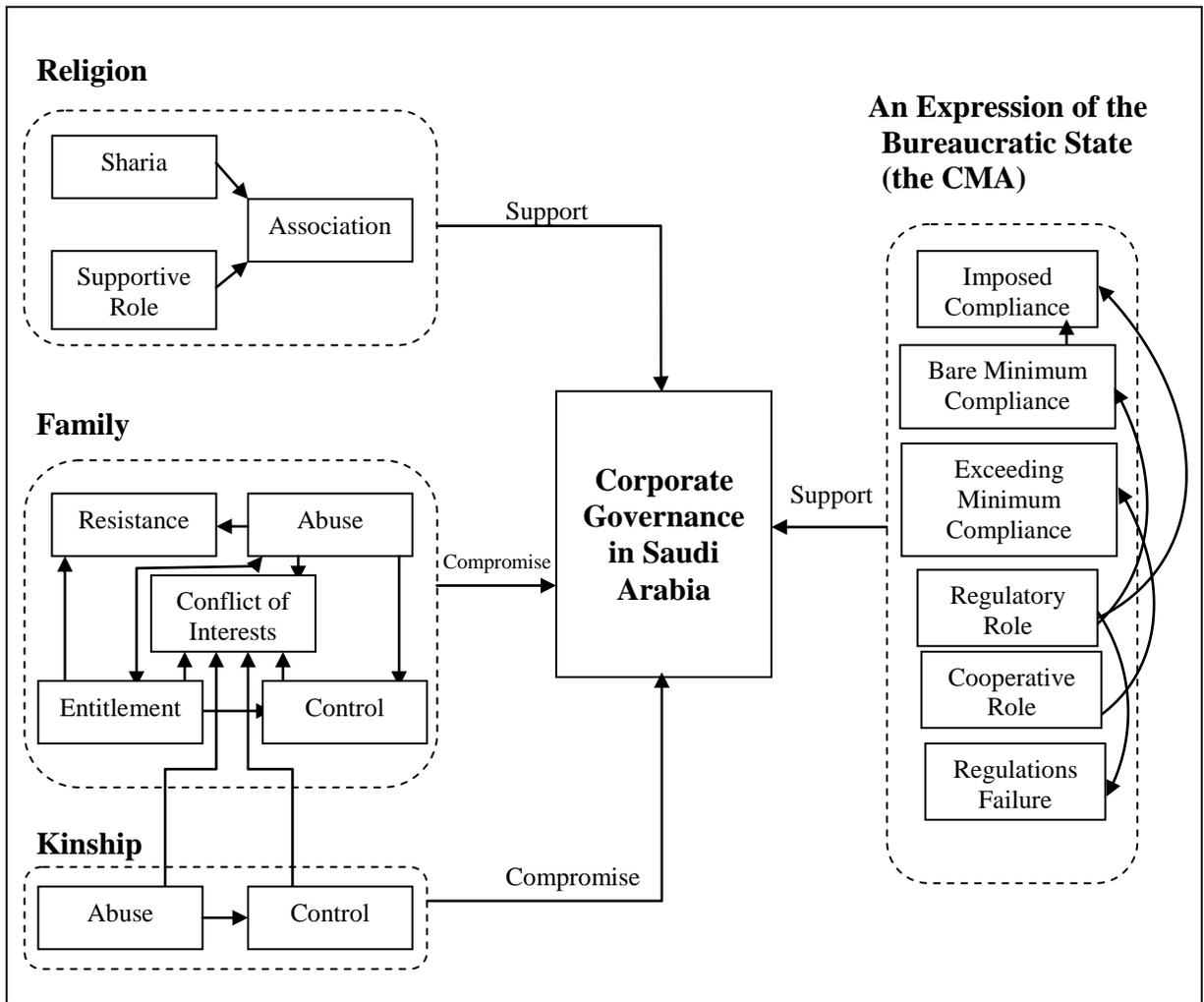


In conclusion, when looking at the causes of conflict of interest (please see Table 7.5 and Figure 7.1), it seems that family abuse scores the highest at 52%, through appointing members of the family onto the board of directors which may cause a conflict of interest. Also, family control through decision making, which scored 34%, may cause a conflict of interest. Moreover, kinship influence through abuse (independence) and control (decision making) that may cause conflict of interest share similar percentages at 21%. Finally, separation of ownership and control (entitlement) which may cause conflict of interest scored 17%.

7.7 Cross-links among Institutions

Based on the associated themes in Table 7.1 and the discussion in the previous section of the causes of conflict of interest, the following diagram, Figure 7.2, is drawn to illustrate these relationships.

Figure 7.2: The Influence of Institutions on CG



It has been noticed that there are some cross links between institutions (please see Figure 7.2). These cross links arise between the themes of each institution. Therefore, this diagram is drawn to summarise all the relationships between

institutions and their themes. It appears that there is a relationship between family institution and kinship institution and they both compromise CG as per the previous evaluations. It also appears that the religion institution does not have any relationship to the family or kinship institutions because the religion institution has a supportive role to CG.

By looking precisely at the family institution in Figure 7.2, it can be seen that 'conflict of interest' appears to be a central one and is attached to five arrows. Three arrows come from three themes in the family institution, namely, 'abuse', 'control', and 'entitlement', and two arrows come from two themes in the kinship institution, namely, 'abuse' and 'control'. Thus, 'conflict of interest' appears to form the most important theme that impacts CG and is caused by the family and kinship institutions that was recently proved when the data were quantified. This reveals that 'bad' behaviours of family members and their relatives can cause a conflict of interest that does not serve all parties, such as shareholders, employees, managers and other stakeholders. When considering 'entitlement' and 'abuse' themes, it can be seen that they affect each other, and affect the 'resistance', 'control', and 'conflict of interest' themes. This reveals that they both form 'bad' behaviour from family members that can create resistance to accept CG rules, make unbalanced decisions, and create conflict of interest, that do not protect shareholders' rights.

When looking at the kinship institution in Figure 7.2, it can be seen that two arrows from both 'abuse' and 'control' go to 'conflict of interest'. This means that the 'bad' behaviour of relatives can cause a conflict of interest as noted above. It can also be seen that an arrow goes from 'abuse' to 'control'. This

reveals that if the relatives are not independent from control, they can affect the decision making within the firm. Therefore, CG requires independence of these relatives to avoid such problems.

When considering the religion institution in Figure 7.2, it can be seen that 'association' is attached by two arrows that come from 'Sharia' and 'supportive role'. As CG principles are compatible with the religion's principles, which mean that CG has similar principles to the religion as perceived by the respondents, it seems to be easy for listed firms to apply Sharia law and comply with it, which is optional and not compulsory by law. In addition, as CG shares similar principles with the religion, it can be said that religious observance has a supportive role for people to implement CG rules and comply with them in order to achieve CG objectives, which their religion expects.

When looking at the CMA in Figure 7.2, it can be seen that the CMA plays the regulatory role with firms that consider CG as an imposed compliance and firms that only comply with the bare minimum. This shows the role played by the CMA with less responsive companies to a CG system in which the CMA imposes penalties and warnings to those firms. The figure also shows that the CMA plays the cooperative, awareness, and partnership role with firms that exceed minimum compliance of CG in which these firms show an interest and self-motivation to comply with both optional and mandatory items of CG. This indicates that the CMA deals with listed firms based on their willingness to implement CG rules. The self-motivation of a firm can lead to the minimum compliance of CG being exceeded as can the supportive role which is inspired by the religion (please refer to Table 7.1). It can also be seen from

Figure 7.2 that the regulatory role can cause regulations failure due to the lack of training, background, and knowledge of CG in the market. This reveals the need to raise awareness the subject of CG.

To sum up, based on the three types of analyses (comparing, quantifying, and determining relationships), it seems that family and kinship institutions have a negative influence on the development of CG in this context, the religion institution has a supportive role to the development of CG, and the CMA is the body that supervises the implementation of CG through its different roles. Furthermore, the quantifying analysis shows that ‘conflict of interest’ is the main aspect that compromises CG caused by family and kinship institutions. Therefore, these suggest that the matter of CG is influenced by family, kinship, religion and an expression of the bureaucratic state.

7.8 Summary

This chapter has focused on describing, evaluating, interpreting, and analysing of the data collected from semi-structured interviews with significant social actors in the Saudi Arabian non-Western, emerging context. Thematic analysis was used to analyse and interpret the data collected from the interviews, where this approach is a flexible tool for obtaining productive, dense, and a detailed account of the data. The process of conducting the analysis was started by creating a table that includes key institutions, emergent themes, examples (evidence), initial interpretation, and associated themes. The frequently mentioned ideas were identified as emergent themes. Each group of associated themes represent a key institution. The emergent themes were analysed, interpreted, and evaluated and as a result, prolific inferences were obtained.

The findings suggest that the regulatory authority, represented by the Capital Market Authority as an expression of the bureaucratic state through its themes, emerged as an institution that influences the emergence and development of CG in the Saudi Arabian non-Western, emerging society in a supportive way. The religion in this society has a supportive influence too. Both the family and kinship institutions, through their emergent themes, impact the development of CG in a negative way in this non-Western, emerging context. A comparative analysis was conducted to show the frequency of emergent themes among the entire sample. This analysis revealed that family, kinship, religion, and the bureaucratic state institutions were the frequently mentioned institutions by the significant social actors. Whereas politics, legal, and market institutions did not show any frequency by the participants. This frequency of emergent themes was quantified in order to infer meaning, explore usage, illustrate the data, show better insight, and gives a sense of the number of firms that raised similar observations. This quantification offered considerable insight in that it explored a number of causes of conflict of interest caused by both family and kinship institutions. In the family institution, the themes: abuse (selecting board members), control (decision making), and entitlement (separation of ownership and control), appear to have a greater influence and considerable causes of conflict of interest. In the kinship institution, the themes: abuse (independence) and control (decision making) appear, to a large extent, to cause a conflict of interest. The influence of institutions through their emergent themes was drawn in Figure 7.2 and cross-links among institutions were illustrated to show a summary of all the relationships of institutions along with associated themes.

The observations from this research study did not capture any potential relationships between the bureaucratic state and both the family and kinship institutions in favour of the argument that the CMA treats firms with family backgrounds differently from those firms who do not have any family background. So it does not appear that the CMA plays, for example, the regulatory role with listed firms that have a family background nor does the CMA play the cooperative role with non-family background listed firms. This observation has not been captured in this research study and, thus, there appears to be no relationship between the bureaucratic state and both family and kinship institutions in this regard.

The annual reports of listed firms played an important role in assisting analysis as the reports offered a broad picture of the situation and helped in the understanding of a number of issues. This has helped the researcher, in some cases, to obtain a better interpretation. For example, when looking at the annual report of Services-1, it can be observed that this firm looks towards gaining greater legitimacy through following best practice. The perception of P2 from Services-1 indicated that the task of the CG department in his firm is to apply the highest standards suggested by the CMA as long as these rules are compatible with protecting shareholders and do not affect the nature of work. This example revealed how annual reports added more validity to the evidence through indicating similar tendencies. The next chapter presents the second stage of data analysis of the follow-up interviews with significant social actors.

Chapter 8: Second Stage of Data Analysis: Development

8.1 Introduction

The previous chapter provided inferences and interpretations of the collected data from semi-structured interviews to investigate the influence of institutions on the development of CG as perceived by significant social actors. This chapter aims to provide further interpretations to the emergent themes from the first stage of data analysis and make further inferences in order to validate the findings that arose from this stage of the study.

This chapter offers further observations and interpretations of the data based on seven follow-up interviews with a group of firms that were interviewed in the first stage (see Table 8.1 below). It was an opportunity to discuss the emerging ideas and findings with the respondents and observe their viewpoints and perceptions while gaining respondent insights into the relevance of the themes emerging from the first stage of analysis. Therefore, using the technique of follow-up interviews, the intention is to provide further insights and better understanding into the findings so far, such that a greater depth of analysis and evaluation of the data gathered qualitatively is achieved. Additional understanding into the impact of institutions on the development of CG is the desired outcome. This approach is consistent with ideas by Creswell (2009), who indicates that collecting and analysing follow-up qualitative material, such as additional interviews, is beneficial in exploratory research to explain and interpret initial findings.

This chapter is divided into three sections. Section 8.2 presents a ‘meta-narrative’ of the data collected from the second stage of interviews which is an overarching account by the author. Section 8.3 shows the amendments made to the cross-links among institutions and their emergent themes. The last section, 8.4, summarises the chapter.

Table 8.1: Follow-up Interviews’ Details

#	Date	Organisation	Place	Position	Rank	Length	N/V
1	27 Aug 12	Services-2	Work	CG & Compliance Manager	MMT	60 min	Voice
2	27 Aug 12	Industry-2	Work	Director of Accounting and Internal Auditing	SMT	45 min	Voice
3	29 Aug 12	Insurance-1	Work	CG & Compliance Manager	MMT	60 min	Voice
4	29 Aug 12	Industry-1	Work	CG & Compliance Manager	MMT	60 min	Voice
5	29 Aug 12	Bank-1	Work	VP & Head of Compliance Division	SMT	60 min	Voice
6	05 Sep 12	Services-1	Work	CEO	TMT	30 min	Voice
7	05 Sep 12	Bank-4	Work	Deputy Head, Financial Dept.	SMT	45 min	Voice

8.2 Meta-narrative

This ‘meta-narrative’ section is an overarching account by the author of this research study. It provides further description and evaluation to the emergent themes from the first stage of data analysis supporting them with evidence from the follow-up interviews. Moreover, it assists in identifying any additional emergent themes that may have bearing on this research study.

8.2.1 An Expression of the Bureaucratic State

The emergent themes under this institution (six themes) were discussed with significant social actors. This institution, as mentioned previously, is represented by its key actor The Capital Market Authority (CMA) as it is the only regulator body for stock exchange in Saudi Arabia. The two main emergent aspects of ‘compliance and implementation’ were discussed with the respondents and some issues arose during this stage of analysis.

With regards to implementation which consists of two themes, namely, the regulatory role, and the awareness/cooperative/partnership role, P2 from Services-1 adds on the roles played by the CMA to become three roles: (1) the regulatory role, (2) the awareness/cooperative/partnership role, and (3) the observer role. So the third one is added by P2 in order to complete the picture of the roles played by the CMA in the implementation. The observer role refers to tasks of the CMA that lead to monitor and watch how listed firms apply, implement, and comply with CG rules. This role did not emerge in the initial analysis because it was inferred that the regulatory role covers all these tasks but P2 perceives that it is a separated role and should stand by its own. P2 expresses that the observer role is an important one because it helps in determining whether the rules and regulations are being applied and implemented as required or not. Through the observer role, the CMA develops a common sense of when it is required to turn optional items to mandatory ones based on the efficiency of CG in listed firms that are being observed by the CMA and the extent to which firms are engaging in the broad spirit of its regulations. This is thought to be a helpful way to reduce

transaction costs caused by less or non-responsive firms from a new institutional economics perspective.

Two interviewees (P6 from Industry-1 and P14 from Bank-4) note that they do not perceive the different roles played by the CMA in their firms. They believe that the CMA deals with all listed companies equally. If they comply with CG rules of the CMA, the CMA does not appreciate them. If they do not, it punishes them. They claim that the CMA should be neutral in all its deals with listed firms because the CMA is an observer body and should stand at one distance from all listed companies. It can be inferred from this observation that the social actors have different perceptions in this regard and they look at their relationships with the CMA from different angles which may give a flavour of the implementation role played by the CMA. This can be attributed to the perception of P4 from Services-2. He points out that:

We are an incomplete economy, we are an emerging economy.

Thus, it can be implied that the emerging nature of the economy means that CG is a difficult notion to exercise because its broader institutionally-accepted behaviours are still in formation in this context which refers to the problem of competing standpoints from different institutions (e.g., family). Thus, CG in this society is still in its first steps and needs to be developed and further improved in order to draw a better understanding for the relationships between different parties that are involved in applying, implementing, and complying with CG rules and regulations. This evidence also strengthens the views that the market of the Saudi Arabian society is also incomplete as expressed by P1 from Bank-1:

The Saudi Arabian market is not mature yet to impose its opinion [on behalf of other parties].

It can be inferred from this evidence that the market institution has no apparent influence on the development of CG in this context. In addition, there might be a minimum engagement of market institution which may imply that there is a sort of resistance to apply CG regulations on the Saudi Arabian market. These perceptions have been indicated previously when a comparative analysis was conducted in the first stage of data analysis in Chapter 7, Section 7.5 of this study.

In terms of compliance which consists of three themes, namely, imposed compliance, bare minimum compliance, and exceeding minimum compliance (best practice), P14 from Bank-4 argues that many people think that CG is an imposed system. This perception is consistent with what P3 from Insurance-1 indicates. P3 points out that:

The CMA imposes CG. Yes, it is an imposed compliance.

This view of CG can be attributed to the 'lower' understanding of social actors of CG and the objectives that CG is trying to achieve. P3 also indicates that as long as listed companies are being forced or coerced to apply and implement a CG system, they comply only with the minimum standards to avoid facing problems with the CMA and try not to exceed bare minimum compliance because they believe that CG is just an imposed system and a 'waste of time'. Stated differently, there appears to be a lack of dialogue about the relevance of CG such that its adoption is seen negatively solely in the light of additional regulation. This means that there is not any genuine interest and self-

motivation to comply with CG rules. It is only a matter of complying with written policies.

With regards to regulations failure which is an emergent theme in this research, a number of respondents, namely, P2 from Services-1, P3 from Insurance-1, and P14 from Bank-4, indicate that CG does not completely prevent financial crises and collapses but it reduces their impact and likelihood. The logic behind this is noted by P4 from Services-2. He points out that:

CG is an understanding and knowledge, not a treatment.

This evidence implies that CG is not a tool that can be used to prevent economic recessions or crises. Rather, it is an understanding of a CG culture that can be grasped by a proper education and diffused awareness of the topic. Misunderstanding of CG by concerned people may cause a conflict of interest between the owners and the board of directors, a concentrated ownership rather than a dispersed one (I will return to this in Sub-section 8.2.2), exploiting shareholders' investments, which may increase the probability of recessions, collapses and financial crises.

In summary, it can be inferred that the bureaucratic state expressed by its key actor 'The Capital Market Authority' plays an important role in the development of CG but does not completely prevent financial crises in the eyes of significant social actors. The role of this institution emerges mainly in implementation and compliance. This institution has the power to apply CG rules, watch and supervise the implementation of and compliance with CG

regulations, educate concerned people, and raise awareness on the topic of CG as perceived by significant social actors.

8.2.2 Family Ties

The emergent themes under this institution (five themes) have been discussed with significant social actors. It has been inferred that the family is still an important and sizeable reason for applying CG in Saudi Arabia as perceived by those respondents which is consistent with the observation in the first stage of data analysis.

When P6 from Industry-1 has been informed that the ‘decision making’ of the family was a frequently mentioned theme by the respondents in the initial interviews, he notes that:

Numerous companies suffer from the centrality, which is caused by the family, in a number of things, some of which is decision making. CG comes along to maintain balance.

This evidence indicates that the ‘centrality’, or the ‘accumulation’ of family members in the board of directors creates some problems or serves specific interests but not everyone’s interests as perceived by this interviewee. One major aspect is the decision making which is entirely controlled by the family members in some firms and may cause bias when decisions are made, such as decisions that serve the family’s interests without looking after shareholders’ interests. This centrality of family members is also a concern in the eyes of P4 from Services-2. He points out that:

With regards to the firms that have a centrality in the family, their CG usually focuses on how to manage and control, how to divide and distribute the shares, and how to own. However, CG of listed companies should focus on the general regulations and the relations of the shareholders and top management.

Thus, it can be observed from this evidence that there is a divergence in the focus of CG between listed companies that have a centrality in the family and other ones that do not have such centrality. P4 gives some examples of these different focuses of CG caused by the centrality of the family. He indicates that companies that suffer from the centrality of family have different orientations, such as looking after their ownership, management, and control, whereas in fact they must look after the contracts, regulations, and implementations that serve shareholders rights and protect their interests. Therefore, the ‘centrality of the family’ can be considered as an emergent theme in this research due to its importance and influence in the development of CG, and the need for it and resistance to it, as perceived by significant social actors.

When P2 from Services-1 has been informed about the influence of family institution in the Saudi Arabian CG, he indicates that:

The family has a negative impact depending on the loyalty to the CMA. They have a power in decision making because they are the majority from two sides: ownership, and being on the board of directors.

This suggests that the family institution has a negative impact on CG in the eyes of P2. This impact varies by different degrees depending on the loyalty of family members to the CMA as expressed by P2. It can be inferred that the lower the loyalty of the family to the CMA, the larger the negative impact of

the family to CG development. This is a logical outcome when the loyalty of the family to the CMA varies between companies. P2 also highlights the domination of the family in decision making since they are the majority shareholders in addition to composing the board of directors, or the majority of it. As a matter of fact, CG arose to reduce the domination of the family by applying and implementing CG rules through the CMA gradually as noted previously in Sub-section 7.3.2.2 of Chapter 7. The implication then is an almost inevitable friction between the regulatory institution represented by the CMA and the family institution which bears influence on the development of CG. The interviewees shed light on the competing nature of these institutions and in part reflect a greater battle of wills between what each see as legitimate action. To the family institution, protecting its own interests might in itself appear appropriate although to the CMA, the need to protect minority shareholders overrules such interest.

In terms of ‘selecting and appointing board members’ by the family which is an emergent theme in this research, P3 from Insurance-1 provides an example that illustrates the reasons behind this selection. He points out that:

Let’s assume that I’m an owner of a firm. It is so important for me that people under my control listen to me and have loyalty for me. Why? Because no one is going to disagree, disapprove, have any objection with me, or against me. I can pass my family’s own interests; I can raise the awards of the board members (who are family members). However, CG does not allow all of these bad practices. CG comes and says that the board members must include members with specific charisma and specific position. Also, it should include at least three independent members.

This example, as viewed by AT, explains the reasons behind selecting board members through the family in listed companies. When this selection occurs, the family is able to serve their own interests, raise the awards for their members, and control the firm through their selected members. That's why CG appeared and applied rules against these 'bad' behaviours such as creating a nomination and remuneration committee that organise the selection criteria and the awards to the board members. P1 from Bank-1 perceives another solution for controlling this selection, which is the notion of 'accumulative voting', which can limit the agglomeration of the family. The main objective of accumulative voting is to protect shareholders rights but is still not a mandatory item by the CMA. It works when minority shareholders accumulate with each other to make one vote in order to get one seat on the board of directors. However, major family shareholders do not like that and they deny it in every general assembly as noted by P6 from Industry-1. The reason behind denying this by major shareholders is that they are worried by the minority shareholders. They are worried that one of the minority shareholders becomes a member on the board of directors which, therefore, can affect the decision making. That was an example of 'resistance' by the family members (an emergent theme in this research) provided by P6 and represented an event that occurred within Industry-1.

With regards to the 'separation of ownership and control' which is an emergent theme in this research, P1 from Bank-1 perceives that there is a difficulty in separation, specifically with family firms that become public ones. He argues that:

This separation of ownership and control is more difficult when the family owns 50% or more.

It can be inferred from this evidence that the larger the share the family owns, the more difficult the separation is. CG is weak in these firms in the eyes of P1 because the domination of family members is high enough to repel the intervention of others. This seems to be an unhealthy aspect and dangerous to a large extent because it can disintegrate corporate decisions away from strategic investments towards self-serving ones if not governed or treated well.

With regards to the emergent theme ‘conflict of interests’, P17 from Industry-2 provides a straightforward example. He points out that:

When a family member, who is a member on the board of directors, establishes a restaurant inside the company, then this is an obvious sort of conflict of interest if not disclosed and approved by all shareholders in a general assembly.

MH observes that conflict of interest is a major factor influencing CG development and can be caused by the family institution in various ways because the family believes that it owns the company as perceived by MH. One of the tasks of an audit committee (which is a mandatory item by the CMA) is to make sure that there is no conflict of interest. Furthermore, a new policy called ‘the policy of conflict of interests’ is issued by the CMA in order to reduce the impact of this aspect. P14 from Bank-4 points out that:

There is something new called: the policy of conflict of interests. So there should be a policy of conflict of interests inside any listed company and the company should inform the CMA about it on a regular basis.

This evidence implies that the CMA is working hard towards eliminating this aspect by applying this rule and makes it mandatory for all listed companies. P17 from Industry-2 notes that the external auditors should write down a

separate report on conflict of interest. This is one of the items that has been improved since last year (in the initial interviews), where P17 points out that “there is an improvement since we met last year”. The outcomes from the first stage of analysis showed that ‘conflict of interests’ caused by the family institution is a major factor impacting on the continuation and success of a company as the owner (the family) wants to maximise the profits, but the manager wants to serve his own interests. More to the point, the outcomes showed that ‘conflict of interests’ is caused by a number of emergent themes from both family and kinship institutions (see Figure 7.1). At present, the investigation in the second stage reveals that the CMA asked all listed companies to submit the ‘policy of conflict of interests’ and made it a mandatory item. This action of the CMA is in line with the findings and observations from the first stage and demonstrates how the system has improved since the initial interviews earlier. Thus, this reveals the importance, relevance and influence of ‘conflict of interests’ on CG development.

In summary, it can be inferred from the above evaluation that the family institution plays a negative role in the development of CG in the eyes of significant social actors which has been revealed in the first stage of data analysis. This role of family institution emerges on a number of aspects such as, entitlement (separation of ownership and control), control (decision making), abuse (selecting and appointing board members), resistance to change, and conflict of interests.

8.2.3 Kinship Networks

The emergent themes under this institution (two themes) have been discussed with significant social actors. Some respondents still perceive that kinship is an extension to the family ties due to the nature of culture in this country and as observed in the first stage of data analysis.

When P4 from Services-2 was informed that kinship is an emergent institution in the first stage of data analysis, he indicates that there is a dichotomy between Saudi Arabia as a non-Western, emerging society and Western countries as developed societies. He points out that:

Ownership system in the USA and Europe is dispersed not concentrated as in Saudi Arabia, where we have individuals who are major shareholders.

KD signals to the problem of ownership in Saudi Arabia as it is centred on specific individuals (majority shareholders) not dispersed to minority shareholders. Based on this observation, P4 adds:

Decision making in the dispersed ownerships such as the USA and Europe is made by minority shareholders [most of the time], but here in Saudi Arabia, it is made by majority shareholders.

It can be inferred from both evidences above that P4 raises the implications posed by ownership systems at different levels of society. He attributes all the problems of family and kinship institutions, such as entitlement and control, to the broader notion of an ownership system in a society. This is logical, to an extent, because when the majority shareholders dominate and control the

decision making (the first emergent theme) in any organisation, they can more easily abuse the system, resist change, and create conflict of interest when making decisions. There is a danger in the rhetoric put forward by some respondents that such negative outcomes are inevitable, but rather it is the looseness of CG that creates opportunities for such unfortunate events to occur. Therefore, the matter of ownership seems to be influencing the development of CG and needs to be governed as perceived by KD.

In terms of the independence of board members (the second emergent theme), P1 from Bank-1 argues that the existing regulations are insufficient. He provides an example about some close relationships such as nephews, cousins, sisters' husbands, and any others who do not hold the same family name and are being appointed as board members where it is harder to discover that they are relatives of the family. So these selections are not based on qualifications in the eyes of P1. This perception has also been observed by P17 from Industry-2 when he was talking about kinship institution and claims that kinship has an impact on CG even if the relation is from the second or third degree. These are the drawbacks of kinship institution on CG as perceived by significant social actors and may influence the development of CG.

8.2.4 Religion

The emergent themes under this institution (three themes) have been discussed with significant social actors. It has been inferred that the religion has a supportive role to implement CG due to the compatibility of principles of both the religion and CG in this context, as perceived by the respondents.

When P6 from Industry-1 has been informed that the religion is a significant institution that influences the development of CG, he indicates that:

CG did not come up with something new to us. The principles and ethics of the religion are far better than CG, and they outperform CG. For example, justice, freedom, equality, and transparency, are all principles of the religion.

This evidence implies that CG and the religion share many important principles (an emergent theme in this research) that help to protect the firm's assets and the shareholders' rights. Having said that, people in this context should be familiar with these principles and ethics and the focus should then be on how to implement CG rules in the correct way. It is worthwhile now to note that:

The religion does not ask for CG, but it asks for the ethics and values that CG is compatible with. (P4 from Services-2)

It can be inferred from this evidence that CG is not something required by the religion in this society in terms of any institutional pressure or provision it may apply but rather the notion of CG itself is aligned with religious teachings and values. The religion asks for and emphasises on anything that leads to protect people and their rights. P2 from Services-1 provides an example of how the religion has a supportive role to CG (an emergent theme in this research). He points out that:

A person's conscience leads him not to manipulate. So the religion is a motivator to implement CG in this case.

The evidence implies that people's internal sense of right and wrong that is, their 'moral compass', could motivate them to comply with CG (although it varies by each person for many potential reasons—knowledge, education, experience, etc.) because they have self-motivation to comply with the rules of the religion as viewed by P2 owing to the overarching importance and significance of religion in the Saudi Arabian culture. This evidence cannot be generalised to the whole society but it gives a sense of how the religion can have an influence on the development of CG in this context in the eyes of significant social actors. In itself, it may serve as a basis to legitimise the broader objectives of CG and its associated regulations.

With regards to compliance with Sharia-based law which is an emergent theme in this research, P3 from Insurance-1 reveals that it is optional for any firm whether to comply with Sharia-based law or not and the board of directors is the one who makes this decision. P3 notes that they comply with Sharia in all their contracts and loans in Insurance-1. They seek an external Sharia board that consists of at least three specialists to review all their products and investments and determine whether these products and investments are compatible with Sharia or not. This practice increases the trust from a large proportion of their customers as these customers prefer and are interested in products that are compatible with Sharia as perceived by P3.

In summary, it can be inferred from the above evaluation that the religion institution plays a supportive role in the development of CG in the Saudi Arabian non-Western, emerging society in the eyes of significant social actors. This role of religion institution emerges on a number of aspects such as,

association (similar principles), implementation (supportive role), and compliance (Sharia-based compliance).

8.3 Amendments on Cross-links among Institutions

The following figure will show the amendments occurred subsequent to the second stage of data analysis. It consists of the four key institutions: family, kinship, religion, and an expression of the bureaucratic state, along with their emergent themes and the cross-links between these themes.

Figure 8.1: The Influence of Institutions on CG (amended)

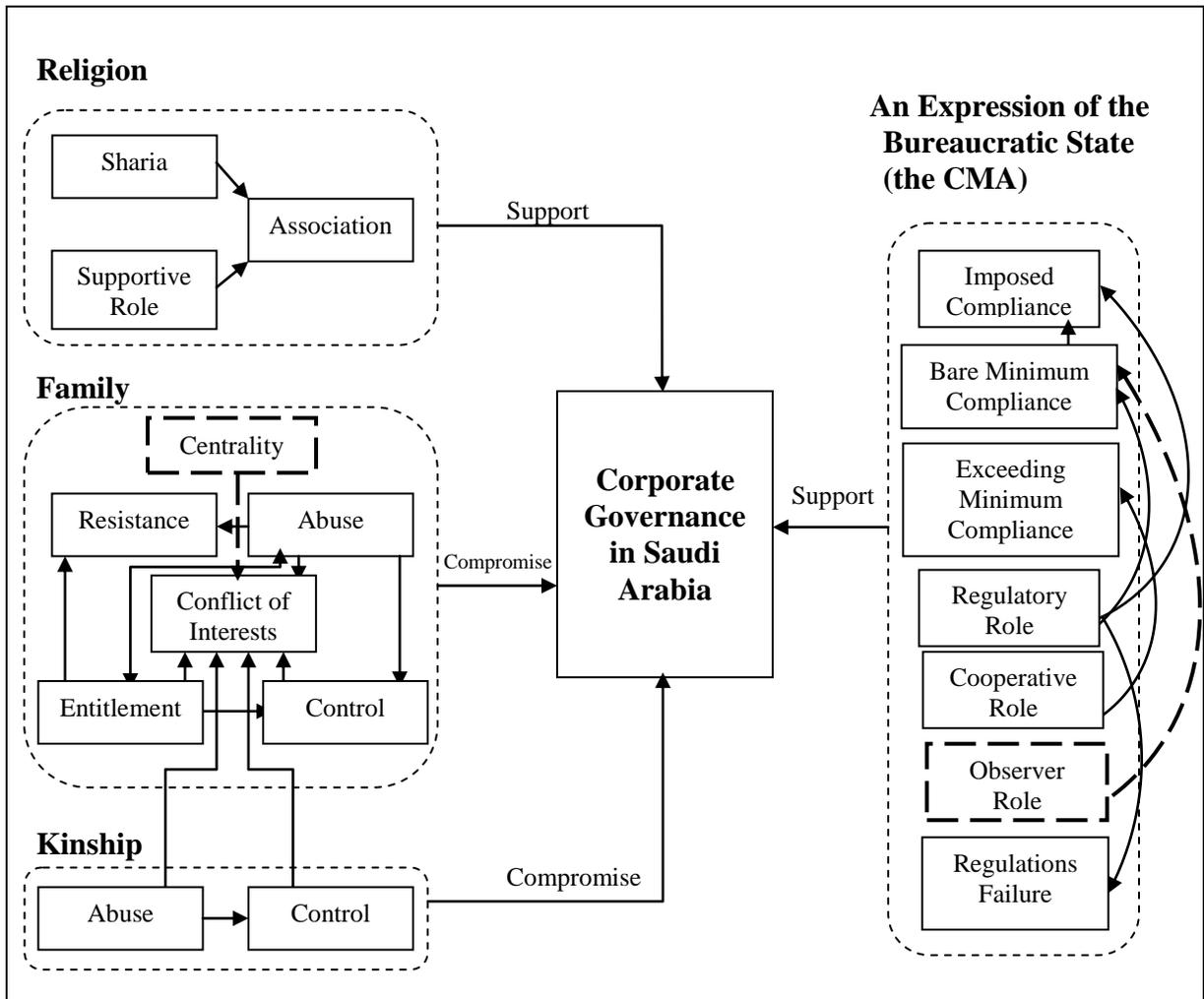


Figure 8.1 shows the cross-links between the emergent themes in each institution. These cross-links have been evaluated and presented previously in the first stage of data analysis in Section 7.7. Moreover, Figure 8.1 shows the additional emergent themes (shown with bold dashed lines) from the second stage of data analysis. There are two additional emergent themes, the first one is in the family institution, and the second one is in the expression of the bureaucratic state institution, namely, centrality and observer role, respectively. The relations of these two additional emergent themes with other themes and their impact on the development of CG will be presented as follows.

The first additional emergent theme is the ‘centrality’ in the family institution that has an arrow going to ‘conflict of interests’. This reveals the negative impact of family institution which may cause a conflict of interest when there is a centrality in ownership and not dispersed. This conflict of interest is an unhealthy aspect in any society because it can be a major reason for business failures and financial crises.

The second additional emergent theme is the ‘observer role’ in the expression of the bureaucratic state institution that has an arrow going to ‘bare minimum compliance’. This reveals that this observer role, played by the CMA, can make listed firms feel that they are under watchful eyes which cause these listed companies to comply with bare minimum as a worst case scenario. So this practice motivates these listed firms if they do not have self-motivation to apply, implement, and comply with CG rules.

8.4 Summary

This chapter is an attempt to validate the model evaluation proposed earlier in the first stage of data analysis, based on the perceptions presented by significant social actors to investigate the influence of institutions on the development of CG in the Saudi Arabian non-Western, emerging society. In general, the inferences from the follow-up interviews offered indicative support for the initial propositions in the first stage of data analysis as revealed throughout the chapter. This is by determining what Saudi Arabian non-Western, emerging society institutions consist of such as, politics, legal, market, bureaucratic state, family, kinship, and religion, as perceived by significant social actors and what the likely influences of these institutions are on the development of CG in this context.

Chapter 9: Discussion

9.1 Introduction

The previous chapter has offered further interpretations to the collected data from the second stage of interviews. The most important objective of this research was to explore the impact of institutions on the development and emergence of the CG system as perceived by significant social actors in a non-Western, emerging context from an institutional theory perspective. Thus, the task of this chapter is to cover the following points: (a) summarise the main observations, (b) interpret the main observations, (c) discuss the importance and relevance of the observations, and (d) discuss the outcomes in light of the pre-existing literature (e.g., support or challenge previous studies). The discussion of the outcomes from this research study will mainly be compared with existing research in emerging societies. However, some examples from developed societies will also be offered whenever there is a lack of research in emerging societies in order to draw judgements about the meaning and relevance of the findings.

This chapter is structured in four sections in order to discuss the observations from this research study. Section 9.2 discusses family institution, Section 9.3 kinship institution, Section 9.4 an expression of the bureaucratic state, and Section 9.5 religion institution.

9.2 Family Institution

The subject of family institution has been discussed extensively in the literature in developed societies due to its importance and influence on a variety of phenomena, some of which includes corporate governance. However, this discussion is lesser to an extent in emerging contexts. The influence of family institution varies from one society to another based on the classification of the society, whether it is a developed, an emerging, or a developing society. The reason is that each class in general and a society in particular has its own nature of family institution that may affect its development in various ways. For example, the literature indicates that informal institutions, such as family and kinship, are dominant in emerging societies due to robust family and kinship relationships and lack of complying with the rules in these contexts (Young et al., 2008). This explains the importance of family institution in this study, as an informal institution, as the research setting of this study is Saudi Arabia which can be considered as a non-Western, emerging society with robust family and kinship institutions. In light of this, the following sub-sections will discuss the different influences of family institution on the emergence of the CG system that emerged from this research study.

9.2.1 Entitlement (Separation of Ownership and Control)

A number of respondents mentioned the theme of entitlement in relation to ownership and control in the first stage of interviews and noted that it is an unhealthy feature and challenge to the emergence and establishment of a rigorous CG system in the Saudi Arabian non-Western, emerging society. This

suggests that the separation of family ownership and control is a major challenge to the controlling family in this context which may affect the continuation of the firm as perceived by P12 from the CMA. Furthermore, P1 from Bank-1 emphasised the challenge of separating family ownership from control in the second stage of interviews by arguing that it is more difficult when the family owns 50% or more of the shares in a firm to encourage or enact voluntary change. Failing to attain separation of family ownership and control may cause a conflict of interest between the management, the owners, the shareholders, and other stakeholders, which may have a negative impact on CG practices in non-Western, emerging societies. At the very least, it is likely to lead to minimal or token implementation of CG as opposed to a greater voluntary buy-in into its principles and intentions. This observation seems important, because there has been an increasing investigation in the literature on the extent of separation of family ownership and control and its potential impact on CG practices. For example, a study conducted in emerging societies by Claessens et al. (2000) to review a number of features of East Asian corporations such as ownership concentration of families. They observe that family control has a negative impact on firm performance due to the influence of ownership concentration of family on driving the relationship between performance, cash-flow, and control rights that affect the efficiency of CG. Family control seems to be playing an important role in the relationship between firm value and ownership structure. In addition, it explains the negative relationship between control rights and market valuation. It can be inferred that ownership concentration of families does not serve CG implementation in emerging societies due to its negative impact on firm performance, cash-flow, control rights, and market valuation that are

associated with CG efficiency, as understood from Claessens et al.'s (2000) study.

The above observations can be contrasted markedly with the study of Ben-Amar and Andre (2006) into Canadian firms. These authors studied the relationship between ownership structure and acquiring firm performance in the context of ownership concentration and separation between ownership and control rights. They did not observe that separation of ownership and control has any negative impact on the performance of Canadian firms and, thus, on the development of CG because dominant shareholders often undertake less risky projects as their wealth invested in the firm increases. It can be implied that CG works better in developed societies because ownership is dispersed and not concentrated as in emerging societies. Ownership in emerging societies tends to be concentrated due to the overwhelming dominance of family institution of a culture's history and legacy. P4 from Services-2 highlighted this issue in the second phase of interviews. He pointed out that:

Ownership system in developed countries is dispersed not concentrated as in Saudi Arabia, where we have here [in Saudi Arabia] individuals who are major shareholders.

This evidence explains why CG tends to work better in developed societies as the ownership system is dispersed. Also, it shows that this non-Western, emerging context has a high family ownership concentration that creates barriers and resistance to the acceptance of CG regulations. This may imply either staggered implementation and acceptance, or bare minimum compliance with CG instead of embracing its principles, which shows the influence of

family institution on CG practices. The institutional background of family members appears to allow them to behave in a selfish way in their firms such as overseeing their own interests and ownership without caring for non-family members' interests. These behaviours of family members play a role in impacting the emergence of CG regime in this non-Western, emerging society context.

From the above discussion it can be inferred that the separation of ownership and control is still a primary dilemma in emerging societies due to the strong family domination which is a main reason for poor minority shareholders protection and poor CG implementation. The observations from this research study appear to offer support to the argument that the family institution has a negative impact on the development of CG and this can be observed in the separation of ownership and control. Generally, crossing the threshold from founding family management to professional management is difficult even in the best of circumstances (Daily and Dalton, 1992; Zahra and Filatotchev, 2004; Young et al., 2008). This difficulty appears to be greater in emerging societies where difficult-to-enforce contracts make it risky for founders to return the reins over to outsiders (Ahlstrom et al., 2004; Young et al., 2008). Taiwan, an emerging society, has some owners who begun to dilute their holdings and reduce their control by selling to institutional investors and bringing in outside management, albeit with mixed results (Filatotchev et al., 2005; Liu et al., 2006; Young et al., 2008). Entitlement of the family shows a socially informed view of family actors as deeply enmeshed in a system of norms and relations that is culturally constructed in this context (Fiss, 2008).

9.2.2 Control (Decision Making)

Burch (1972: 29) stated that:

If an individual, a family or a group of families owns 4% or more of voting stocks and has representation on the board of directors, the company is deemed to be family controlled.

The above statement illustrates when a firm can be considered as family controlled in Western societies, however, it should be over 50% to be considered as a family controlled firm in the context of Saudi Arabia, as perceived by P1 from Bank-1. This control manifests itself mainly through decision making, which may or may not serve all parties' interests, depending on the institutional forces of family institution. A group of respondents mentioned this theme in the first stage of interviews and reported the need to govern it. This suggests that numerous firms suffer from family domination and centrality mainly through decision making as perceived by P6 from Industry-1. Moreover, family listed firms believe that the decisions are personal and of interest to the family only and not to shareholders because they mix between public and private ownership or interests as expressed by P1 from Bank-1. Mixing between public and private ownership (e.g. PLC versus LTD) is a problem and can be attributed to the lack of awareness and knowledge about the nature of public firms. In effect, the controlling family may make decisions that serve its own interests and not everyone's broader interests, which in turn, could lead to expropriation of shareholders' wealth and potentially create moral hazards. The stronger the family control, the larger the influence of this aspect of family institution on the emergence of CG systems. It has also been observed that time plays a role in changing the

degree of family control. With the increased control of the CMA over time, family domination is reduced.

The above perceptions appear to be important as family control has been discussed largely in the literature and by scholars from across a variety of fields owing to its broad impact, scope and reach. This relevance primarily views institutions as inherently about the role of power and control, where power and control relations lie at the heart of CG (Fiss, 2008). Numerous studies conducted in developed societies indicate that family control (mainly through decision making) has a positive impact on CG (mostly but not always), firm value, and firm performance (Mishra et al., 2001; Becht et al., 2002; Mustakallio et al., 2002; Bartholomeusz and Tanewski, 2006; Villalonga and Amit, 2006). However, this is not the case in emerging societies, where a number of scholars argue that family control has a negative impact on CG, firm value, or firm performance because the family prefers to advance its interests at the expense of non-family shareholders (Chen and Jaggi, 2000; Morck and Yeung, 2004). For instance, a study conducted by Morck and Yeung (2004) to discuss family control in emerging societies and two developed societies, namely, the United Kingdom and the United States, reported that many firms from different emerging societies have controlling shareholders such as wealthy families. This means that the managers (mostly family members) serve the interest of those wealthy families, not the interest of public shareholders, as is the case in the United Kingdom and the United States. Carney (2005: 251) supports this idea by reporting that “due to the ownership of the family, family members enjoy certain control rights over the firm’s assets and use these rights to exert influence over decision-making processes in an organization”. The intense reliance on family members and the

absence of trust in professional managers can have negative implications for corporate governance, such as corruption, moral hazard and self-interest at the expense of non-family members. Morck and Yeung (2004) attribute this problem to poor education systems in emerging societies which constricts the supply of competent managers. It can be observed that institutions play a remarkable role in emerging contexts, where supplying proficient and capable managers from family members, who can make appropriate and less risky decisions, is an acute problem in these contexts.

The observations from this research study also suggest that the family has near-dominant power in decision making. This is because they are the majority from two sides: (1) ownership and (2) forming the majority of the board of directors. Thus, the extent of family impact on the acceptance of an emerging CG regime depends on their loyalty to the CMA. The lower the loyalty of the family to the CMA, the larger the negative impact of the family to CG development. This impact can mainly appear in the decisions made by board members from the family that may only serve specific interests which contradicts the objectives of CG. This observation is also important, because it adds to the field by offering additional support to previous work by Yeh et al. (2001) in a sample of Taiwanese listed firms (an emerging society) to analyse family control and corporate governance. The findings from their study suggest that family-controlled firms with high levels of control have lower performance than family-controlled firms with a low level of control. The results also suggest that firm value is higher when the controlling family holds less than 50% of a firm's board seats. These findings indicate that an increase in family control could reduce firm performance and firm value through making improper or less effective decisions. This implies a decline in CG

efficiency caused by family institution in this emerging context, since moral orders form the foundation of governance system and are represented by power and control that influence the formation of a CG system (Fiss, 2008). Thus, family control in such a context intrinsically shapes the pattern of the CG system depending on the strength of this control. It can be seen that the controlling family seek a form of pragmatic legitimacy (Deephouse and Suchman, 2008) which is mainly based on actor's self-interest, believing that controlling the firm is the best for all parties. However, this guarantees their survival only and neglects other parties' interests.

9.2.3 Abuse (Selecting and Appointing Board Members)

The majority of respondents mentioned this theme during the first stage of interviews and noted the need for additional guidance from the regulatory authority for selecting board members. This suggests that family listed firms are trying hard to aggressively dominate the board of directors through selecting and appointing family members onto the board in order to maintain their domination over decisions and interests. It can be said that the selection of board members is shaped by institutional forces, family selection in this instance, which emerge out of organisational and societal processes. It was perceived by a group of significant social actors that there were no specific standards or guidance for selecting board members before applying the initial emergence of the CG system in 2006 in the Saudi Arabian non-Western, emerging society. So the selection criteria of board members was based on a range of relationships such as family members, relatives, qualified friends, and business relationships. This culture's history and legacy explain why the family has a tendency of selecting and appointing members of the family onto the

board of directors in which, not only the family watches and serves their own interests, but also they monitor and inform all the decisions and future investments of the firm. Appointing family members onto the board of directors might be counterproductive as it may lead to a loss of trust in the board by shareholders. The chief problem here appears to be legacy effects from the historical dominance of the family institution on the running and governance of firms. As a CG system emerges and legislates to reduce the power of the family, resistance forms and compliance tends to be unfavourable towards this redistribution of power. Therefore, family members act and behave in ways that they historically learned and exercised which can have severe impact on the development of a CG system in this non-Western, emerging society context.

The ‘centrality’ of the family (a theme which emerged in the second stage of interviews) is principally caused by the appointment of family members onto boards of directors. As such, this will not be discussed separately in this research. Rather, family ‘centrality’ will be regarded as a form of accumulation of family within the board of directors (i.e. an imbalance within the board of directors) that may lead to conflicts of interest. Therefore, it will be merged with this part of the discussion.

The issue of selecting and appointing family members onto the board seems to be important due to its high frequency among respondents and its reflection in the literature by a number of studies in emerging societies (Yeh and Woidtke, 2005; Yeh, 2008) and developed societies (Morck et al., 1988; Smith and Amoako-Adu, 1999). For instance, the above perceptions are in line with Yeh and Woidtke’s (2005) work who indicate that controlling shareholders (family

owners) do wield influence over board members selection in emerging societies due to the robust domination of the family in these contexts. This implies that controlling shareholders can do expropriation and abuse by appointing less qualified, less experienced, or less mature members from the family in top managerial positions in the firm (La Porta et al., 2000). It can be inferred from Yeh and Woidtke's reflections that selecting and appointing family members onto the board of directors is associated with poor CG in emerging societies. What also emphasises the significance of selecting and appointing family members onto the board, is the numerous rules and regulations that promoters of CG develop in order to organise the mechanism of selecting board members. More to the point, CG specifies the qualification, the independence, and the specification of who can occupy specific positions on the board of directors. This would maintain or increase the legitimacy of organisations (a classic notion of institutional theory) as the actions of CG entity are appropriate, desirable, and proper within a socially constructed system of norms, values, and beliefs, and can produce cultural forces of CG that may go beyond any organisational control.

It has been indicated previously that the family institution has no apparent negative influence on CG systems in developed societies most of the time, but this is not always the case. An example of the negative impact of family institution through selecting and appointing family members onto the board in a developed society is offered by Smith and Amoako-Adu (1999). A study conducted by Smith and Amoako-Adu (1999) on 124 Canadian family firms listed on the Toronto Stock Exchange to examine management succession and financial performance found that there is a relationship between appointing family successors and poor corporate performance. Moreover, they observe

that there is a slight decline in stock prices when family successors are appointed into managerial positions, whereas they do not observe this decline when either non-family insiders or outsiders are appointed. A possible explanation of why these findings emerged in a developed society is that institutional impact may vary across generations. This means there may be no apparent or direct influence of family on CG within a generation but potentially there can be an influence that alternates through generations. This can be attributed to the special challenges that family successors face in the transition period as those successors are younger and have less established reputations rather than their family connection per se (Smith and Amoako-Adu, 1999). In essence, this evidence seems to find an association between appointing family successors and poor performance of listed firms in a developed society. This implies that appointing family members in such a context may reduce the performance of the firm which can negatively affect CG. These findings from a developed society context appear to suggest then that initiatives by developing societies along these parameters during the emergence of a CG system are crucial to mitigate future problems caused by abuse of family strength.

9.2.4 Resistance to Change

A number of respondents mentioned this theme during the first stage of interviews and indicated its danger to firms and the emergence of an effective CG regime. This suggests that there is a common resistance from the controlling family in listed firms against CG rules of the regulator body because these rules restrict family members to practice what serves their own interests only as perceived by P4 from Services-2, P19 from Bank-7, and P16

from Retail-1. Resisting CG rules by family members may hinder the development of CG in the firm and thus, in the society. It also does not help to serve shareholders' interests, such as gaining more power and voice, because family members are naturally against the loss of their power. This observation itself seems important, because there is not enough focus as necessary on family resistance in non-Western, emerging societies. Thus, this area is under-explored by previous research and needs to be adequately treated by scholars due to its bearing in the formation of CG in non-Western, emerging contexts. A study conducted by Handler and Kram (1988) to address the problem of resistance by family firms found a number of factors promoting resistance. An interesting one for this research study indicates that the basis of conflict between family and business, which they consider a problem of resistance, is a function of diverging values. This can be attributed to the conflict of interest between the owners and management (i.e. the agency problem) (and more broadly between other shareholders and family members), which forms one shape out of several shapes of resistance by the family. They suggest a recommendation to this particular problem of resistance in which family dynamics should be separated from business issues. Calabro and Mussolino (2011) extend this line of thought in that family-controlled firms are generally characterised by a society that is constrained by resistance to change, which creates concerns over their continuation and survival in a global economy. This implies that there is a scope of institutional impact on CG caused by family institution through resistance to change and the degree of resistance varies across societies.

The abovementioned findings of other studies present some forms of resistance developed by family institution, whereas, the observations from this

research study offer a different yet important form of resistance by the family by suggesting the resistance of controlling family in listed firms against CG rules as indicated above. The institutional theory approach suggests that it is important to pay attention to expressions of power relationships, obedience to power and resistance to it (Clegg, 1989). Based on the findings of this research study, this can be observed, on the one hand, in family control that conform to power and control and, on the other hand, in resisting the external power of the regulatory, minority shareholders, and other stakeholders. So this observation itself seems important and adds to the knowledge as it broadens our understanding on the different forms of resistance of the family and their negative impact on the emergence of a CG regime in this non-Western, emerging society.

9.2.5 Conflict of Interests

A group of respondents mentioned this theme during the first stage of interviews and indicated that conflict of interest is a common fear for minority shareholders. Conflict of interest occurs usually between the owners (the family) and the managers (the agent) or with other non-family shareholders or stakeholders when the agent is involved in multiple interests. The problem is multifaceted and multi-layered in this context as the board can be agents of the family and non-family members but, without sufficient safeguards, will inherently protect family interests first. The observations from this study suggest that family members on the board of directors sometimes make decisions, take actions, and give orders that serve their own interests, or the family, only without looking after other shareholders' interests as perceived by a group of respondents. The institutional approach views that both agent and

principal and their interests are not simply given, but are constructed through their entrenchment in a social system (Aguilera and Jackson, 2003). This research study suggested a number of causes of conflict of interests, namely, control (decision making), abuse (selecting and appointing board members), and entitlement (separation of ownership and control), that are caused by both family and kinship institutions. This research study identified these causes when the data were quantified in the first stage of analysis (please see Table 7.5 and Figure 7.1).

The above perceptions on conflict of interest appear to be important, because there is an increasing number of studies in the literature which discusses the aspect of conflict of interest in listed family firms in developed and emerging societies due to its high importance, danger, and bearing on the formation of CG. For example, Young et al. (2008) conducted a review of CG in emerging societies and observed that extensive family ownership and control in emerging societies can cause conflicts between controlling shareholders (mostly family members) and minority shareholders which they identified as principal-principal conflict. This conflict alters the dynamics of the process of CG which in turn, needs different treatment from those that deal with principal-agent conflicts, which remains the largely-discussed perspective in the literature under the agency/principal problem (Young et al., 2008). It can be inferred that the increase of occurrences of conflict of interest caused by family members can reduce the appetite of shareholders towards investing in such a context. This means that CG faces challenges in emerging contexts due to the powerful influence of family institution on CG acceptance and implementation (thereby requiring greater legislation to force adoption over and above voluntary adoption). Overall, observations from this research study

contribute to growing evidence that family ownership and control are key elements in causing a conflict of interest in non-Western, emerging societies.

Another example of conflict of interest but in a developed society is a study conducted by Vilaseca (2002) on Spanish family firms (such example is offered to show the occurrence of a conflict of interest and, thus, its danger not only in emerging societies, but also in developed societies). The study examined the aspects that impact on the conflict of interest between shareholders and management and its influence on commitment to family firms. The results from his study showed that the level of commitment to the family firm is negatively correlated with the number of family members appointed to the board of directors. Even so, a positive correlation was found between the number of external members of the board of directors and the degree of commitment from shareholders. This evidence implies that appointing family members onto the board of directors may reduce the level of commitment to the firm which can cause a conflict of interest between the agents (the shareholders) and the principal (the management). Vilaseca (2002) also highlighted that ownership structure and decision making are critical aspects in family businesses because they affect the conflict of interest between the shareholders and the management. The findings of Vilaseca's study present some causes of conflict of interest, such as selecting and appointing board members by the family, decision making by the family, and ownership of the family. Smith and Amoako-Adu (1999) also conducted a study in a developed society to examine management succession and financial performance in 124 Canadian family firms listed on the Toronto Stock Exchange. They argued that appointing family successors in senior management positions is a critical corporate decision that may cause a conflict of interest between family and the

outside shareholder. Perhaps, this is because family successors are relatively young and immature yet are appointed in senior management positions in the firms which may increase the probability of their carelessness towards minority shareholders' interests. The findings from both studies above are also in line with the observations from this research study. However, this research study explored more causes of conflict of interest, specifically, entitlement, abuse, and control, that were caused by both family and kinship institutions as shown previously in Chapter 7. Together, these aspects cause a conflict of interest which is a major aspect in the emergence and development of CG systems. Conflict of interest is thought to be a barrier to the emergence of a CG regime and a dilemma in the development of CG systems in non-Western, emerging contexts. This is because it alarms investors and minority shareholders and raises concerns to invest in a context that is dominated by influential causes of conflict of interest, such as control, entitlement, and abuse of both family and kinship institutions. This appears insurmountable if an 'effective' corporate governance regime cannot be established. 'Effective' in this sense refers to a situation where firms embrace the principles of CG beyond mere simple bare minimum compliance. Thus, the observation offers additional insights and contributes to the literature on the subject of conflict of interest caused by family and kinship institutions.

In light of the above observations, the concept of conflict of interest needs to be clarified (treating it) to send indications to the controlling family to distinguish between family firms and public ones as noted by P1 from Bank-1. Furthermore, the responsibilities of the board members and the management need to be precisely specified as perceived by P21 from Services-5 in order not to exploit these positions in serving their own interests. This would increase

the legitimacy of organisations as it is always a principal desire in institutional theory perspective.

9.3 Kinship Institution

Kinship institution in developed and emerging societies has been discussed in the literature by a number of scholars due to its importance as indicated by Steier (2009: 518) in that “kinship ties tend to figure more prominently in emerging economies.” Some scholars consider it as an extension to family institution (e.g. Filatotchev et al., 2005; Steier, 2009), while others consider it as a separate one (e.g. Young and Wilmott, 2013). In this research study, kinship institution, as an informal institution, is considered to be separated from family institution due to its distinctive influence on CG in this context as perceived and treated separately by significant social actors. This is despite the fact that it sometimes shows some overlap with family institution through a number of emergent themes. Steier (2009: 518) in his study of familial capitalism in East Asia (emerging societies) shows a relationship between family and kinship. He points out that:

Familial capitalism presents a strongly horizontal, segmented society wherein the core of political and economic networks is constituted by personal ties among individuals related to each other through kinship.

The influence of kinship institution on CG will be discussed under two main themes, namely, abuse (independence of board members) and control (decision making) as follows.

9.3.1 Abuse (Independence of Board Members)

A number of respondents mentioned this theme during the first stage of interviews and indicated the need to be strict with the independence of board members. This suggests that board members are still being selected through kinship relationships in this non-Western, emerging context which may cause imbalance in decision making that may not serve shareholders' interests and wealth, as indicated by some respondents. Some examples of such kinship relationships are nephews, cousins, sisters' husbands, and any others who do not hold the same family name and are being appointed as board members. Even the wife does not change her family name after getting married. Thus, it is harder to discover that they are affiliated to the family, since appointing immediate relatives to the family, who usually hold the same family name, is illegal under CG laws as it violates the condition of independence. So these selections are not based on qualifications in the eyes of significant social actors.

The above observation seems important, because understanding the social circles that senior managers inhabit is particularly important as their background and social standing is expected to be reflected in their perceptions and views regarding decision making and whose interests are in favour (Espeland and Hirsch, 1990; Fligstein, 2001). Moreover, abundant studies reveal that independence of board members is a key basis for success, continuation, increased performance of firms, and of superior benefit to shareholders in all societies (Rosenstein and Wyatt, 1990; Daily et al., 2003; Andres and Vallelado, 2008). As a result, a variety of organisations, such as Cadbury and KPMG in the UK, have issued guidelines, such as the Code of

Best Practice, designed to form independent boards of directors (Daily et al., 2003). Similarly, the Organisation for Economic Co-operation and Development (OECD) has issued the Code of Corporate Governance which includes numerous codes, some of which outlines guidelines for board and director independence. This indicates the importance of the independence of board members to avoid any manipulation and conflict of interest caused by the board members and to achieve best practice.

The observations from this research study support the findings of Filatotchev et al. (2005) in a study conducted on 228 listed firms in the Taiwan Stock Exchange—an emerging society. This study examines the effects of ownership structure and board characteristics on performance in these firms that are mainly controlled by founding families. They observe that board independence from a founding family has a positive impact on performance. It can be inferred from their study that if the board members are affiliated to the founding family, such as kinship ties, then this can have a negative impact on performance. This implies that affiliated board members to the family can make decisions that serve their own interests and do not serve stakeholders and firms' interests which can have a considerable impact on the performance of the firms and thus on CG objectives. Therefore, kinship institution can have a significant impact on CG practices through less or non-independence of board members from the family. It can be learned here that less independence of board members from the family owners, such as appointing relatives of the family onto the board, can have negative impacts on the emergence of CG systems in emerging societies. This is because those relatives may abuse their board position and may have different objectives from other

shareholders and, thus, may cause conflict of interest which is a dilemma against the emergence of CG regime as indicated previously.

9.3.2 Control (Decision Making)

A group of respondents mentioned this theme during the first stage of interviews and indicated the need to govern it. This suggests that decisions made by kinship ties may not serve shareholders and other stakeholders' interests as observed by P21 from Services-5, P3 from Insurance-1, and P12 from the CMA. The institutional approach informs that the power in the form of repetitively activated control is not only vested in individual actors, but also in social and cultural systems (Fiss, 2008). Listed firms in developed societies are often characterised as having dispersed ownership (Anderson et al., 2003), while listed firms in emerging societies are often characterised as having concentrated ownership (Young et al., 2008). This signals to a problem of ownership in emerging societies as it is centred on majority shareholders (controlling family and kinship). Consequently, as those major shareholders dominate and control decision making in the firm, they can more easily abuse the system, resist change, and create a conflict of interest when making decisions favouring the kinship (and by extension the family) to the potential detriment of others. Such negative outcomes seem to be inevitable, but rather it is the weakness of a CG system that creates for such unhealthy events to occur. In the context of this study, the rebellion of the family institution against the emergence of the CG system that gradually erodes family power is mitigated by overt and covert use of kinship institutions to replace or supplement the power of the family institution.

The above observations appear to be important, because the literature also focuses on the control through decision making dominated by kinship ties due to its relevance and influence on effective CG. It is worth to note that kinship control is inspired by family institution, where the latter is involved in supporting kinship institution to guarantee its survival, endurance, and domination of ownership and control. Kinship institution often exists when family institution is predominant in that context. The observations from this research study complement the findings of Yeh and Woidtke (2005) who conducted a study in Taiwan—an emerging society. They examined the determinants of board composition and firm valuation as a function of board composition in listed firms. The findings from their study suggested that when the board of directors is dominated by members who are affiliated with the controlling family, such as kinship ties, poor governance practices are observed. On the other hand, when the board of directors is dominated by members who are not affiliated with the controlling family, there can be perceived good governance practices. This implies that the domination and control of board members who are affiliated with the controlling family mainly through decision making are associated with the efficiency of CG practices. The lesser the control of those members, the higher the efficiency and effectiveness of CG practices. This is because those members make decisions that may not serve shareholders' interests which contradicts the vision of CG. It can be learned here that the control that is dominated by the relatives of the family can have a negative influence on the emergence of a CG regime in emerging contexts. This is because those relatives can make decisions that serve their interests at the expense of minority shareholders' interests and, thus, cause a conflict of interest that is considered as a major aspect affecting the emergence of a CG regime.

9.4 An Expression of the Bureaucratic State

There is a body of work in the literature discussing the bureaucratic state (Finnemore, 1996; Evans and Rauch, 1999; Omran et al., 2008). However, there is limited focus on the influence of this institution on CG. Therefore, this research study will attempt to offer new insights and better understanding through discussing the influence of an expression of the bureaucratic state, represented by its main actor, the Capital Market Authority (CMA), on the development of CG in a non-Western, emerging society. In principle, the bureaucratic state institution is an efficient and effective body to coordinate the complex relations engaged in this dynamic world (Finnemore, 1996). It promotes better economic growth in developing and emerging societies (Evans and Rauch, 1999). Omran et al. (2008) considers the role of the bureaucratic state and its governance system as a third exogenous variable in the relationship between legal origin and financial arrangements in emerging societies because state intervention is important in these societies. In addition, a number of cross-country studies have revealed that an effective bureaucratic state along with political stability are positively associated with great stock market efficiency (El Erian and Kumar, 1995; Knack and Keefer, 1995; Eltony and Babiker, 2005). It can be assumed then that the bureaucratic state is also positively associated with the implementation of good CG practices. In light of this focus on the bureaucratic state, the following sub-sections will discuss the important aspects of this institution, as a formal institution, generated from this research study.

9.4.1 Imposed Compliance

A number of respondents mentioned this theme during the first stage of interviews and indicated that CG is an imposed system. This suggests that a number of listed firms believe that the CG system is an imposed system that must be complied with in order to avoid punishment as perceived by P1 from Bank-1, P14 from Bank-4, and P3 from Insurance-1. They also consider this compliance as a waste of time and an unnecessary system; although this view would appear to place a lot of faith in family and kinship institutions as an alternative self-regulating system. This can be attributed to the poor understanding of the concept of CG by some actors. This observation itself seems important, because there has been no systematic investigation of why actors believe that CG is an imposed compliance, whether CG is truly an imposed compliance or not, in which contexts this aspect is considerably apparent, and what the potential drawbacks are when actors hold such a belief.

The observations from this research study indicate that as long as these firms believe that they are being forced or coerced to apply and comply with the CG system, they comply with the bare minimum requirements just to avoid being punished or penalised. This is dangerous to an extent because the absence or lack of self-motivation may not help the growth and progress of CG practices in this context and prevent it from taking hold. The risk that CG becomes a token gesture complied with only to avoid penalties means that the spirit of CG would become lost in a system that sees it as a hindrance as opposed to a positive development. The discussion will now proceed to look at the issue of imposed compliance from the regulatory angle.

There is an explanation offered by Becht et al. (2002) of why CG rules are being imposed by regulatory authorities since these rules apparently provide adequate protection to shareholders. They argued that the organisations may not have all the detailed information available to offer efficient rules. Thus, they might impose rules favouring one group over another. Perhaps this is the main reason behind what has been perceived in this research study. A number of actors in this research study perceived that the CMA deals with all listed firms equally and stands at the same distance from all those firms. This way the CMA guarantees that there is no favour of one firm over another. This implies that there are attempts from the regulatory to maintain integrity and fairness in this non-Western, emerging context.

Another line of thought to explain why some social actors feel that CG is an imposed system is presented by Robertson et al. (2012). They indicate that the Saudi Arabian stock market grew greatly in 2005 but this fast booming growth was just a bubble that blew in 2006, which in turn caused a collapse. This event led the CMA to issue a CG document in order to force listed firms to apply, implement, and comply with the rules (Robertson et al., 2012). This indicates that listed firms comply with institutional pressures to achieve legitimacy in their operating environment. These formal pressures of the state form a coercive isomorphism from a new institutional sociology perspective. As far as some social actors have the impression that CG is an imposed system by the regulatory authority, the observation appears to lean towards negative compliance of listed firms with CG rules. This implies that the task of complying with CG rules by listed firms is being accomplished but lacks quality and sincerity.

9.4.2 Bare Minimum Compliance

A group of respondents mentioned this theme during the first stage of interviews and indicated that they comply with CG to the bare minimum. This suggests that there are a number of listed firms that comply solely with the bare minimum requirements of CG and are not trying to exceed at it or achieve best practices as indicated by P5 from Bank-2, P14 from Bank-4, and P12 from the CMA. These firms try only to cover the requirements of the legal CG document to avoid any troubles with the CMA, thereby complying with institutional pressures but arguably in a disingenuous way. This is because these firms have no self-motivation or genuine interest towards improving CG practices for a better future in this context. This observation itself appears important, because there has been no systematic investigation to examine the extent of compliance with CG regulations, whether it is a compliance with the bare minimum or more than the bare minimum. It is possible that some apathy is caused due to the manner in which a CG system aggravates other important institutional forces (such as the family) but it might also be a response to a system whose value is not immediately discernible beyond the costs of formal compliance.

The observations from this research study indicate that listed firms should submit a comprehensive report called the annual report that should include, for example, financial statements, auditors' reports, disclosure items, committees' functions, remuneration of the board, and the extent of complying with the CG document. Listed firms are required to inform the CMA about their compliance or the reasons for non-compliance (Hussainey and Al-Nodel, 2008). Afterwards, the CMA reviews the annual reports to

make sure that these firms comply with the rules and standards as required (Hassan et al., 2009). In case of non-compliance, the CMA takes actions against the firm which could lead to the suspension or de-listing of the firm (Hassan et al., 2009). This would be frightening enough to comply with CG rules up to the bare minimum as perceived by a number of significant social actors in order to avoid any problems, such as warnings, penalties, suspensions, or de-listing, which implies a lack of genuine interest and effort towards CG by some listed firms. So, in understanding the influence of the regulatory and legislative institution on the emergence and use of CG, there is a distinct danger of apathy in which the system is seen as an aggravation to other institutional pressures, or is seen as a cost, or is seen as a penalising system designed to coerce the application of CG based on the threat of penalties for non-compliance. In this manner, firms may reject the voluntary pursuit of best CG practices owing to a negative image of the system and its intentions. This can also be seen as a form of cognitive legitimacy (Deephouse and Suchman, 2008) because compliance with CG system by listed firms even to the bare minimum appears to be something 'inevitable'. In this sense, listed firms seek legitimacy in order to pursue continuity (Suchman, 1995).

9.4.3 Exceeding Minimum Compliance (Best Practice)

The majority of respondents mentioned this theme during the first stage of interviews and indicated that they are trying to exceed minimum compliance with CG rules by complying with voluntary items of CG or other international best practices of CG. This suggests that there are a number of listed firms that not only comply with the requirements of CG of the CMA only, but also exceed this minimum to comply with best practice worldwide as viewed by P6

from Industry-1, P2 from Services-1, and P13 from the CMA. These firms try to cover the mandatory requirements of CG of the CMA and many other optional items that suit the firm and its shareholders. Doing so may increase the reputation, credibility, stock price of the firm, strengthen the relationships with other parties, and attract investors to invest more in this firm (Coffee, 2002; McCarthy and Puffer, 2002; Aguilera and Cuervo-Cazurra, 2009). This is because these firms demonstrate genuine interest towards improving CG practices in this context to improve their management position and strengthen progress. It can be also inferred that these firms try to avoid uncertainty, in that, there might be symbolic uncertainty, unclear objectives of complying with CG rules, or lack of understanding the main values and benefits of complying with CG rules. In this case, listed firms exceed compliance with the bare minimum by mimicking international CG practices that are professional, appropriate, or modern, which may promote a better CG system in this society. This can be viewed as mimetic isomorphism from a new institutional sociology perspective. These observations seem important, because there has been no systematic investigation (to the researcher's knowledge) to examine the extent of exceeding minimum compliance with CG regulations, and what sort of optional items are being selected to comply with and on which basis.

The observations from this research study demonstrate the method of forming the CG document in this context. It is a collective work inspired by the Companies Act regulations, CG of benchmarking countries such as the USA and the UK, and OECD practices (an international Organisation for Economic Co-operation and Development). So the target of the CMA—as an expression of the bureaucratic state—is always to see firms adopt best practice. This observation complements the fact that, numerous developed

societies, such as the USA, the UK, and Germany, and some emerging societies, such as the UAE and Egypt, issued the 'Codes of Best Practice' which include specific requirements for specific CG practices, such as the percentage of independent directors on the board. These codes are voluntary in nature and the extent of complying with these codes varies across societies (Denis and McConnell, 2003). More to the point, compliance with these codes is more difficult in societies that have greater appearance of controlling shareholders (e.g. families) because these codes reduce the influence of those controlling bodies which contradicts their objectives (Wymeersch, 1998). It can be inferred that issuing the 'Codes of Best Practice' by regulatory authorities is a way to exceed minimum compliance in order to achieve best practice worldwide. Unfortunately, Saudi Arabia has not issued any 'Codes of Best Practice' yet. However, the Saudi Arabian CMA emphasises that the criteria of best practices of CG mainly represents the guiding principles for all listed firms (Hussainey and Al-Nodel, 2008).

The observations from this research study also indicate that voluntary compliance with best practice is effective and offers higher standards of transparency which protects shareholders greatly. This supports the findings of a study conducted by Rodriguez and Anson (2001) in Spanish listed firms that comply with the Spanish Code of Best Practice. They indicate that the stock prices react positively to the announcement of compliance. This example offers further implications in which exceeding minimum compliance is associated positively with achieving CG objectives, such as protecting shareholders' rights and interests, and increasing stock firm performance and profitability. It can be inferred that exceeding minimum compliance (i.e. compliance with best practice) leads to achieving better results, protecting

shareholders' rights, and gaining more credibility to attract investors. This inference appears to be in the favour of serving shareholders' interests which supports the objectives of CG.

It appears that excessive compliance cannot be explained by legitimacy. In other words, legitimisation mechanisms do not explain why these firms go beyond the bare minimum to comply with CG regulations. A review of previous literature highlights that the new institutional theory focuses considerably on legitimacy. However, when analysing these issues, there appears to be other factors influencing compliance. It seems that there are a range of motivations or increased pressures to comply at greater levels. These pressures are perhaps exerted by the 'international institution' that seems to play a role in internationalised businesses. By exceeding minimum compliance of CG (i.e. compliance with best practice internationally), these firms can accumulate enhanced reputations and gain more credibility in the market.

9.4.4 Implementation: the Regulatory Role

A number of respondents raised this theme during the first stage of interviews and indicated that there is an obvious regulatory role of the CMA towards listed firms. This suggests that the CMA—as an expression of the bureaucratic state—plays the strict regulatory role if it does not observe any self-motivation from listed firms to implement CG rules, or observes a lack of response to comply with CG rules as perceived by P13 and P12 from the CMA. Then, the role of the regulator comes into force through discussions and correspondence, which impose penalties and other correction procedures which can be viewed as institutional pressures on organisations. Thus,

authorities, such as the financial regulatory authority “can be a driving force in economic transition and development, provided that they are both appropriately empowered and constrained” (Che and Qian, 1998: 24). It is also believed that less or non-responsive firms would increase transaction costs for the CMA because correction procedures are subject to process losses, which theorists of the new institutional economics (e.g. Williamson, 1988) see as requiring non-regulatory procedures, that is, ones that increase the self-desire to comply with and implement CG rules. Williamson (1996) emphasises that the CG problem of TCE is not only the protection of shareholders’ rights, but also the efficient achievement of transactions by firms within their political and cultural environments. These observations appear important, because there has been no systematic or exploratory investigation (up to the researcher’s knowledge) to explore the regulatory role played by the CMA to apply CG rules.

The ‘observer role’ played by the CMA (a theme which emerged in the second stage of interviews) is somewhat similar to its regulatory role. This role may encourage firms to comply with bare minimum requirements as a worst case scenario, as revealed previously in the second stage of data analysis. Consequently, the ‘observer role’ will not be discussed separately in this research but will be merged with this part of the discussion.

The observations from this research study indicate that the approach of the CMA is somewhat coercive as opposed to a narrative or discursive based approach to engage listed firms with CG. In light of this, Becht et al. (2002) offers two key reasons for why the intervention of regulatory bodies is sometimes required. The first argument is that even if the firm founders or the

shareholders design the rules, these rules would not be efficient to some firms as these rules cannot contain comprehensive concerns suitable for all the parties involved. The second argument is that even if the firms have the right to design efficient rules, they may want to change or break them eventually. A crisis may occur then as long as the firms do not have the power to commit not to alter or break the rules along the way (Becht et al., 2002). These reasons appear to show the influence of an expression of the bureaucratic state institution on CG by playing the regulatory role with listed firms to apply, implement, and comply with CG rules.

The observations from this research study also revealed that more than 95% of the penalties against listed firms are due to disclosure problems. This implies that there is a lack of disclosure in this context. Managers do not want to be more transparent or to share important information about their firms and future investments with their shareholders because they believe that these details are personal and no one has the right to view them. The role of the regulatory authority then is to increase pressure on listed firms in order to improve the disclosure in this context to protect shareholders' rights and serve their interests. The importance of disclosure as a main CG item is revealed in Othman and Zeghal's (2008) study. They report that CG disclosure is positively associated with the size of the capital market of emerging societies. This implies that the larger the capital market is, the more the disclosure exists. Thus, this shows the strength and the regulatory role played by the regulatory authorities in driving listed firms to disclose, since the strength of regulatory authorities is associated with capital markets. Another example that shows the importance of disclosure is indicated in Robertson et al.'s (2012) study. They note that the Saudi Arabian CMA regulation is divided into three main parts:

(1) shareholder rights, (2) transparency and disclosure, and (3) board of directors' guidelines. They observe that these are three pillars of the Saudi Arabian CMA regulation that create a strong respect for shareholder rights and protection. So disclosure is considered an important pillar in Robertson et al.'s (2012) study as increasing disclosure offers more protection to the shareholders. The regulatory role of the CMA can also be seen as a normative isomorphism from a new institutional perspective. This role is played by the CMA, as a professional body, to establish environmental forms that are consistent with their objectives. The CMA, as a professional body, tends to have strong networks with their referent bodies, which establish the standards for professional behaviour.

9.4.5 Implementation: the Awareness/Cooperative/Partnership Role

A group of respondents mentioned this theme during the first stage of interviews and indicated that there is an awareness and cooperative role played by the CMA with listed firms. This suggests that the CMA—as an expression of the bureaucratic state—plays a cooperative role with firms that have self-motivation and genuine interest towards implementing CG rules as perceived by P17 from Industry-2 and P16 from Retail-1. The CMA drives the CG system in this society through playing this role with listed firms that show self-interest in implementing CG as the CMA “proved to be the most suitable source for the information required” (Hassan et al., 2009: 88) and a suitable body to support and assist listed firms to implement best practices of CG as perceived by a number of significant social actors. This observation itself seems important, because there is a lack of exploring the cooperative role played by the regulatory authority in the literature. Also, addressing this role of

the CMA will complete the picture of the different roles played by the CMA in driving CG in this context.

The observations from this research study indicate that this approach of the CMA seems to be positive (as perceived by a group of significant social actors) and offers a good environment for listed firms that want to follow best practices. This would create a healthy environment for shareholders and investors as it will increase the protection level. This role of the CMA started in 2006, when a sharp decrease of the Saudi Arabian stock market occurred and resulted in a loss of over half of the market value. This crisis led to significant losses for investors and shareholders. As a result, the CMA made efforts to offer more fairness and quality for stock trading through raising awareness by issuing a CG document as guidance for listed firms (Hussainey and Al-Nodel, 2008). The CMA also cooperated, supported, provided information, and answered all enquiries of listed firms to develop practices. The CMA continues to play this role with firms that have a genuine interest in applying and implementing CG rules as perceived by significant social actors. What this can add to our understanding is that the cooperative role played by the CMA can attract other listed firms to genuinely comply with CG rules which can offer considerable development to the CG system in this non-Western, emerging context.

9.4.6 Regulations Failure

A number of respondents mentioned this theme during the first stage of interviews and indicated that regulations may fail to achieve the desired outcomes. This suggests that CG regulations cannot constrain the aggressive

side of controlling investors which is greed, power, and avariciousness and such bad behaviours that appear to be related to agency problem or moral hazard as observed by P1 from Bank-1, P2 from Services-1, and P3 from Insurance-1. These behaviours contributed to developing the global financial crisis in 2007, as perceived by significant social actors. This observation appears extremely important, because there are numerous studies conducted to evaluate past multiple financial crises that were caused by poor CG systems due to different institutional impacts such as family, kinship, and the bureaucratic state (Johnson et al, 2000; Lemmon and Lins, 2003; Erkens et al., 2012).

The observations from this research study indicate that, despite the fact that there are numerous hard rules and regulations issued by different bodies, such as the Capital Market Authority, the Ministry of Commerce, Central Banks, Basel Committee (for banks), and risk reduction committees, these regulations can fail. Such devices played a negative role, particularly during the financial crisis in 2007, which raised the question of its power in protecting investors and constraining illegal activities (Alghamdi, 2012). The observations from this research study complement the findings of a study conducted by Erkens et al. (2012). They conducted a study across 30 societies to examine CG during the global financial crisis of 2007. They found that most firms to be affected by the crisis were firms with a higher institutional ownership (e.g. family ownership). This shows the role of institutions in hindering the regulations. What can be learned from this is that the CG system is always vulnerable to failure. Thus, a continuous development to a CG system is required to reduce the impact of failure on society.

9.5 Religion Institution

There is a body of literature discussed the relationship between CG and the Islamic religion in emerging contexts, because the religion in these contexts is dominant (Haniffa and Cooke, 2002; Choudhury and Hoque, 2006; Grais and Pellegrini, 2006; Abu-Tapanjeh, 2009). This body of literature mainly discussed the common aspects between CG and the religion, the role of the religion in implementing CG practices, and the extent of compliance with CG rules that meet the principles of the religion. Berger (1967) pointed out that “religion has been the historically most widespread and effective instrumentality of legitimation”. Thus, there is a long accepted notion that the religion in Islamic world is seen as an effective instrument for legitimation. This research study will focus on three aspects of religion institution as an informal institution, namely, association, implementation, and compliance that are observed from this research study.

9.5.1 Association (Common Principles)

A group of respondents mentioned this theme during the first stage of interviews and indicated that there are common principles between CG and the religion in this society. This suggests that CG and the religion in this context share a large number of principles, ethics, values, and concepts that guide conducting business activities as perceived by P11 from Services-4, P20 from Industry-3, and P5 from Bank-2. Common positive values are, for example, justice, honesty, and public interests (Lewis, 2005). Likewise, negative values to be avoided, for example, are greed and unfairness (Lewis, 2005). Having said that, both CG and the religion call for the same objectives in this

society which are to protect shareholders' rights, serve their interests, and protect firms' assets. These observations seem important, because there is, to a large extent, a focus in the literature on the apparent influence of the religion on business activities and CG practices, which indicates that this institution is a key factor in this non-Western, emerging society context.

The observations from this research study indicate that any monotheistic religion concurs entirely with CG concepts. For example, justice, trust, honesty, credibility, fair competition, not cheating, not harming, and no obscene profit, are all principles in any monotheistic religion as well as CG. This should give more credit to CG to be generally accepted in such a context, which is the case in a number of listed firms. However, other firms have less intention to implement CG practices, depending on the strength of faith of the actors at play. These observations complement Abu-Tapanjeh's (2009) study. He indicated that a major ethical component of any economic activity in monotheistic religions is to provide fairness, honesty, and justice, and to ensure and protect all parties' rights and dues. He adds that this will offer a balanced society as envisioned to religious ethical values and rules. This implies that the religion has a bearing in CG practices as it calls for shareholders' protection which is a prime objective of CG.

There is an interesting argument noted by Gooden (2001) in which, achieving best practice is not only about gaining greatest profitability, fair trading, or best efficiency, but also it is about trying to lead and guide the firms according to moral standards acceptable to the society. This implies that other factors should be taken into account when looking forward to achieve best practice, such as moral factors (e.g. the religion), because this would help to accelerate

the process of achieving CG objectives. In effect, the religion has a role in shaping ethical behaviour such as truthfulness, honesty, and social justice (Rizk, 2008). What can be learnt from the observations in this part is that understanding that the CG system shares similar principles with the religion in this society appears to gain more acceptance of this system by people and, thus, serves the emergence of a CG regime. However, importantly, the extent to which this is achieved is in part dependent on communicating effectively the similarity between a CG system and its principles or rules in relation to religious rules accepted by society. This provides a basis to legitimise CG in the face of other competing institutional pressures.

9.5.2 Implementation: Supportive Role

A number of respondents mentioned this theme during the first stage of interviews and indicated that the religion plays a supportive role on the emergence of a CG regime in this society. This suggests that, as long as CG calls for similar objectives to the religion, then the religion appears not to exert institutional pressures on implementing CG practices, but motivates them as perceived by a group of significant social actors. The religion asks for and emphasises on anything that leads to protect people and their rights, so it seems to be not a barrier to CG practices in this context. This observation appears important, because there is a discussion in the literature about the important role of the religion institution in shaping and supporting CG in such a context.

The observations from this research study indicate that the religion in this context is dominant because it is being taught at all educational levels since

formal teaching began. So some people are serious in applying and complying with the rules of the religion. Accordingly, their conscience leads them to be fair and honest, and not to harm or manipulate. In this case, it can be said that the religion plays a supportive and positive role in implementing CG practices. However, this strength of faith varies to an extent between people, depending on self-education and parents' teaching, just as in any other society. In this case, peoples' behaviour may affect the pattern and the conduct of business activities. This is why Abu-Tapanjeh (2009) argues that any system without an appropriate ethical and moral climate will not influence the development of a proper system of governance. Moreover, he claims that CG practices are not only just the designation or actor's position and power but also the actor's internal moral enthusiasm to fulfil and conduct the job within the context of the religion. This implies that the spirit that is offered by the religion seems to be the important thing that supports, recommends, motivates, urges and emphasises on implementing CG practices in this context.

CG that is supported by the Islamic religion would appear to encourage capital formation, foster strong markets, create incentives to engage in value-maximising behaviour, and encourage judgment and transparency, which are all principles central to the religion in this context (Bhatti and Bhatti, 2010). So the religion encourages the values and ethics that are also concepts in CG in order to accomplish such targets. In itself, it may serve as a basis to legitimise the broader objectives of CG and its associated regulations. It can be learnt here that the religion appears to be supporting the emergence of the CG regime in this society through supporting the implementation of CG practices.

9.5.3 Compliance (Sharia Compliance)

A group of respondents mentioned this theme during the first stage of interviews and indicated that they comply with Sharia-based law in their firms. This suggests that there are a number of listed firms that comply with Sharia-based law in all their contracts as a CG system is part of the broader horizon of Sharia law, as perceived by a number of significant social actors. This compliance is supervised by the Sharia board and is voluntary to any listed firm. This observation appears important, because Sharia law represents an important approach of the religion in this context that has a bearing in CG practices.

The observations from this research study indicate that trading and contracting under Sharia-based rules is a desire for many people in this context. Thus, compliance with Sharia law may satisfy the actors in the firms and the shareholders too. Khalifa (2003) explains why some people in this context prefer conducting businesses under Sharia-based rules. He argues that financial transactions within Sharia have genuine concern for ethically and socially responsible activities as well as prohibiting involvement in illegal activities or those which are harmful to social and environmental well-being. This reflects underlying moral orders that illustrate how business and social relations should be conducted and whose interests have priority.

It is indicated above that a large group of people in this context prefer conducting businesses under Sharia-based law, which is entirely voluntary in nature. Therefore, listed firms who comply with this law seek internal or external Sharia board that reviews all the contracts, corrects weight and

measures, checks financial statements and frauds, audits illegal contracts, and keeps the market free, to ensure that these processes are compatible with the Sharia requirements. Bhatti and Bhatti (2010) point out that a Sharia supervisory board is important for two reasons: (1) the investors may lose confidence if the management continued to violate Sharia laws, (2) the notion that ethics is the basis of Sharia law is believed to prevent people from behaving unethically in this society. Therefore, this can prevent chaos and maintain balance in the market. This is important to gain some investors' confidence and appetite to invest in this market, and meet the desire of some shareholders to trade in such an environment. It can be seen here that listed firms that comply with Sharia-based law appears to be seeking a form of moral legitimacy (Deephouse and Suchman, 2008) that is based on normative approval and includes procedures, structures, and consequences. This seems to be a way of seeking support and pursuing credibility and continuity in this environment (Suchman, 1995). It can be learnt from this part that complying with Sharia-based law appears to have a role in complying with CG rules in this society and, thus, on the emergence of the CG system in this context.

It has been suggested that some listed firms operate with the bare minimum of compliance to CG rules. It is also apparent that family and kinship institutions appear to be negative in terms of the adoption of the CG system in the Saudi Arabian non-Western, emerging society. Interestingly, if the religion in this context represents 'a rigorous platform' on which to build CG practices, and the CMA promotes the logic of CG in line with Sharia principles, acceptance of CG regulations may increase. An explanation for this is that the dominant religion in this society is very much embedded in the way in which people think and behave. If CG were to have some alignment with the religion of this

society, effective CG practices would likely become more attractive to businesses and compliance would likely increase. It has also been indicated previously that some listed firms comply with CG simply to avoid penalties. This can be seen as compliance by coercion. However, if the CMA were to frame CG principles in line with Sharia understandings, there may be more compliance by cooperation, rather than coercion.

9.6 Summary

This chapter has discussed the outcomes of this research study in light of the existing literature in the field. It has also summarised the main observations, interpreted them, discussed their importance and relevance, presented what this research study has revealed and added to the knowledge, and what can be learned from these observations.

This chapter has mainly discussed the four institutions, namely, family, kinship, an expression of the bureaucratic state, and religion, that emerged as influential institutions on the emergence of the CG regime in the Saudi Arabian non-Western, emerging society. Discussing these institutions and their influence on the development of CG has revealed a number of issues that, in turn, offered better understanding and new insights to the knowledge. In discussing family institution, the observations from this research study appear to offer support to the argument that the family institution has a negative impact on the emergence of the CG system and this can be observed in the failure of separation of ownership and control, decision making dominated by the family, selecting and appointing family members onto the board of directors, resistance to change by the family, and causing a conflict of interest.

Similarly, kinship institution has a negative impact on the emergence of the CG regime and this can be observed in the less or non-independence of board members from the family, and in the decision making dominated by relatives of the family. The domination of family and kinship institutions on listed firms can be seen as informal pressures (i.e. coercive) exerted on these firms. It appears that the family believes that this is the best way to guarantee success and survival and, thus, legitimacy of the firm, while these processes seem to guarantee only the family's ownership and interests. From a new institutional sociology perspective, this is seen as a coercive isomorphism, where the family seeks legitimacy through exerting its informal pressures on listed firms to serve its own interests. In addition, this domination of family and kinship is being attenuated by the bureaucratic state represented by its key actor the CMA through turning voluntary items to mandatory and increasing supervision and audit processes. These theoretical effects of the family and kinship vary over time because they are unstable (Whetten, 1989) due to the increased power of the bureaucratic state.

In discussing an expression of the bureaucratic state represented by its key actor, the CMA, this institution influences the development of the CG system mainly through compliance (imposed, bare minimum, or exceeding bare minimum) and implementation (the regulatory role, or the cooperative role). This influence differs depending on the extent of the acceptance of the CG system by the firm. In discussing the religion institution, the observations from this research study indicate that this institution has a positive influence on the emergence of the CG system. This is mainly because the CG system appears to share similar principles with the religion which, in turn, leads to help achieve similar objectives. In addition, the religion has a supportive role in

implementing CG practices and complying with CG rules through complying with Sharia-based law.

Chapter 10: Conclusions, Implications, and Limitations

The previous chapter discussed the findings of this research study based on the existing literature on the emergence of corporate governance regimes and institutional theory. This chapter intends to highlight the theoretical contributions of the study, explain the wider implications of the research, discuss the limitations of the study, make suggestions for improvements, and suggest directions for future research.

10.1 Theoretical Contributions

A number of theoretical contributions arose when the data were analysed, interpreted, discussed and compared with the existing literature in Chapters 7, 8, and 9. This section will summarise and crystallise these theoretical contributions.

With regards to family institution, the findings of this research study revealed that the family institution, as an informal institution, dominates and appears to negatively influence the emergence and development of a CG regime in the Saudi Arabian non-Western, emerging society context. There are five clear dimensions that influence this: (1) entitlement (separation of ownership and control), (2) control (decision making), (3) conflict of interest, (4) abuse (selecting and appointing board members), and (5) resistance to change.

In terms of separation of ownership and control, the findings from this research study imply either acceptance but staggered implementation of CG by

the family, or bare minimum compliance with CG instead of embracing its principles. The institutional background of family members leads them naturally to act in a way that is perceived to serve their own interests without looking after non-family or other shareholders' interests. The behaviour of family members plays a role in negatively influencing the emergence of a CG regime in this non-Western, emerging society context.

In terms of decision making in family controlled firms, the outcomes of this research study suggest that strong family control is often built and achieved through the centrality (i.e. accumulation) of family members on the board of directors. This appears to create problems such as making decisions that serve the specific interests of the family but not everyone's interests and certainly not those of minority shareholders. Thus, this can be seen as a negative influence of family institution on the development of the CG system in this society and context. However, time is an important factor as it plays a role in strengthening the capabilities of the CMA in terms of enforcing or encouraging listed firms to follow the rules and, thus, in reducing family control. As CG is relatively new in the Saudi Arabian society, time may allow the officials of the CMA to discover all the weak points and treat them. Family control over decision making can also be seen as a form of pragmatic legitimacy (Deephouse and Suchman, 2008) that is based on an actor's self-interest and comprises of influence, exchange, and character. It appears that the controlling family believes that dominating the decision making helps them to seek and secure this kind of legitimacy, whereas this action appears to not serve the interests of all parties.

In terms of selecting and appointing family members onto the board of directors, the main problem appears to be legacy effects from the historical dominance of the family institution on the running and governance of firms. As a CG system emerges and legislates to reduce the power of the family, resistance forms and compliance tends to be unfavourable towards this redistribution of power. Therefore, family members act and behave in ways that they historically learned and exercised, which can have a severe impact on the emergence and diffusion of a CG system in this emerging context as well as engagement with such a system. Therefore, CG emerges to stipulate the qualification, the independence, and the specification of who can occupy set positions on the board of directors. This should maintain or increase the legitimacy of organisations (a classic notion of institutional theory) as the actions of the CG entity are appropriate, desirable, and proper within a socially constructed system of norms, values, and beliefs, and can produce cultural forces of CG that may go beyond any organisational control. But nevertheless, historic legacy effects in family firms can alter their view of what is 'legitimate' or 'desirable' and these may not necessarily accord with those deemed by other institutions. It is interesting to note the theoretical plausibility here of a hierarchy of institutional pressures that may spur more active compliance or otherwise bare minimum compliance.

In terms of resistance to change, this important aspect of family institution is under-explored by previous research and, thus, this research study attempts to increase our understanding on this aspect due to its bearing on the development of CG systems in non-Western, emerging society contexts. The institutional theory approach suggests that it is important to pay attention to expressions of power relationships, obedience to power and resistance to it

(Clegg, 1989). Based on the findings of this research study, this can be observed, on the one hand, in family control that conforms to power and control, and on the other hand, in resisting the external power of the regulator, minority shareholders, and other stakeholders. So this observation itself is important and adds to our knowledge as it broadens the understanding of the different forms of resistance of the family and the negative impact on the emergence of a CG regime in this non-Western, emerging society context these can have.

Resistance is also not necessarily by way of non-compliance as compliance can be forced (or coerced) through regulation. But in doing so, this takes away from the spirit of proactive compliance by firms, embracing CG rather than fighting against it. In this study it was observed that resistance took the form of bare minimum compliance where compliance was also seen as necessary to avoid punishment. Compliance then had nothing to do with the principles and benefits of CG but rather to avoid negative sanctions on the firm.

In terms of conflict of interest, the findings of this research study revealed that there are a number of causes of conflict of interest, specifically, family control through decision making, family abuse through selecting and appointing board members, family entitlement through lack of or weak separation of ownership and control, kinship control through decision making, and kinship abuse through less or non-independence from the board of directors. Together, these aspects of both family and kinship institutions cause conflict of interest between the family owners (the principals) and the managers (the agents) or between non-family shareholders or stakeholders (the principals) and family members (the agents). This research study has explored more causes of

conflict of interest than those explored in previous studies, which contribute greatly to the existing literature in the field. Conflict of interest appears to be a barrier to the emergence of a CG regime and a dilemma in the development of CG systems in emerging contexts because it alarms investors and minority shareholders. It also raises concerns to investors in a way that business activity can be dominated by influential causes of conflict of interest, which could appear insurmountable if an 'effective' corporate governance regime cannot be established. 'Effective' in this sense refers to a situation where firms embrace the principles of CG beyond mere simple bare minimum compliance or compliance by coercion (i.e. as a response solely to the threat of sanctions or punishments).

With regards to kinship institution, the findings of this research study revealed that the kinship institution, as an informal institution, negatively influences the emergence and development of the CG regime in the Saudi Arabian non-Western, emerging society context through two apparent dimensions: (1) abuse (independence of board members) and (2) control (decision making).

In terms of kinship abuse through less or non-independence of board members from the family owners, the findings of this research study suggest that when relatives of the family or close acquaintances are appointed onto the board, it appears that they abuse their positions because they have different objectives from the core objectives of shareholders. This may cause a conflict of interest which is a dilemma in the emergence of a CG regime in this non-Western, emerging society context. Therefore, less or non-independence of board members from the family owners, such as appointing relatives of the family onto the board of directors can have a negative impact on the

development of CG systems in this context because it can tacitly or explicitly reinforce the power base of the family. Worse still, there is the potential for the family (as an institution) to either reinforce its own control of the firm or attempt to circumnavigate CG legislation through complex kinship appointments. This only furthers the problem of compliance and the nature of that compliance as discussed so far, which implies a need to reconsider how institutions weave together and create opposing forces towards other institutions in the implementation of regulatory and behavioural change, such as through the emergence and implementation of a CG system and regime.

In terms of kinship control, the findings of this research study suggest that the relatives of the family can make decisions that serve the family and their interests at the expense of minority shareholders' interests. This may cause a conflict of interest that forms barriers to the development of an effective CG system and regime. Therefore, kinship control through decision making can have a negative influence on the emergence of a CG regime in this non-Western, emerging society context. However, the aspect of appointing relatives onto the board of directors is being reduced over time by the regulatory authority and, thus, should in time reduce the conflict of interest caused by biased and potentially flawed decision making. The time factor again therefore emerges as an important item in the development of a CG system. The setting up of a CG system is just the beginning of a process to gradually reduce family and kinship power through an iterative process of improvement designed to reduce avenues of resistance and non-compliance. But this still does not sufficiently explain or offer guidance for how compliance can be moved towards more active compliance as opposed to either coerced compliance or bare minimum compliance. The risk remains then that certain

institutions either game against the CG systems or find other ways to protect their own institutional interests or relative position of power.

The domination of family and kinship institutions in listed firms can be seen as informal pressures (i.e., coercive pressures) exerted on listed firms. It appears that the family believes that this is the best way to guarantee success and survival and, thus, the legitimacy of the firm, while these processes seem to guarantee only the family's ownership and interests. From neo-institutional perspective, this is seen as a form of coercive isomorphism, where the family seeks legitimacy through exerting its informal pressures on listed firms to serve its own interests. These findings of both family and kinship institutions increase our knowledge on the negative influence of both institutions on the emergence and development of a CG regime in a non-Western, emerging society context and, thus, contribute to the literature in the field of corporate governance and institutional theory.

With regards to an expression of the bureaucratic state represented by its key actor, the CMA, the findings of this research study revealed that the regulatory authority represented by the CMA—as a formal expression of the bureaucratic state—positively influences the emergence and development of the CG regime in the Saudi Arabian non-Western, emerging society context through six apparent dimensions: (1) imposed compliance, (2) bare minimum compliance, (3) exceeding minimum compliance (best practice), (4) implementation: the regulatory role, (5) implementation: the awareness/cooperative/partnership role, and (6) regulations failure. It is worth noting that there is arguably not enough focus in the literature on the influence of the bureaucratic state on the

emergence of CG systems. Therefore, this research study attempts to add to the knowledge and expand the boundaries of this concept in this field.

In terms of imposed compliance, the findings suggest that if compliance with CG rules is seen as an imposed system, then this formal pressure from the state forms a coercive isomorphism from a neo-institutional perspective. As far as a number of social actors have the impression that CG is an imposed system by the regulatory authority, the observation appears to lean towards negative compliance with CG rules by listed firms. The risk that CG becomes a token gesture complied with only to avoid penalties means that the spirit of CG would become lost in a system of firms that sees it as a hindrance as opposed to a positive development. Thus, the task of complying with CG rules by listed firms is being accomplished but lacks the sincerity of a genuine embracement of CG principles.

In terms of bare minimum compliance, the findings suggest that compliance is seen as an expense in several instances. Some firms appear to cooperate with the minimum only to avoid penalties and do not go beyond the minimum, which in some cases implies a lack of genuine interest and effort towards CG. So in understanding the influence of the regulatory and legislative institution on the emergence and use of CG in a non-Western, emerging society context, there is a distinct danger of apathy in which the system is seen as an aggravation to other institutional pressures, or is seen as a cost, or is seen as a penalising system designed to coerce the application of CG based on the threat of penalties or sanctions for non-compliance. In this manner, firms may reject the voluntary pursuit of best CG practices owing to a negative image of the system and its intentions. This would be to the detriment of the emergence

of an effective long-term CG regime. Compliance with CG rules to the bare minimum can also be seen as a form of cognitive legitimacy (Deephouse and Suchman, 2008) because this compliance appears to be ‘inevitable’. Thus, listed firms seek this legitimacy in order to pursue continuity (Suchman, 1995) but going beyond any minimum parameters is subsequently deemed unnecessary.

In terms of exceeding bare minimum compliance, the findings suggest that some firms demonstrate genuine interest towards improving CG practices in this non-Western, emerging society context. It can be also inferred that these firms try to avoid uncertainty—in that there might be symbolic uncertainty—unclear objectives of complying with CG rules, or lack of understanding the main values and benefits of complying with CG rules. In this case, listed firms exceed compliance with the bare minimum by mimicking international CG practices that are professional, appropriate, or modern, which may promote a better CG system in this non-Western, emerging society context. This can be viewed as mimetic isomorphism from a neo-institutional perspective. Neo-institutional theory focuses on legitimacy; however, legitimisation mechanisms do not explain why this group of firms operates beyond the bare minimum to comply with CG regulations. It is suggested that there might be increased pressures exerted by an ‘international institution’ to comply at greater levels. This contributes to the understanding of why some firms exceed bare minimum compliance within non-Western, emerging societies.

In terms of the implementation of CG and the regulatory role, the findings suggest that this is one of the roles played by the regulatory authority for driving less or non-responsive listed firms to implement CG practices.

However, the procedures taken here may increase transaction costs for the regulatory authority because correction procedures are subject to process losses, which theorists of the new institutional economics (e.g. Williamson, 1988) see as requiring non-regulatory procedures, that is, ones that increase the self-desire to comply with and implement CG rules. Williamson (1996) emphasises that the CG problem of TCE is not only protection of shareholders' rights, but also the efficient achievement of transactions by firms within their political and cultural environment. Moreover, the regulatory role of the CMA can be seen as a normative isomorphism from a neo-institutional perspective. This role is played by the CMA, as a professional body, to establish environmental forms that are consistent with their objectives. The CMA, as a professional body, tends to have strong networks with their referent bodies, which establish the standards for professional behaviour.

In terms of implementation and the awareness/cooperative/partnership role, the outcomes suggest that this is another role played by the CMA for encouraging responsive firms to implement CG practices and engage the broad spirit of CG regulations. This appears to be helpful in a way to reduce transaction costs that can be caused by less or non-responsive firms from a new institutional economics perspective. In addition, neo-institutional theory indicates that firms comply with institutional pressures to achieve legitimacy in their operating environment but in this instance, legitimacy can be achieved by simple minimum compliance. Those that view the CMA more positively appear to go beyond minimum requirements to implement additional CG efforts. Legitimation as a mechanism then does not explain this increased endeavour by some firms over others. It does not seem that there are specific institutional pressures from elsewhere as to why this is being seen as

burdensome or as positive, which suggests that institutional theory alone cannot explain some of the events around the emergence of a CG system and compliance with regime in a non-Western, emerging society context.

In terms of regulations failure, the findings suggest that CG regulations are vulnerable to failing to achieve desired or intended outcomes. This appears to be related to the agency problem of moral hazard. Moreover, the findings revealed that the time factor seems important in strengthening the CMA—as a formal expression of the bureaucratic state—in order to set a dominant CG system and regime at the ‘expense’ of the influential and dominant family and kinship institutions that are being attenuated by the bureaucratic state through its actor, the CMA, by turning voluntary items to mandatory ones and increasing supervision and audit processes in this non-Western, emerging society. It is also a matter of time for the market institution to have an influence on the development of the CG system in this non-Western, emerging society. Therefore, the findings of this research study may vary over time due to the variation of theoretical effects over time. Whetten (1989) points out that the time interval is an important factor in theoretical development as it places limitations on the study and sets the boundaries of its generalisability, and as such constitutes the range of the theory.

The findings also did not capture any potential relationship between the bureaucratic state and both family and kinship institutions in favour of the argument that the CMA may treat firms with family backgrounds differently from those firms who do not have any family background. So it appears that the CMA does not play the regulatory role differently with respect to family controlled firms versus non-family controlled firms. This observation has not

been captured in this research study and, thus, it cannot be judged whether there is a relationship between the bureaucratic state and both family and kinship institutions in this regard.

With regards to religion institution, the findings of this research study revealed that the religion institution, as an informal institution, can positively influence the emergence and development of the CG regime in the Saudi Arabian non-Western, emerging context through three apparent dimensions: (1) association (similar principles), (2) implementation in a supportive role, and (3) compliance (Sharia compliance).

In terms of an association between religion and CG principles, the findings suggest that both the religion in this non-Western, emerging society and a CG system share similar principles that lead to common objectives. As a CG system looks forward to achieve best practice, other factors, such as moral factors (e.g. the religion) should be taken into account. This would help to accelerate the process of achieving CG objectives in a non-Western, emerging society in which religion provides a strong moral compass and is adhered to or seen as a strong institution. As far as CG shares similar principles with the religion in this non-Western emerging society, it appears that the CG system can then gain greater acceptance by people in this context, which serves the emergence and development of a CG regime in this society. However, and perhaps importantly, the extent to which this is achieved is in part dependent on communicating effectively the similarity between a CG system and its principles or rules in relation to religious rules accepted by the society. This provides a basis to legitimise CG in the face of other competing institutional pressures.

In terms of the religion institution playing a supportive role in CG implementation, the outcomes suggest that the religion in this society does play a supportive role on the development of the CG system. So the religion does not exert any contradictory or competing institutional pressure on implementing CG practices, but can motivate social actors to implement CG practices instead and potentially go beyond the minimum in doing so. This is because the religion in this society is strong and its principles are being embraced by the majority of the population. Thus, it influences the development of a CG system in this non-Western, emerging society context.

In terms of Sharia compliance, the findings suggest that there are a number of listed firms that comply with Sharia-based law in a manner that is symbolic of CG. This compliance is supervised by an external Sharia board and is optional for listed firms to comply with Sharia-based law or not. In this non-Western, emerging society, complying with Sharia-based law appears to be important to some investors as it gains their appetite and confidence to invest in this market, and meet the desire of some shareholders to trade in such an environment. Thus, complying with Sharia-based law appears to have a role on the emergence of a CG regime in this context. As a result, the religion appears to have a bearing on the emergence and development of CG systems in this society. Compliance with Sharia-based law can also be seen as a form of moral legitimacy (Deephouse and Suchman, 2008) that is based on normative approval and includes procedures, structures, and consequences. This seems to be a way of seeking support and pursuing credibility and continuity in this environment (Suchman, 1995).

Given that some firms operate with the bare minimum of compliance in a context that includes family and kinship institutions with apparent negative influence on CG development, the religion in this society can be viewed as a rigorous platform for building CG practices. The CMA can promote the logic of CG in line with Sharia principles. This would have a greater likelihood of acceptance of CG and likely increase compliance and its attractiveness to businesses. These firms comply with CG rules simply to avoid penalties. In this sense, the CMA has an opportunity to frame the CG system in line with Sharia understandings which can lead to a better basis for compliance by cooperation, rather than coercion, in this non-Western, emerging society context.

10.2 Practical Implications

A number of practical implications for regulatory bodies arose when the data were analysed, interpreted, discussed and compared with the existing literature in Chapters 7, 8, and 9. This section will summarise these implications.

It has been revealed that the Saudi Arabian CG document was not created in response to the multiple financial crises or any historical experiences. Rather, it was adopted from different resources such as the CG document of the UK and the USA, and OECD practices with some superficial customisations. However, based on the outcomes of this research, it is suggested that an in-depth and context-specific account of the institutions in this non-Western, emerging society should be taken. For example, the CG document should pay more attention to the detailed kinship relations in this society such as nephews, cousins, sisters' husbands, and any others who do not hold the same

family name and are being appointed as board members where it is harder to discover that they are relatives of the family. The CG document can then include these hidden or unseen relationships in its regulations for selecting and appointing board members. With regards to the religion institution, it was revealed in this research study that religion can play a supportive role with the CG system in this non-Western, emerging society context due to the associated principles that they share. Therefore, the CG system in this society can leverage this opportunity to advertise and promote the application of CG practices for non-listed firms to become public ones and for listed firms to improve the stock market.

More suggestions offered by this research include the interaction among family and kinship institutions as pressure against compliance. In this sense, the CMA can raise the awareness of the importance of being more transparent with shareholders and other stakeholders for better long term durability of firms and better credibility of firms with respect to their shareholders. This would also increase the reputation of firms in the market, domestically and perhaps internationally. Furthermore, the potential of an institutional hierarchy in which some institutions over-rule the pressures of others such that which form of legitimacy is seen as important for the firm and its board or owners has to be accounted for. Determining priorities appears to be useful in establishing a rigorous CG regime in such contexts. Moreover, there is a need to think about how to foster embracement and active compliance against coerced compliance and potentially change the sanction regime to reflect this. This might find more acceptance by less-responsive firms to genuinely comply with the CG regime in this non-Western, emerging society.

Further suggestions offered by this research include the need to pay more attention to the areas that might not be covered by existing knowledge of CG, such as offering better understanding of the institutional impacts on CG in non-Western, emerging society contexts. Understanding institutional influences on CG can offer new insights to help adapt such recommendations from this research study in future studies on CG in institutional contexts. It may also help to adapt the practical recommendations from this study to assist in promoting a more stable market and reduce the institutional impact which in turn, reduces the impact or likelihood of a financial crisis on the market.

10.3 Limitations of the Study and Directions for Future Research

Although this research study offered a number of new insights using academic methods to explain the phenomenon and understanding of the research problem, a number of limitations need to be considered. These limitations offer some exploratory and investigative opportunities for future research.

It has been indicated previously that over time, institutional theory is being developed with continuous critiques and revisions. This indicates that there is, to an extent, a shortcoming and limitation in the use of institutional theory itself. For example, institutional logics (Thornton and Ocasio, 2008) and institutional work (Lawrence and Suddaby, 2006) have emerged as outcomes of this continuous development of institutional theory.

Watson (2012: 135) defines institutional logics as:

the sets of values, rules, assumptions and practices associated with key institutions of a society which have been socially constructed over time and through which patterns of social organization and human activity are shaped and given meaning.

Institutional logics provide a link between institutions and human actions which in turn enables institutional logics to provide a bridge between the macro structural perspectives of Meyer and Rowan (1977) and DiMaggio and Powell (1983) and Zucker's (1977) micro-perspective. Thus, the term 'institutional logics' has gained interest among scholars. This perspective can explain the tension between institutions as it enables and constrains human actions as well as it involving the shaping of organisations. Therefore, employing institutional logics in this research study can offer further insights, such as exploring potential tension between institutions. Exploring tension between institutional logics is potentially important in the process of both social and organisational change (Watson, 2012).

Lawrence and Suddaby (2006: 215) define institutional work as:

the purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions.

The study of institutional work focuses on how action affects institutions (Lawrence et al., 2009). Research on this theoretical perspective examines the practices of individual and collective actors intended for creating, maintaining, and disrupting institutions (Lawrence et al., 2011). As far as institutional work also brings the interest in agency within institutional theory (Lawrence and

Suddaby, 2006), it has the potential to open up space for new discussions on corporate governance practices. Agency is an on-going activity where actors reflect on and strategically operate within the institutional context where they are embedded (Lawrence et al., 2011). Those actors are culturally competent actors with robust practical skills and sensibility who creatively navigate inside their organisational fields (Lawrence and Suddaby, 2006) such as corporate governance managers who are institutionally embedded in their societies.

This research study targeted significant social actors who have a background in CG such as CG managers of listed firms, regulatory authority officials, and stock exchange representatives to gain their perception of issues pertinent to the research study, its themes and research questions. Since the influential institutions in this emerging society are explored in this research study, different social actors from these institutions can be interviewed to gain more insights about the impact of these institutions on CG. For example, religious people can be interviewed to gain their perceptions on the role and influence of religion institution on the emergence of a CG regime. Additionally, a fruitful avenue for future research may consider the influence of an 'international institution' on CG practices as it has been revealed in this research that there might be international pressures exerted by this institution to comply at greater levels. This would increase our understanding about institutions and their impact on the development of CG practices.

The data and findings informed by this research study were based on a single non-Western, emerging society context, Saudi Arabia. Thus, this may raise questions about the direct generalisation of the outcomes to other non-Western, emerging societies or at least ones that differ in nature from Saudi

Arabia (in institutional terms). As a result, further research needs to be conducted in further non-Western, emerging societies in order to advance the understanding of the influence of institutions on the emergence of CG regimes in such contexts.

10.4 Conclusions

Recent studies highlight the importance of improving CG practices worldwide. This importance arises primarily from the major financial crises in which poor CG systems played a role. Mitton (2002) argues that recent research highlights the importance of understanding CG in emerging societies in order to understand what causes financial crises in these contexts (e.g. La Porta et al., 1997, 1998, 1999, 2000). Improving our understanding of CG therefore will contribute to help reduce the impact of financial crises and collapses as well as their occurrence. This research study focused on understanding different institutions in a non-Western, emerging society context and their influence on the formation and development of a corporate governance system from an institutional theory perspective as perceived by significant social actors. This can be summarised as, firstly, understand what institutions in a non-Western, emerging society context (in this case, Saudi Arabia) consist of as perceived by significant social actors; and secondly, understand what the likely influences of Saudi Arabian (as a non-Western, emerging society) institutions are on the emergence, development, and implementation of CG by conducting semi-structured interviews with significant social actors.

Its conclusion, based on the perception of significant social actors explored in the study, suggests that both family and kinship institutions negatively impact

the emergence and development of CG in the Saudi Arabian non-Western, emerging society. Moreover, it was perceived that the family controls the decision making in listed companies and can still abuse the system through selecting and appointing board members. The family shareholders resist the move to separate ownership and control and the CG rules of the CMA that are in favour of other shareholders' protection and interests and create conflict of interest that serve the family's interests. It was also perceived that relatives affiliated to the founding families can dominate the decision making in the firms and abuse the system through none or less independence from ownership and control.

Moreover, the findings also suggest that the formal expression of the bureaucratic state plays a regulatory role with less or non-responsive listed firms and plays a cooperative/awareness/partnership role with responsive listed firms in order to implement CG practices. This is seen as imposed compliance by some listed firms so they comply with the bare minimum. Other listed firms take the initiative and show genuine interest towards complying with a CG system so they exceed the bare minimum in order to achieve best practice.

Furthermore, the findings suggest that the religion in this society is strong and has a supportive role in implementing CG practices because a CG system shares similar principles with the religion and, thus, they both call for common objectives. Additionally, a group of listed firms comply with Sharia based-law which enhances the compliance with CG rules as perceived by significant social actors.

This research study proposed significant contributions to the corporate governance and institutional theory literature. It generated a better understanding about the impact and the role played by institutional factors in changing the formation, implementation and likely success of corporate governance frameworks in a context very different to historical treatments of corporate governance (which are largely based on Western societies with little to no treatment of alternative contexts with very different institutional conditions). By understanding this from the institutional theory perspective and, as perceived by significant social actors, the theoretical contribution of the study is to explore how institutions might influence the emergence of corporate governance and the reasons why such potentially idiosyncratic formation might occur. In essence, this study is an attempt to move away from the one-size-fits-all traditional corporate governance research to question how and why corporate governance might need to evolve differently, depending on the institutions at play. The propositions of this study might also form the basis for productive future investigation and research in other non-Western, emerging societies.

References

- Abdeen, A. and Yavas, U. (1985) 'Current status of accounting education in Saudi Arabia'. *International Journal of Accounting Education and Research*, vol. 20, no. 2, pp. 155-173.
- Abu-Tapanjeh, A. (2009) 'Corporate governance from the Islamic perspective: A comparative analysis with OECD principles'. *Critical Perspectives on Accounting*, vol. 20, pp. 556-567.
- Agrawal, A. and Chadha, S. (2005) 'Corporate governance and accounting scandals'. *Journal of Law and Economics*, vol. 48, pp. 371-406.
- Aguilera, R. and Cuervo-Cazurra, A. (2009) 'Codes of good governance'. *Corporate Governance: An International Review*, vol. 17, no. 3, pp. 376-387.
- Aguilera, R. and Jackson, G. (2003) 'The cross-national diversity of corporate governance: Dimensions and determinants'. *Academy of Management Review*, vol. 28, no. 3, pp. 447-465.
- Al-Amoudi, I. and Willmott, H. (2011) 'Where constructionism and critical realism converge: Interrogating the domain of epistemological relativism'. *Organization Studies*, vol. 32, pp. 27-46.
- Alexander, G. (2001) 'Institutions, path dependence and democratic consolidation'. *Journal of Theoretical Politics*, vol. 13, no. 3, pp. 249-270.
- Alexander, J. (1983) *Theoretical Logic in Sociology*. Vols. 1-4. Berkeley: University of California Press.
- Alghamdi, S. (2012) Investigation into Earnings Management Practices and the Role of Corporate Governance and External Audit in Emerging Markets: Empirical Evidence from Saudi Listed Companies, Durham theses, Durham University. Available at Durham E-Theses Online: <http://etheses.dur.ac.uk/3438/>
- Ali, A. and Al-Shakis, M. (1985) 'Managerial value systems for working in Saudi Arabia: An empirical investigation'. *Group & Organization Management*, vol. 10, no. 2, pp. 135-151.
- Allen, F. (2005) 'Corporate governance in emerging economies'. *Oxford Review of Economic Policy*, vol. 21, pp. 164-177.
- Allen, F., Carletti, E., and Marquez, R. (2007) 'Stakeholder capitalism, corporate governance and firm value'. Working paper, Wharton School.
- Altorki, S. (1980) 'Milk-kinship in Arab society: An unexplored problem in the ethnography of marriage'. *Ethnology*, vol. 19, no. 2, pp. 233-244.

- Al-Turaiqi, A. (2008) *The Political System of Saudi Arabia*. London: Ghainaa Publication.
- AMEinfo. (2007) *Gulf Investors Prefer Financials, See Corporate Governance as Critical*. [online] Available from: <http://www.ameinfo.com>. [Accessed: 11th April 2010].
- Aminzade, R. (1992) 'Historical sociology and time'. *Sociological Methods and Research*, vol. 20, pp. 462–467.
- Anderson, R. and Reeb, D. (2003) 'Founding-family ownership and firm performance: Evidence from the S&P 500'. *The Journal of Finance*, vol. 58, no. 3, pp. 1301-1327.
- Anderson, R., Mansi, S. and Reeb, D. (2003) 'Founding family ownership and the agency cost of debt'. *Journal of Financial Economics*, vol. 68, pp. 263–285.
- Andres, P. and Vallelado, E. (2008) 'Corporate governance in banking: The role of board of directors'. *Journal of Banking and Finance*, vol. 32, pp. 2570–2580.
- Aoki, M. (1996) 'Towards a comparative institutional analysis: Motivations and some tentative theorizing'. *Japanese Economic Review*, vol. 47, no. 1, pp. 1-19.
- Archer, M., Bhaskar, R., Collier, A., Lawson, T., and Norrie, A., (eds.) (1998). *Critical Realism: Essential Readings*. London: Routledge.
- Archibald, M. (2004) 'Between isomorphism and market partitioning: How organizational competencies and resources foster cultural and sociopolitical legitimacy, and promote organizational survival', in C. Johnson (ed.) *Research in the Sociology of Organizations*. Amsterdam: Elsevier JAI, vol. 22, pp. 171–211.
- Argryis, C. (1964) *Integrating the Individual and the Organization*. New York: Wiley.
- Arksey, H. and Knight, P. (1999). *Interviewing For Social Scientists: An Introductory Resource with Examples*. London, California, USA: SAGE Publications Ltd.
- Aronson, J. (1994) 'A pragmatic view of thematic analysis'. *The Qualitative Report*, vol. 2, no. 1, pp. 1-3.
- Arrow, K. (1969) 'The organization of economic activity: Issues pertinent to the choice of market versus nonmarket allocation'. *The Analysis and Evaluation of Public Expenditure: the PPB System*, vol. 1, pp. 59-73.
- Arthur, W. (1988). *Urban Systems and Historical Path-Dependence*. Stanford: Stanford Institute for Population and Resource Studies.
- Arthur, W. (1989) 'Competing technologies, increasing returns, and lock-in by historical events'. *The Economic Journal*, vol. 99, no. 394, pp. 116-131.

- Arthur, W. (1990) ‘‘Silicon Valley’ Locational clusters: When do increasing returns imply monopoly?’. *Mathematical Social Sciences*, vol. 19, no. 3, pp. 235-251.
- Arthur, W. (1994) *Increasing Returns and Path Dependence in the Economy*. Ann Arbor: University of Michigan Press.
- Arthur, W., Ermoliev, Y., and Kaniovski, Y. (1987) ‘Path-dependent processes and the emergence of macro-structure’. *European Journal of Operational Research*, vol. 30, no. 3, pp. 294-303.
- Asad, T. (1993) *Genealogies of Religion: Discipline and Reasons of Power in Christianity and Islam*. Baltimore, MD: Johns Hopkins University Press.
- Ashforth, B. and Gibbs, B. (1990) ‘The double-edge of organizational legitimation’. *Organization Science*, vol. 1, pp. 177-194.
- Askary, S. (2006) ‘Accounting professionalism: A cultural perspective of developing countries’. *Managerial Auditing Journal*, vol. 21, no. 1, pp. 102-111.
- Bailey, C. (1996) *A Guide to Field Research*. Thousand Oaks, CA London: Pine Forge Press.
- Bansal, P. and Clelland, I. (2004) ‘Talking trash: Legitimacy, impression management, and unsystematic risk in the context of the natural environment’. *Academy of Management Journal*, vol. 47, pp. 93–103.
- Barley, S. and Tolbert, P. (1997) ‘Institutionalization and structuration: Studying the links between action and institution’. *Organization Studies*, vol. 18, no.1, pp. 93-117.
- Bartholomeusz, S. and Tanewski, G. (2006) ‘The relationship between family firms and corporate governance’ *Journal of Small Business Management*, vol. 44, no. 2, pp. 245-267.
- Bebchuk, L. and Roe, M. (1999) ‘A theory of path dependence in corporate ownership and governance’. *Stanford Law Review*, pp. 127-170.
- Becht, M., Bolton, P. and Roell, A. (2002) ‘Corporate Governance and Control’, in Harris and Stulz, (eds.) *Handbook of Economics and Finance*. North Holland, vol. 1, pp. 1-109.
- Becker, G. (1976) *The Economic Approach to Human Behavior*. Chicago: University of Chicago Press.
- Beckford, J. (2003) *Social Theory and Religion*. Cambridge: Cambridge University Press.
- Belardinelli, S. (2002) ‘The evolution of family institution and its impact on society and business’. *Family Business Review*, vol. 15, no. 3, pp. 169-173.

- Ben-Amar, W. and André, P. (2006) 'Separation of ownership from control and acquiring firm performance: The case of family ownership in Canada' *Journal of Business Finance and Accounting*, vol. 33, no. 3, pp. 517-543.
- Berger, P. (1967) *The Sacred Canopy: Elements of a Sociological Theory of Religion*. Garden City: Doubleday.
- Berle, A. and Means, G. (1932) *The Modern Corporation and Private Property*. Transaction Publishers.
- Berman, S. (1998) 'Path dependency and political action: Re-examining responses to the depression'. *Comparative Politics*, pp. 379-400.
- Bhaskar, R. (1975) *A Realist Theory of Science*. London: Verso.
- Bhaskar, R. (1978) *A Realist Theory of Science*. Hassocks, Sussex Atlantic Highlands, N.J., Harvester Press; Humanities Press.
- Bhaskar, R. (1979) *The Possibility of Naturalism*. Brighton: Harvester.
- Bhaskar, R. (1989) *Reclaiming Reality: A Critical Introduction to Contemporary Philosophy*. London: Verso.
- Bhaskar, R. (1993) *Dialectic: The Pulse of Freedom*. London: Verso.
- Bhaskar, R. (1998a) General Introduction. *Critical Realism: Essential Readings*. Archer, M. Bhaskar, R. Collier, A. Lawson, T. and Norrie, A. London, Routledge, pp. ix-xxiv.
- Bhaskar, R. (1998b) Philosophy and scientific realism. *Critical Realism: Essential Readings*. Archer, M. Bhaskar, R. Collier, A. Lawson, T. and Norrie, A. London, Routledge, pp. 16-47.
- Bhaskar, R. (2008) *A Realist Theory of Science*. New York: Routledge.
- Bhatti, M. and Bhatti, M. (2010) 'Toward understanding Islamic corporate governance issues in Islamic finance'. *Asian Politics and Policy*, vol. 2, no. 1, pp. 25-38.
- Bill, J. and Hardgrave, R. (1981) *Comparative Politics: The Quest for Theory*. Columbus, Ohio: Merrill.
- BIS (2013) Bank for International Settlements. Available on: <http://www.bis.org>. [accessed on: 12th Feb 2013]
- Boas, F. (1974) *The Shaping of American Anthropology, 1883-1911*. A Franz Boas Reader (ed.) Stocking, G., New York: Basic Books.
- Bourdieu, P. (1994) 'Rethinking the state: Genesis and structure of the bureaucratic field'. *State/culture: State-formation After the Cultural Turn*, pp. 53-75.

- Bowie, F. (2006) *The Anthropology of Religion*, 2nd edition. Oxford: The Blackwell Companion to the Study of Religion.
- Boyatzis, R. (1998) *Transforming Qualitative Information: Thematic Analysis and Code Development*. Thousand Oaks, CA: SAGE Publications, Incorporated.
- Bradley, M., Schipani, C., Sundaram, A., and Walsh, J. (1999) 'The purposes and accountability of the corporation in contemporary society: Corporate governance at a crossroads'. *Law and Contemporary Problems*, vol. 62, no. 3, pp. 9-86.
- Braun, V. and Clarke, V. (2006) 'Using thematic analysis in psychology'. *Qualitative Research in Psychology*, vol. 3, no. 2, pp. 77-101.
- Briton, M. and Nee, V. (2001) *The New Institutionalism in Sociology*. Stanford: Stanford University Press.
- Brudney, V. (1985) 'Corporate governance, agency costs, and the rhetoric of contract'. *Columbia Law Review*, pp. 1403-1444.
- Bryman, A. (2004) *Social Research Methods*, 2nd edition. New York: Oxford University Press
- Bryman, A. (2008) *Social Research Methods*, 3rd edition. New York: Oxford University Press.
- Bryman, A. (2012) *Social Research Methods*, 4th edition. New York: Oxford University Press.
- Bryman, A. and Bell, E. (2007) *Business Research Methods*, 2nd edition. New York: Oxford University Press.
- Burch, P. (1972) *The Managerial Revolution Reassessed: Family Control in America's Large Corporations*. Lexington: Lexington Books.
- Burgess, J. (1902) *Political Science and Comparative Constitutional Law*. Boston: Ginn
- Burke, P. and Reitzes, D. (1981) 'The link between identity and role performance'. *Social Psychology Quarterly*, pp. 83-92.
- Burkitt, I. (1999) *Bodies of Thought: Embodiment, Identity, and Modernity*. London: Thousand Oaks. Calif.: Sage Publications.
- Burns, J. and Scapens, R. (2000) 'Conceptualizing management accounting change: An institutional framework'. *Management Accounting Research*, vol. 11, no. 1, pp. 3-25.
- Burr, V. (2003). *Social Constructionism*, 2nd edition. London: Routledge.

- Cadbury (1992) Cadbury Committee on the Financial Aspects of Corporate Governance, ISBN 0-85258-915-8. [Online] Available from: <http://www.ecgi.org/codes/documents/cadbury.pdf> [Accessed: 22nd Nov 2012]
- Calabrò, A. and Mussolino, D. (2011) 'How do boards of directors contribute to family SME export intensity? The role of formal and informal governance mechanisms' *Journal of Management and Governance*, pp. 1-41.
- Caldwell, B. (2003). *Beyond Positivism*, 2nd edition. London: Routledge.
- Carney, M. (2005) 'Corporate governance and competitive advantage in family-controlled firms'. *Entrepreneurship Theory and Practice*, vol. 29, no. 3, pp. 249-265.
- Chandler, A. (1962) *Strategy and Structure: Chapters in the History of the American Enterprise*. Cambridge: Massachusetts Institute of Technology Press.
- Chang, H. (2001) 'Breaking the mould: An institutionalist political economy alternative to the neoliberal theory of the market and the state'. *Programme Paper (SPD)* no. 6, Geneva: UNRISD.
- Che, J., and Qian, Y. (1998) 'Institutional environment, community government, and corporate governance: Understanding China's township-village enterprises'. *Journal of Law, Economics, and Organization*, vol. 14, no. 1, pp. 1-23.
- Chen, C. and Jaggi, B. (2000) 'Association between independent non-executive directors, family control and financial disclosures in Hong Kong'. *Journal of Accounting and Public Policy*, vol. 19, pp. 285–310.
- Choi, B. and Pak, A. (2005) 'A catalog of biases in questionnaires'. *Preventing Chronic Disease*, vol. 2, no. 1, pp. 1-13.
- Choudhury, M. and Hoque, M. (2006) 'Corporate governance in Islamic perspective'. *Corporate Governance*, vol. 6, no. 2, pp. 116-128.
- Cioffi, J. (2000) 'Governing globalization? The state, law, and structural change in corporate governance'. *Journal of Law and Society*, vol. 27, no. 4, pp. 572-600.
- Claessens, S. (2006) 'Corporate governance and development'. *The World Bank Research Observer*, vol. 21, no. 1, pp. 91-122.
- Claessens, S., Djankov, S., and Lang, L. (2000) 'The separation of ownership and control in East Asian corporations'. *Journal of Financial Economics*, vol. 58, no. 1, pp. 81-112.
- Clarke, T. (ed.) (2004) *Theories of Corporate Governance*. New York: Routledge, pp. 1-31.
- Clegg, S. (1989) *Frameworks of Power*. Newbury Park: SAGE Publications Limited.

- Clegg, S. (2010) 'The state, power, and agency: Missing in action in institutional theory?'. *Journal of Management Inquiry*, vol. 19, no. 1, pp. 4-13.
- CMA (2013) Capital Market Authority. Available on: <http://www.cma.org.sa>. [Accessed: 25th Feb 2013]
- Coase, R. (1937) 'The nature of the firm', in Williamson, O. and Winter, S. (eds.) *The Nature of the Firm: Origins, Evolution, and Development*. New York: Oxford University Press, pp. 18-33.
- Coase R. (1938) 'Business organization and the accountant'. *The Accountant* (October–December). Reprinted in Solomons D. (ed.) 1952. *Studies in Costing*. London: Sweet and Maxwell, pp. 105–158.
- Coase, R. (1960) 'The problem of social cost'. *Journal of Law and Economics*, vol. 3, pp. 1-44.
- Coffee, J. (1984) 'Regulating the market for corporate control: A critical assessment of the tender offer's role in corporate governance'. *Columbia Law Review*, vol. 84, no. 5, pp. 1145-1296.
- Coffee J. (1998) 'Future as history: The prospects for global convergence in corporate governance and its implications'. *Northwestern University Law Review*, vol. 93, pp. 641-708.
- Coffee J. (2002) 'Racing towards the top: The impact of cross-listing and stock market competition on international corporate governance'. *Columbia Law Review*, vol. 102, pp. 1757-1831.
- Colyvas, J. and Powell, W. (2006) 'Roads to institutionalization: The remaking of boundaries between public and private science'. *Research in Organizational Behavior*, vol. 27, pp. 305-353.
- Comaroff, J. and Comaroff, J. (1991) *Of Revelation and Revolution*. Chicago: University of Chicago Press.
- Commons, J. (1924) *The Legal Foundations of Capitalism*. New York: Macmillan.
- Contu, A. and Willmott, H. (2005) 'You spin me round: The realist turn in organization and management studies'. *Journal of Management Studies*, vol. 42, no. 8, pp. 1645-1662.
- Cornett, M., Guo, L., Khaksari, S., and Tehranian, H. (2010) 'The impact of state ownership on performance differences in privately-owned versus state-owned banks: An international comparison'. *Journal of Finance Intermediation*, vol. 19, no. 1, pp. 74-94.
- Covaleski, M., Dirsmith, M., and Michelman, J. (1993) 'An institutional theory perspective on the DRG framework, case-mix accounting systems and health-care organizations'. *Accounting, Organizations and Society*, vol. 18, no. 1, pp. 65-80.

- Creswell, J. (1994) *Research Design: Qualitative and Quantitative Approaches*. Thousand Oaks: Sage Publications.
- Creswell, J. (2003) *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. London: Sage Publications.
- Creswell, J. (2009) *Research Design: Qualitative, Quantitative and Mixed Methods Approaches*. Thousand Oaks, CA: Sage Publications.
- Crotty, M. (2007) *The Foundations of Social Research: Meaning and Perspective in the Research Process*. London: SAGE Publications Ltd.
- Daily, C., Dalton, D., and Cannella, A. (2003) 'Corporate governance: Decades of dialogue and data'. *Academy of Management Review*, vol. 28, no. 3, pp. 371-382.
- Dalton, D., Daily, C., Ellstrand, A., and Johnson, J. (1998) 'Meta-analytic reviews of board composition, leadership structure, and financial performance'. *Strategic Management Journal*, vol. 19, no. 3, pp. 269-290.
- D'Andrade, R. (1984) 'Cultural meaning systems', in Shweder, R. and LeVine, R. (eds.) *Culture Theory*. Cambridge: Cambridge University Press, pp. 88-119.
- Davie, G. (2006) 'Sociology of religion'. *The Blackwell Companion to the Study of Religion*, vol. 43, pp. 171.
- Davis, G. (2005) 'New directions in corporate governance'. *Annual Review of Sociology*, pp. 143-162.
- Davis, G. and Marquis, C. (2005) 'Prospects for organizational theory in the early 21st century: Institutional fields and mechanisms'. *Organization Science*, vol. 16, pp. 332-343.
- Davis, G. and Thompson, T. (1994) 'A social movement perspective on corporate control'. *Administrative science quarterly*, pp. 141-173.
- Davis, G. and Useem, M. (2002) 'Top management, company directors, and corporate control'. *Handbook of Strategy and Management*, pp. 233-259.
- Davis, J., Schoorman, F., and Donaldson, L. (1997) 'Toward a stewardship theory of management'. *Academy of Management Review*, vol. 22, no. 1, pp. 20-47.
- de Vaus, D. (2001) *Research Design in Social Research*. London: SAGE Publications Ltd.
- Deephouse, D., and Suchman, M. (2008) 'Legitimacy in organizational institutionalism', in Greenwood, R., Oliver, C., Suddaby, R., and Sahlin, K. (eds.) *The Sage Handbook of Organizational Institutionalism*. Thousand Oaks, CA: SAGE Publications, pp. 49-77.
- Demsetz, H., and Lehn, K. (1985) 'The structure of corporate ownership: Causes and consequences'. *The Journal of Political Economy*, vol. 93, no. 6, pp. 1155-1177.

- Denis, D., and McConnell, J. (2003) 'International corporate governance'. *Journal of Financial and Quantitative Analysis*, vol. 38, no. 1, pp. 1-36.
- Denscombe, M. (2002) *Ground Rules for Good Research: A 10 Point Guide for Social Researchers*. Buckingham: Open University Press.
- Dharwadkar, R., George, G., and Brandes, P. (2000) 'Privatization in emerging economies: An agency theory perspective'. *Academy of Management Review*, pp. 650-669.
- Diener, E. and Crandall, R. (1978) *Ethics in Social and Behavioral Research*. Chicago: University of Chicago Press.
- Dillard, J., Rigsby, J., and Goodman, C. (2004) 'The making and remaking of organization context: Duality and the institutionalization process'. *Accounting, Auditing and Accountability Journal*, vol. 17, no. 4, pp. 506-542.
- DiMaggio, P. (1988) 'Interest and agency in institutional theory'. *Institutional Patterns and Organizations: Culture and Environment*, pp. 3-22.
- DiMaggio, P. and Powell, W. (1983) 'The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields'. *American Sociological Review*, vol. 48, no. 2, pp. 113-123.
- DiMaggio, P. and Powell, W. (1991) *The New Institutionalism in Organizational Analysis*. Chicago: University of Chicago Press.
- Dittmar, A., Mahrt-Smith, J., and Servaes, H. (2003) 'International corporate governance and corporate cash holdings'. *Journal of Financial and Quantitative Analysis*, vol. 38, no. 1, pp. 111-134.
- Djankov, S. and Murrell, P. (2002) 'Enterprise restructuring in transition: A quantitative survey'. *Journal of Economic Literature*, vol. 40, no. 3, pp. 739-792.
- Djankov, S., Glaeser, E., La Porta, R., Lopez-de-Silanes, F., and Shleifer A. (2003) 'The new comparative economics'. *Journal of Comparative Economics*, vol. 31, pp. 595-619.
- Donaldson, L. and Davis, J. (1989) 'CEO governance and shareholder returns: Agency theory or stewardship theory'. Paper presented at the annual meeting of the Academy of Management, Washington, DC.
- Donaldson, L. and Davis, J. (1991) 'Stewardship theory or agency theory: CEO governance and shareholder returns'. *Australian Journal of Management*, vol. 16, no. 1, pp. 49-64.
- Donaldson, T. (2003) 'Corporate governance: What has happened to where we need to go'. *Business Economics*, vol. 38, no. 3, pp. 16-20.
- Donaldson, T. and Preston, L. (1995) 'The stakeholder theory of the corporation: Concepts, evidence, and implications'. *Academy of Management Review*, pp. 65-91.

- Dore, R. (1983) 'Goodwill and the spirit of market capitalism'. *British Journal of Sociology*, vol. 34, pp. 459-482.
- Dow, J. and Endersby, J. (2004) 'Multinomial probit and multinomial logit: a comparison of choice models for voting research'. *Electoral Studies*, vol. 23, no. 1, pp. 107-122.
- Durkheim, E. (1893/1949) *The Division of Labor in Society*. Glencoe, IL: Free Press.
- Easterby-Smith, M., Thorpe, R., and Lowe, A. (2002) *Management Research: An Introduction*, 2nd edition. London: Sage Publications.
- Eckstein, H. (1965) 'A perspective on comparative politics: Past and present', in Eckstein, H. and Apter, D. (eds.) *Comparative Politics*. New York: The Free Press, pp. 3-32.
- Eddleston, K. and Kellermanns, F. (2007) 'Destructive and productive family relationships: A stewardship theory perspective'. *Journal of Business Venturing*, vol. 22, no. 4, pp. 545-565.
- Eisenhardt, K. (1989) 'Agency theory: An assessment and review' *Academy of Management Review*, vol. 14, no. 1, pp. 57-74.
- El-Erian, M. and Kumar, M. (1995) 'Emerging equity markets in middle eastern countries'. *IMF Staff Papers*, vol. 42, pp. 313-343.
- Elson, C. and Gyves, C. (2003) 'The Enron failure and corporate governance reform'. *Wake Forest Law Review*, vol. 38, pp. 855-884.
- Eltony, M. and Babiker, M. (2005) 'Arab capital markets development and institutions'. *Journal of Economic and Administrative Sciences*, vol. 21, no. 1, pp. 42-63.
- Erkens, D., Hung, M., and Matos, P. (2012) 'Corporate governance in the 2007–2008 financial crisis: Evidence from financial institutions worldwide' *Journal of Corporate Finance*, vol. 18, no. 2, pp. 389-411.
- Espeland, W. and Hirsch, P. (1990) 'Ownership changes, accounting practice and the redefinition of the corporation'. *Accounting, Organizations and Society*, vol. 15, pp. 77–96.
- Evans, P. and Rauch, J. (1999) 'Bureaucracy and growth: A cross-national analysis of the effects of "Weberian" state structures on economic growth' *American Sociological Review*, vol. 64, no. 4, pp. 748-765.
- Ezzamel, M. and Willmott, H. (1993) 'Corporate governance and financial accountability: Recent reforms in the UK public sector'. *Accounting, Auditing and Accountability Journal*, vol. 6, no. 3, pp. 109-132.
- Fama, E. and Jensen, M. (1983) 'Separation of ownership and control'. *Journal of Law and Economics*, vol. 26, no. 2, pp. 301-325.

- Fang, H., Memili, E., Chrisman, J., and Welsh, D. (2012) 'Family firms' professionalization: Institutional theory and resource-based view perspectives'. *Small Business Institute Journal*, vol. 8, no. 2, pp. 12-34.
- Feldman, M. and Rafaeli, A. (2002) 'Organizational routines as sources of connections and understandings'. *Journal of Management Studies*, vol. 39, no. 3, pp. 309-331.
- Filatotchev, I., Lien, Y., and Piesse, J. (2005) 'Corporate governance and performance in publicly listed, family controlled firms: Evidence from Taiwan'. *Asia Pacific Journal of Management*, vol. 22, no. 3, pp. 257-283.
- Filatotchev, I. and Wright, M. (2011) 'Agency perspectives on corporate governance of multinational enterprises'. *Journal of Management Studies*, vol. 48, no. 2, pp. 471-486.
- Fine, G. and Sandstrom, K. (1993) 'Ideology in action: A pragmatic approach to a contested concept'. *Sociological Theory*, vol. 11, no. 1, pp. 21-38.
- Finnemore, M. (1996) 'Norms, culture, and world politics: Insights from sociology's institutionalism'. *International Organization*, vol. 50, pp. 325-47.
- Fiss, P. (2008) 'Institutions and corporate governance', in Greenwood, R., Oliver, C., Sahlin, K., and Suddaby, R. (eds.) *Handbook of Organizational Institutionalism*. London: SAGE Publications Ltd, pp. 389-410.
- Fleetwood, S. (2005) 'Ontology in organization and management studies: A critical realist perspective'. *Organization*, vol. 12, pp. 197-222.
- Fleetwood, S. and Ackroyd, S. (2004) *Critical Realist Applications in Organization and Management Studies*. London: Routledge.
- Fligstein, N. (1996) 'Markets as politics: A political-cultural approach to market institutions'. *American Sociological Review*, vol. 61, no. 4, pp. 656-673.
- Fligstein, N. (2001) *The Architecture of Markets: An Economic Sociology of Twenty-First Century Capitalist Societies*. Princeton: Princeton University Press.
- Fligstein, N. and Brantley, P. (1992) 'Bank control, owner control, or organizational dynamics: Who controls the large modern corporation?'. *American Journal of Sociology*, vol. 98, pp. 280-307.
- Fligstein, N. and Choo, J. (2005) 'Law and corporate governance'. *Annual Review of Law and Social Science*, vol. 1, pp. 61-84.
- Fligstein, N. and Mara-Drita, I. (1996) 'How to make a market: Reflections on the attempt to create a single market in the European Union'. *American Journal of Sociology*, vol. 102, no. 1, pp. 1-33.

- Fogel, R. and Engerman, S. (1971) 'The relative efficiency of slavery: A comparison of northern and southern agriculture in 1860'. *Explorations in Economic History*, vol. 8, no.3, pp. 353-367.
- Fogel, R. and Engerman, S. (1974) 'Philanthropy at bargain prices: Notes on the economics of gradual emancipation'. *Journal of Legal Studies*, vol. 3, pp. 377.
- Fowler, J. (2002) *Survey Research Methods*, 3rd edition. California: Sage Publications.
- Freeman, R. (1984) *Strategic Management: A Stakeholder Approach*. Boston: Pitman.
- Freeman, R. (2010) *Strategic Management: A Stakeholder Approach*. Cambridge: Cambridge University Press.
- Freeman, R. and Reed, D. (1983) 'Stockholders and stakeholders: A new perspective in corporate governance'. *California Management Review*, vol. 25, pp. 88-106.
- Friedman, A. and Miles, S. (2002) 'Developing stakeholder theory'. *Journal of Management Studies*, vol. 39, no. 1, pp. 1-21.
- Gartland, M. (2005) 'Interdisciplinary views of sub-optimal outcomes: Path dependence in the social and management sciences'. *The Journal of Socio-Economics*, vol. 34, no. 5, pp. 686-702.
- Gephart, R. (2004) 'Qualitative research and the academy of management journal'. *Academy of Management Journal*, vol. 47, pp. 454-462.
- Ghoshal, S. and Moran, P. (1996) 'Bad for practice: A critique of the transaction cost theory'. *Academy of Management Review*, vol. 21, pp. 13-47.
- Giddens, A. (1984) *The Constitution of Society: Introduction of the Theory of Structuration*. California: University of California Press.
- Gillan, S. and Starks, L. (1998) 'A survey of shareholder activism: Motivation and empirical evidence'. *Contemporary Finance Digest*, vol. 2, pp. 10-34.
- Gilson, R. (1996) 'Corporate governance and economic efficiency: When do institutions matter'. *Wash. ULQ*, vol. 74, pp. 327.
- Glitz, B. (1997) 'The focus group technique in library research: An introduction'. *Bulletin of the Medical Library Association*, vol. 85, no. 4, pp. 385-390.
- Godfrey, P. and Hatch, N. (2007) 'Researching corporate social responsibility: An agenda for the 21st century'. *Journal of Business Ethics*, vol. 70, no. 1, pp. 87-98.
- Goldpaugh and Rivers (2003) *Writing in Fieldwork Diaries*. [online] Available from: <http://www.thinkingwriting.qmul.ac.uk/documents/srb/> [Accessed: 21st June 2011].

- Gompers, P., Ishii, J., and Metrick, A. (2003) 'Corporate governance and equity prices'. *Quarterly Journal of Economics*, vol. 118, no. 1, pp. 107-155.
- Gooden, S. (2001) 'Participation of stakeholders in the corporate governance of Islamic financial institutions'. *New Horizon*, vol. 114, pp. 12-15.
- Goodrick, E., Meindl, J., and Flood, A. (1997) 'Business as usual: The adoption of managerial ideology by US Hospitals'. *Research in the Sociology of Health Care*, vol. 14, pp. 27-50.
- Gordon, J. (1998) 'Pathways to corporate convergence-Two steps on the road to shareholder capitalism in Germany'. *Columbia Journal of European Law*, vol. 5, no. 219, pp. 219-241.
- Gourevitch, P. (2003) 'The politics of corporate governance regulation'. *The Yale Law Journal*, vol. 112, no. 7, pp. 1829-1880.
- Grais, W. and Pellegrini, M. (2006) 'Corporate governance and Sharia compliance in institutions offering Islamic financial services'. *World Bank policy working paper: 4054*, pp. 1-34.
- Granovetter, M. (1985) 'Economic action and social structure: The problem of embeddedness'. *American Journal of Sociology*, vol. 91, pp. 481-510.
- Greenwood, R. and Hinings, C. (1996) 'Understanding radical organizational change: Bringing together the old and the new institutionalism'. *Academy of Management Review*, vol. 21, no. 4, pp. 1022-1054.
- Greenwood, R. and Suddaby, R. (2006) 'Institutional entrepreneurship in mature fields: The big five accounting firms'. *Academy of Management Journal*, vol. 49, no. 1, pp. 27-48.
- Greenwood, R., Suddaby, R., and Hinings, C. (2002) 'Theorizing change: The role of professional associations in the transformation of institutionalized fields'. *Academy of Management Journal*, vol. 45, no. 1, pp. 58-80.
- Griffin, L. (1992) 'Temporality, events and explanation in historical sociology: An introduction'. *Sociological Methods and Research*, vol. 20, pp. 413-414.
- Grosse, R. and Trevino, L. (2005) 'New institutional economics and FDI location in Central and Eastern Europe'. *Management International Review*, vol. 45, no. 2, pp. 123-145.
- Groves, T., Hong, Y., McMillan, J., and Naughton, B. (1995) 'China's evolving managerial labor market'. *Journal of Political Economy*, vol. 103, no. 4, pp. 873-892.
- Gugler, K., Mueller, D., and Yurtoglu, B. (2004) 'Corporate governance and the returns on investment'. *Journal of Law and Economics*, vol. 47, pp. 598-633.
- Hall, P. and Taylor, R. (1996). 'Political science and the three new institutionalisms'. *Political Studies*, vol. 44, no. 5, pp. 936-957.

- Hamilton, J. (1994) *Time Series Analysis* (vol. 2). Princeton: Princeton University Press.
- Hamilton, W. (1932) 'Institution'. *Encyclopaedia of the social sciences*, vol. 8, pp. 84-89.
- Hamlyn, D. (1995) 'Epistemology', in Honderich, T. (ed.) *The Oxford Companion to Philosophy*. New York: Oxford University Press, pp. 242-245.
- Handler, W. and Kram, K. (1988) 'Succession in family firms: The problem of resistance'. *Family Business Review*, vol. 1, pp. 361-381
- Haniffa, R. and Cooke, T. (2002) 'Culture, corporate governance and disclosure in Malaysian corporations'. *Abacus*, vol. 38, no. 3, pp. 317-349.
- Hart, H. (1957) 'Positivism and the separation of law and morals'. *Harvard Law Review*, vol. 71, pp. 593.
- Hart, O. (1995). 'Corporate governance: Some theory and implications'. *The Economic Journal*, vol. 105, no. 430, pp. 678-689.
- Hassan, O., Romilly, P., Giorgioni, G., and Power, D. (2009) 'The value relevance of disclosure: Evidence from the emerging capital market of Egypt'. *The International Journal of Accounting*, vol. 44, no. 1, pp. 79-102.
- Hassounah, M. (2007) *Saudi Arabia: Climate for Change: Banking on Recovery and Prosperity*. [online] Available from: <http://www.washingtonpost.com> [Accessed: 06th Jun 2010].
- Hayek, F. (1945) 'The use of knowledge in society'. *The American economic review*, vol. 35, no. 4, pp. 519-530.
- He, Y., Tian, Z., and Chen, Y. (2007) 'Performance implications of nonmarket strategy in China'. *Asia Pacific Journal of Management*, vol. 24, no. 2, pp. 151-169.
- Heath, J. and Norman, W. (2004) 'Stakeholder theory, corporate governance and public management: What can the history of state-run enterprises teach us in the post-Enron era?'. *Journal of Business Ethics*, vol. 53, no. 3, pp. 247-265.
- Hendry, J. (2001) 'Missing the target: Normative stakeholder theory and the corporate governance debate'. *Business Ethics Quarterly*, vol. 11, no. 1, pp. 159-176.
- Herman, E. (1981) *Corporate Control, Corporate Power*. Cambridge: Cambridge University Press.
- Herndl, C. and Nahrwold, C. (2000) 'Research as social practice: A case study of research on technical and professional communication'. *Written Communication*, vol. 17, no. 2, pp. 258-296.
- Hill, C. and Jones, T. (1992) 'Stakeholder-agency theory'. *Journal of management studies*, vol. 29, no. 2, pp. 131-154.

- Hirsch, P. (1997) 'Review essay: Sociology without social structure: Neoinstitutional theory meets brave new world'. *American Journal of Sociology*, vol. 102, no. 6, pp. 1702-1723.
- Hirsch, P. and Lounsbury, M. (1996) 'Rediscovering volition: The institutional economics of Douglass C. North'. *Academy of Management Review*, vol. 21, no. 3, pp. 872-884.
- Hirsch, P. and Lounsbury, M. (1997) 'Ending the family quarrel toward a reconciliation of "Old" and "New" institutionalisms'. *American Behavioral Scientist*, vol. 40, no. 4, pp. 406-418.
- Hirsch, P., Michaels, S., and Friedman, R. (1987) 'Dirty hands versus clean models'. *Theory and Society*, vol. 16, pp. 317-336.
- Hodgson, G. (1998) 'The approach of institutional economics'. *Journal of Economic Literature*, vol. 36, no. 1, pp. 166-192.
- Hodgson, G. (2000) 'What is the essence of institutional economics?'. *Journal of Economic Issues*, vol. 34, no. 2, pp. 317-329.
- Hoffman, A. (1999) 'Institutional evolution and change: Environmentalism and the US chemical industry'. *Academy of Management Journal*, vol. 42, no. 4, pp. 351-371.
- Holmstrom, B. and Kaplan, S. (2003) 'The state of US corporate governance: What's right and what's wrong?'. *Journal of Applied Corporate Finance*, vol. 15, no. 3, pp. 8-20.
- Hsieh, H. and Shannon, S. (2005) 'Three approaches to qualitative content analysis'. *Qualitative Health Research*, vol. 15, pp. 1277-1288.
- Hussainey, K., and Al-Nodel, A. (2008) 'Corporate governance online reporting by Saudi listed companies'. *Research in Accounting in Emerging Economics*, vol. 8, pp. 39-64.
- Issac, L. (1997) 'Transforming localities: Reflections on time, causal interpretations in historical sociology'. *Historical Methods*, vol. 30, no. 7, pp. 4-12.
- Jacobson, R. (1992) 'The "Austrian" school of strategy'. *Academy of Management Review*, vol. 17, pp. 782-807.
- Jacoby, S. (2005) *The Embedded Corporation: Corporate Governance and Employment Relations in Japan and the United States*. Princeton, NJ: Princeton University Press.
- Jensen, M. (2001) 'Value maximization, stakeholder theory, and the corporate objective function'. *Journal of applied corporate finance*, vol. 14, no. 3, pp. 8-21.
- Jensen, M. (2010) 'Value maximization, stakeholder theory, and the corporate objective function'. *Journal of Applied Corporate Finance*, vol. 22, no. 1, pp. 32-42.

- Jensen, M. and Meckling, W. (1976) 'Theory of the firm: Managerial behavior, agency costs and ownership structure'. *Journal of Financial Economics*, vol. 3, no. 4, pp. 305-360.
- Jepperson, R. (1991) 'Institutions, institutional effects, and institutionalism'. *The New Institutionalism in Organizational Analysis*, vol. 6, pp. 143-163.
- Jiang, Y. and Peng, M. (2011) 'Are family ownership and control in large firms good, bad, or irrelevant?'. *Asia Pacific Journal of Management*, vol. 28, no. 1, pp. 15-39.
- Johnson, S., Boone, P., Breach, A., and Friedman, E. (2000) 'Corporate governance in the Asian financial crisis'. *Journal of Financial Economics*, vol. 58, pp. 141-186.
- Jones, T. (1995) 'Instrumental stakeholder theory: A synthesis of ethics and economics'. *Academy of Management Review*, vol. 20, no. 2, pp. 404-437.
- Jones, T. and Wicks, A. (1999) 'Convergent stakeholder theory'. *Academy of Management Review*, vol. 24, pp. 206-221.
- Joseph, J. (1998) 'In defence of critical realism'. *Capital and Class*, vol. 22, no. 2, pp. 73-106.
- Kahan, M., and Klausner, M. (1996) 'Path dependence in corporate contracting: Increasing returns, herd behavior and cognitive biases'. *Washington University Law Quarterly*, vol. 74, pp. 347-353.
- Kelly, G., Kelly, D. and Gamble, A. (1997) Stakeholder Capitalism. In G. Kelly and A. Gamble (eds) *Stakeholder Capitalism*. London: Macmillan.
- Kertzer, D. (1991) 'Household history and sociological theory'. *Annual Review of Sociology*, vol. 17, pp. 155-179.
- Khalifa A. (2003) 'The multidimensional nature and purpose of business in Islam, accounting, commerce and finance'. *The Islamic Perspective Journal*, vol. 7, no. 1, pp. 1-25.
- King, A. (1999) 'Against structure: A critique of morphogenetic social theory'. *The Sociological Review*, vol. 47, no. 2, pp. 199-227.
- Kirzner, I. (1979) *Perception, Opportunity, and Profit*. Chicago: University of Chicago Press.
- Knack, S. and Keefer, P. (1995) 'Institutions and economic performance: Cross-country tests using alternative institutional measures'. *Economics and Politics*, vol. 7, no. 3, pp. 207-227.
- Knight, P. (2002) *Small-Scale Research: Pragmatic Inquiry in Social Science and the Caring Professions*. London and Thousand Oaks CA: Sage Publications.
- Kole, S. and Lehn, K. (1997) 'Deregulation, the evolution of corporate governance structure, and survival'. *The American Economic Review*, vol. 87, no. 2, pp. 421-425.

- Kvale, S. (1996) *Interviews: An Introduction to Qualitative Research Interviewing*. London and Thousand Oaks CA: Sage Publications.
- La Porta, R., Lopez-de-Silanes, F., and Shleifer, A. (1999) 'Corporate ownership around the world'. *Journal of Finance*, vol. 54, no. 2, pp. 471-517.
- La Porta, R., Lopez-de-Silanes, F., and Shleifer, A. (2002) 'Government ownership of banks'. *Journal of Finance*, vol. 57, no. 1, pp. 265-301.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R. (1997) 'Legal determinants of external finance'. *Journal of Finance*, vol. 52, no. 3, pp. 1131-1150.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R. (1998) 'Law and finance'. *Journal of Political Economy*, vol. 106, pp. 1113-1155.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R. (2000) 'Investor protection and corporate governance'. *Journal of Financial Economics*, vol. 58, no. 1, pp. 3-27.
- La Torre, M. (2010) *Law as Institution*. Law and Philosophy Library Series, (vol. 90). Heidelberg: Springer.
- Langlois, R. (1989) 'What was wrong with the old institutional economics (and what is still wrong with the new)?'. *Review of Political Economy*, vol. 1, no. 3, pp. 270-298.
- Laslett, B. (1973) 'The family as a public and private institution: An historical perspective'. *Journal of Marriage and Family*, vol. 35, no. 3, pp. 480-492.
- Lasserre, P. and Schütte, H. (1995) *Strategies for Asia Pacific*. New York: New York University Press.
- Lau, C. (1998) 'Strategic orientations of chief executives in state-owned enterprises in transition', in Hitt, M., Ricart, J., Costa, I., and Nixon, R. (eds.) *Managing Strategically in an Interconnected World*. Chichester: Wiley, pp. 101-117.
- Lawrence, T. (2008) 'Institutions and power', in Greenwood, R., Oliver, C., Sahlin, K., and Suddaby, R. (eds.) *Handbook of Organizational Institutionalism*. London: SAGE Publications Ltd, pp. 170-197.
- Lawrence, T. and Suddaby, R. (2006) 'Institutions and institutional work', in Clegg, S., Hardy, C., Lawrence, T., and Nord, W. (eds.) *Handbook of Organization Studies*, 2nd edition. London: Sage Publications, pp. 215-254.
- Lawrence, T., Suddaby, R., and Leca, B. (eds.) (2009) *Institutional Work: Actors and Agency in Institutional Studies of Organizations*. Cambridge: Cambridge University Press.
- Lawrence, T., Suddaby, R., and Leca, B. (2011) 'Institutional work: Refocusing institutional studies of organization'. *Journal of Management Inquiry*, vol. 20, no. 1, pp. 52-58.

- Leamer, E. (1988) 'Measures of openness', in Baldwin, R. (ed.) *Trade Policy Issues and Empirical Analysis*. National Bureau of Economic Research Conference Report Series, Chicago: University of Chicago Press, pp. 147-200.
- Leaptrott, J. (2005) 'An institutional theory view of the family business'. *Family Business Review*, vol. 18, no. 3, pp. 215-228.
- Leca, B. and Naccache, P. (2006) 'A critical realist approach to institutional entrepreneurship'. *Organization*, vol. 13, pp. 627-651.
- Lee, P. and O'Neill, H. (2003) 'Ownership structures and R&D investments of US and Japanese firms: Agency and stewardship perspectives'. *Academy of Management Journal*, vol. 46, no. 2, pp. 212-225.
- Leech, B. (2002) 'Asking questions: Techniques for semi-structured interviews'. *Political Science and Politics*, vol. 35, no. 4, pp. 665-668.
- Lemmon, M. and Lins, K. (2003) 'Ownership structure, corporate governance, and firm value: Evidence from the East Asian financial crisis'. *Journal of Finance*, vol. 58, no. 4, pp. 1445-1468.
- Lerner, J. (1995) 'Venture capitalists and the oversight of private firms'. *Journal of Finance*, vol. 50, no. 1, pp. 301-318.
- Lewin, K. (1951) *Field Theory in Social Psychology*. New York: Harper.
- Lewis, M. (2005) 'Islamic corporate governance'. *Review of Islamic Economics*, vol. 9, no. 1, pp. 5-29.
- Licht, A. (2000) The mother of all path dependencies: Toward a cross-cultural theory of corporate governance systems. *Delaware Journal of Corporate Law*, vol. 26, pp. 147-205.
- Lie, J. (1997) 'Sociology of markets'. *Annual Review of Sociology*, vol. 23, pp. 341-360.
- Liebowitz, S. and Margolis, S. (1995) 'Path dependence, lock-in, and history'. *Journal of Law, Economics, and Organization*, vol. 11, no. 1, pp. 205-226.
- Lin, C. (2001) 'Corporatisation and corporate governance in China's economic transition'. *Economics of Planning*, vol. 34, no. 1-2, pp. 5-35.
- Llewellyn, K. (1931) 'What price contract?. An essay in perspective'. *The Yale Law Journal*, vol. 40, no. 5, pp. 704-751.
- Lok, J. (2010) 'Institutional logics as identity projects'. *Academy of Management Journal*, vol. 53, no. 6, pp. 1305-1335.
- Lok, J. and Willmott, H. (2006) 'Institutional theory, language, and discourse analysis: A comment on Philips, Lawrence, and Hardy'. *Academy of Management Review*, vol. 31, no. 2, pp. 477-480.

- Lounsbury, M. (2001) 'Institutional sources of practice variation: Staffing college and university recycling programs'. *Administrative Science Quarterly*, vol. 46, no. 1, pp. 29-56.
- Lounsbury, M. (2007) 'A tale of two cities: Competing logics and practice variation in the professionalization of mutual funds'. *Academy of Management Journal*, vol. 50, pp. 289-307.
- Lounsbury, M., Ventresca, M., and Hirsch, P. (2003) 'Social movements, field frames and industry emergence: a cultural-political perspective on US recycling'. *Socio-Economic Review*, vol. 1, no. 1, pp. 71-104.
- MacCormick, D. (1981) 'Law, morality and positivism'. *Legal Studies*, vol. 1, no. 2, pp. 131-145.
- MacCormick, N and Weinberger, O. (1986) *An Institutional Theory of Law: New Approaches to Legal Positivism*. Dordrecht: D. Reidel Publishing Company.
- Madill, A. (2011) 'Interaction in the semi-structured interview: A comparative analysis of the use of and response to indirect complaints'. *Qualitative Research in Psychology*, vol. 8, no. 4, pp. 333-353.
- Maguire, S., Hardy, C., and Lawrence, T. (2004) 'Institutional entrepreneurship in emerging fields: HIV/AIDS treatment advocacy in Canada'. *Academy of Management Journal*, vol. 47, no. 5, pp. 657-679.
- Mahoney, J. (2000) 'Path dependence in historical sociology'. *Theory and society*, vol. 29, no. 4, pp. 507-548.
- March, J. and Olsen, J. (1984) 'The new institutionalism: Organizational factors in political life'. *The American political science review*, vol. 78, pp. 734-749.
- March, J. and Olsen, J. (1989) *Rediscovering Institutions: The Organizational Basis of Politics*. New York: Free Press.
- March, J. and Olsen, J. (1996) 'Institutional perspectives on political institutions'. *Governance*, vol. 9, no. 3, pp. 247-264.
- March, J. and Simon, H. (1958) *Organizations*. New York: Wiley.
- March, J. and Simon, H. (1993) 'Organizations revisited'. *Industrial and Corporate Change*, vol. 2, no. 1, pp. 299-316.
- Marshall, C. and Rossman, G. (1989) *Designing Qualitative Research*. Newbury Park, CA: Sage Publications.
- Marx, K. (1844/1972) 'Economic and philosophic manuscripts of 1844: Selections', in Tucker, R. (ed.) *The Marx-Engels Reader*. New York: W. W. Norton, pp. 52-106.

- Mayer, K. and Salomon, R. (2006) 'Capabilities, contractual hazards, and governance: Integrating resource-based and transaction cost perspectives'. *Academy of Management Journal*, vol. 49, no. 5, pp. 942-959.
- Maynard, M. (1994) 'Methods, practice and epistemology: The debate about feminism and research', in Maynard, M. and Purvis, J. (eds.) *Researching Women's Lives from a Feminist Perspective*. London: Taylor and Francis, pp. 10-26.
- McCarthy, D. and Puffer, S. (2002) 'Corporate governance in Russia: Towards a European, US, or Russian model?'. *European Management Journal*, vol. 20, no. 6, pp. 630-640.
- McCarthy, D. and Puffer, S. (2008) 'Interpreting the ethicality of corporate governance decisions in Russia: Utilizing integrative social contracts theory to evaluate the relevance of agency theory norms'. *Academy of Management Review*, vol. 33, no. 1, pp. 11-31.
- McMillan, J. (2007) 'Market institutions', in Blume, L. and Durlauf, S. (eds.) *The New Palgrave Dictionary of Economics*, 2nd edition. London: Palgrave.
- McNeill, P. (1990) *Research Methods*, 2nd edition. London and New York: Routledge.
- Menger, C. (1883/1963) *Problems of Economics and Sociology*. edited by L. Schneider. Urbana: University of Illinois Press.
- Merriam, S. (1988) *Case Study Research in Education: A Qualitative Approach*. San Francisco: Jossey-Bass.
- Meyer, J. and Rowan, B. (1977) 'Institutionalized organizations: Formal structure as myth and ceremony'. *American Journal of Sociology*, vol. 83, pp. 340-363.
- Meyer, J. and Rowan, B. (1991) 'Institutionalized organizations: Formal structure as myth and ceremony', in Powell, W. and DiMaggio, P. (eds.) *The New Institutionalism in Organizational Analysis*. Chicago: University of Chicago Press, pp. 41-62.
- Meyer, K. and Nguyen, H. (2005) 'Foreign investment strategies and sub-national institutions in emerging markets: Evidence from Vietnam'. *Journal of Management Studies*, vol. 42, no. 1, pp. 63-93.
- Miles, M. and Huberman, A. (1994) *Qualitative Data Analysis*. Thousand Oaks CA: Sage Publications.
- Milhaupt, C. (1996) 'Relational theory of Japanese corporate governance: Contract, culture, and the rule of law'. *Harvard International Law Journal*, vol. 37, pp. 3-64.
- Millar, C., Eldomiaty, T., Choi, C., and Hilton, B. (2005) 'Corporate governance and institutional transparency in emerging markets'. *Journal of Business Ethics*, vol. 59, pp. 163-174.

- Miller, D. and Breton-Miller, L. (2006) 'Family governance and firm performance: Agency, stewardship, and capabilities'. *Family Business Review*, vol. 19, no. 1, pp. 73-87.
- Mishra, C., Randøy, T., and Jenssen, J. (2001) 'The effect of founding family influence on firm value and corporate governance: A study of Norwegian firms'. *Journal of International Financial Management and Accounting*, vol. 12, no. 3, pp. 235-259.
- Mitchell, W. (1934) 'The problem of measuring profits', in the National Bureau of Economic Research (NBER). *Industrial Profits in the United States*. pp. 1-28.
- Mitton, T. (2002) 'A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis'. *Journal of Financial Economics*, vol. 64, no. 2, pp. 215-241.
- Monas, E. (2003) 'Corporate governance in the wake of Enron: An examination of the audit committee solution to corporate fraud'. *Administrative Law Review*, vol. 55, no. 2, pp. 357-390.
- Morck, R., Shleifer, A., and Vishny, R. (1988) 'Management ownership and market valuation: An empirical analysis'. *Journal of Financial Economics*, vol. 20, pp. 293-315.
- Morck, R., and Yeung, B. (2004) 'Special issues relating to corporate governance and family control'. *World Bank Policy Research Working Paper*, no. 3406, pp. 1-19.
- Mueller, D. (2006) 'The Anglo-Saxon approach to corporate governance and its applicability to emerging markets'. *Corporate Governance an International Review*, vol. 14, no. 4, pp. 207-219.
- Mustakallio, M., Autio, E., and Zahra, S. (2002) 'Relational and contractual governance in family firms: Effects on strategic decisions making'. *Family Business Review*, vol. 15, no. 3, pp. 205-222.
- Newton, T. (2007) *Nature and Sociology*. New York: Routledge.
- Newton, T., Deetz, S., and Reed, M. (2011) 'Responses to social constructionism and critical realism in organization studies'. *Organization Studies*, vol. 32, no. 1, pp. 7-26.
- North, D. (1989) 'Institutions and economic growth: An historical introduction'. *World Development*, vol. 17, no. 9, pp. 1319-1332.
- North, D. (1990) *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.
- North, D. (2005) *Understanding the Process of Economic Change*. Princeton, NJ: Princeton University Press.

OECD (2004) Organisation for Economic Co-operation and Development document of Corporate Governance. Available on: <http://www.oecd.org>. [Accessed: 10th Dec 2010]

Oliver, C. (1991) 'Strategic responses to institutional processes'. *Academy of Management Review*, vol. 16, no. 1, pp. 145-179.

Omran, M., Bolbol, A., and Fatheldin, A. (2008) 'Corporate governance and firm performance in Arab equity markets: Does ownership concentration matter?'. *International Review of Law and Economics*, vol. 28, no. 1, pp. 32-45.

OPEC (2013) Organization of the Petroleum Exporting Countries. Available on: <http://www.opec.org>. [Accessed: 3rd Mar 2013]

Othman, H. and Zeghal, D. (2008) 'A study of corporate governance disclosure and its country-level determinants in the emerging markets'. *Research in Accounting in Emerging Economies*, vol. 8, pp. 125-155.

Oviatt, B. (1988) 'Agency and transaction cost perspectives on the manager-shareholder relationship: Incentives for congruent interests'. *Academy of Management Review*, vol. 13, pp. 214-225.

Papert, S. (1991) 'Situating constructionism', in Harel, I. and Papert, S. (eds.) *Constructionism*. Norwood, NJ: Ablex, pp. 1-11.

Parsons, T. (1934/1990) 'Prolegomena to a theory of social institutions'. *American Sociological Review*, vol. 55, pp. 319-339.

Parsons, T. (1937) *The Structure of Social Action*. New York: McGraw-Hill.

Parsons, T. (1943) 'The kinship system of the contemporary United States'. *American Anthropologist*, vol. 45, no. 1, pp. 22-38.

Parsons, T. (1956) 'Suggestions for a sociological approach to the theory of organizations'. *Administrative science quarterly*, vol. 1, pp. 63-85.

Parsons, T. (1960) *Structure and Process in Modern Societies*. Glencoe, IL: Free Press.

Parsons, T. (1991) *The Social System*. Glencoe: Free Press.

Patton, M. (1990) *Qualitative Research and Evaluation Methods*. Newbury Park, CA: Sage Publications.

Patton, M. (2002) *Qualitative Research and Evaluation Methods*, 3rd edition. Thousand Oaks: Sage Publications

Peng, M. (2003) 'Institutional transitions and strategic choices'. *The Academy of Management Review*, vol. 28, pp. 275-296.

- Peng, M. and Heath, P. (1996) 'The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice'. *Academy of Management Review*, vol. 21, pp. 492-528.
- Peng, M., Wang, D., and Jiang, Y. (2008) 'An institution-based view of international business strategy: A focus on emerging economies'. *Journal of International Business Studies*, vol. 39, no. 5, pp. 920-936.
- Perrow, C. (1986) *Complex Organizations: A Critical Essay*. New York: McGraw-Hill.
- Peters, B. (2001) 'The politics of policy instruments', in Salamon, L. (ed.) *Handbook of Policy Instruments*. New York: Oxford University Press
- Peters, B. (2005) *Institutional Theory in Political Science*. London: Pinter.
- Peters, B. (2010) 'Institutional theory', in Bevir, M. (ed.) *The SAGE Handbook of Governance*. Princeton: Princeton University Press, pp. 78-90
- Peters, B. (2012). *Institutional Theory in Political Science*. London: Pinter.
- Pfeffer, J. (1981) 'Management as symbolic action: The creation and maintenance of organizational paradigms', in Cummings, L. and Staw, B. (eds.) *Research in Organizational Behavior*. Greenwich, CT: JAI Press. vol. 13, pp. 1-52.
- Phillips, N., Lawrence, T. and Hardy, C. (2004) 'Discourse and institutions'. *Academy of Management Review*, vol. 29, no. 4, pp. 635-652.
- Phillips, R. (2003) *Stakeholder Theory and Organizational Ethics*. San Francisco: Berrett-Koehler Publishers.
- Pierson, P. (2000) 'Increasing returns, path dependence, and the study of politics'. *American Political Science Review*, vol. 94, no. 2, pp. 251-67.
- Powell, W. (1991) *The New Institutionalism in Organizational Analysis*. Chicago: University of Chicago Press.
- Powell, W. and DiMaggio, P. (eds.) (1991) *The New Institutionalism in Organizational Analysis*. Chicago: University of Chicago Press.
- Pratt, D. (2011) *Modelling Written Communication: A New Systems Approach to Modelling in the Social Sciences*. Dordrecht: Springer.
- Pratt, M. (2009) 'From the editors: For the lack of a boilerplate: Tips on writing up (and reviewing) qualitative research'. *Academy of Management Journal*, vol. 52, no. 5, pp. 856-862.
- Radcliffe-Brown, A. (1941) 'The Study of Kinship Systems'. *Journal of Royal Anthropological Institute*, pp. 71: 1-18. Reprinted in A. Radcliffe-Brown (1952) *Structure and Function in Primitive Society*. Glencoe, IL: The Free Press, pp. 49-89.

- Radcliffe-Brown, A. and Forde, C. (eds.) (1950). *African Systems of Kinship and Marriage*. London: Oxford University Press.
- Radelet, S. and Sachs, J. (1998) 'The East Asian financial crisis: Diagnosis, remedies, prospects'. *Brookings Papers on Economic Activity*, vol. 1, pp. 1-90.
- Reed, M. (2005a) 'Reflections on the realist turn in organization and management studies'. *British Journal of Management Studies*, vol. 42, no. 8, pp. 1621-1644.
- Reed, M. (2005b) 'Doing the loco-motion: Response to Contu and Willmott's commentary on 'The realist turn in organization and management studies''. *Journal of Management Studies*, vol. 42, no. 8, pp. 1663-1673.
- Reid, K., Flowers, P., and Larkin, M. (2005) 'Exploring lived experience'. *The Psychologist*, vol. 18, no. 1, pp. 20-23.
- Rizk, R. (2008) 'Islam and corporate governance', in Aras, G. and Crowther, D. (eds.) *Culture and Corporate Governance*. Leicester: Social Responsibility Research Network (SRRN), pp. 204-215.
- Robbins S. and Judges, T. (2007) *Organizational Behavior*. New Jersey: Prentice Hall.
- Roberts, R. (1992) 'Determinants of corporate social responsibility disclosure: An application of stakeholder theory'. *Accounting, Organizations and Society*, vol. 17, no. 6, pp. 595-612.
- Robertson, C., Diyaab, A., and Al-Kahtani, A. (2012) 'A cross-national analysis of perceptions of corporate governance principles'. *International Business Review*, vol. 22, pp. 315-325.
- Robson, C. (2002) *Real World Research* (2nd end). Oxford: Blackwell Publishing.
- Rodriguez, E., and Anson, S. (2001) 'Wealth effects associated with the compliance with the code of best practice: The Spanish experience'. *Working Paper*, University of Oviedo.
- Rodrik, D. (2003) *In Search of Prosperity: Analytic Narratives on Economic Growth*. Princeton, NJ: Princeton University Press.
- Roe, M. (1994) *Strong Managers, Weak Owners: The Political Roots of American Corporate Finance*. Princeton, NJ: Princeton University Press.
- Roe, M. (2003) *Political Determinants of Corporate Governance: Political Context, Corporate Impact*. Oxford: Oxford University Press on Demand.
- Rosenstein, S. and Wyatt, J. (1990) 'Outside directors, board independence, and shareholder wealth'. *Journal of Financial Economics*, vol. 36, pp. 175-191.
- Ross, S. (1973) 'The economic theory of agency: The principal's problem'. *The American Economic Review*, vol. 63, no. 2, pp. 134-139.

- Rubin, H. and Rubin, I. (2005) *Qualitative Interviewing: The Art of Hearing Data*, 2nd edition. Thousand Oaks: Sage Publications.
- Rueda, D. (2006) 'Social democracy and active labour-market policies: Insiders, outsiders and the politics of employment promotion'. *British Journal of Political Science*, vol. 36, no. 3, pp. 385-406.
- SAGIA (2013) Capital Market Law. Available on: <http://www.sagia.gov.sa>. [Accessed: 5th Mar 2013]
- SAMA (2013) Saudi Arabian Monetary Agency. Available on: <http://www.sama.gov.sa>. [Accessed: 12th May 2012]
- Santayana, G. (1905) *The Life of Reason: Reason in Religion*. (vol. 3). Scribner's sons (1982). New York: Dover.
- Saunders, M., Lewis, P. and Thornhill, A. (2000) *Research Methods for Business Students*, 2nd edition. Harlow: Prentice Hall.
- Saunders, M., Lewis, P., and Thornhill, A. (2007) *Research Methods For Business Students*, 4th edition. Harlow: Prentice Hall.
- Saunders, M., Lewis, P., and Thornhill, A. (2012) *Research Methods For Business Students*, 6th edition. Harlow: Prentice Hall.
- Sayer, A. (2000) *Realism and Social Science*. London: Sage Publications.
- Scapens, R. (2006) 'Understanding management accounting practices: A personal journey'. *The British Accounting Review*, vol. 38, no. 1, pp. 1-30.
- Schmidt, R. and Spindler, G. (2002) 'Path dependence, corporate governance and complementarity'. *International Finance*, vol. 5, no. 3, pp. 311-333.
- Schmoller, G. (1900-1904) *Grundriss der Allgemeinen Volkswirtschaftslehre*. Leipzig: Duncker and Humbolt.
- Scott, J. and Marshall, G. (2003) *Oxford Dictionary of Sociology*. Oxford: Oxford University Press.
- Scott, W. (1985) 'Systems within systems: The mental health sector'. *American Behavioral Scientist*, vol. 28, no. 5, pp. 601-618.
- Scott, W. (1987). The adolescence of institutional theory. *Administrative science quarterly*, vol. 32, pp. 493-511.
- Scott, W. (1994) 'Conceptualising organizational fields: Linking organizations and societal systems', in Derlien, H., Gerhardt, U., and Scharpf, F. (eds.) *Systemrationalitat und Partialinteresse [Systems rationality and partial interests]*. Baden: Nomos Verlagsgesellschaft, pp. 203-221.

- Scott, W. (1995) *Institutions and Organizations*. Thousand Oaks, CA: Sage Publications.
- Scott, W. (2001) *Institutions and Organizations*, 2nd edition. Thousand Oaks, CA: Sage Publications.
- Scott, W. (2003a) *Organizations: Rational, Natural and Open Systems*, 5th edition. Upper Saddle River, NJ: Prentice Hall.
- Scott, W. (2003b) 'Institutional carriers: Reviewing modes of transporting ideas over time and space and considering their consequences'. *Industrial and Corporate Change*, vol. 12, no. 4, pp. 879–894.
- Scott, W. (2008) *Institutions and Organizations: Ideas and Interests*. Thousand Oaks, CA: Sage Publications.
- Selznick, P. (1948) 'Foundations of the theory of organization'. *American Sociological Review*, vol. 13, no. 1, pp. 25-35.
- Selznick, P. (1949) *TVA and the Grass Roots: A Study in the Sociology of Formal Organization*. (vol. 3). California: University of California Press.
- Selznick, P. (1957) *Leadership in Administration*. New York: Harper and Row.
- Selznick, P. (1996) 'Institutionalism: Old and new'. *Administrative Science Quarterly*, vol. 41, pp. 270-277.
- Seo, M. and Creed, W. (2002) 'Institutional contradictions, praxis, and institutional change: A dialectical perspective'. *Academy of Management Review*, vol. 27, no. 2, pp. 222-247.
- Sewel, W. (1996) 'Three temporalities toward an eventful sociology', in McDowell, T. (ed.) *The Historic Turn in the Human Sciences*. Ann Arbor: University of Michigan Press, pp. 245-280.
- Shankman, N. (1999) 'Reframing the debate between agency and stakeholder theories of the firm'. *Journal of Business Ethics*, vol. 19, no. 4, pp. 319-334.
- Shelanski, H., and Klein, P. (1995) 'Empirical research in transaction cost economics: A review and assessment'. *Journal of Law, Economics, and Organization*, vol. 11, no. 2, pp. 335-361.
- Sherer, P. and Lee, K. (2002) 'Institutional change in large law firms: A resource dependency and institutional perspective'. *Academy of Management Journal*, vol. 45, no. 1, pp. 102-119.
- Shinawi, A. and Crum, W. (1971) 'The emergence of professional public accounting in Saudi Arabia'. *International Journal of Accounting Education and Research*, vol. 6, no. 2, pp. 103-110.

- Shleifer, A. and Vishny, R. (1997) 'A survey of corporate governance'. *Journal of Finance*, vol. 52, pp. 737-783.
- Simon, H. (1945/1997) *Administrative Behavior. A Study of Decision-making in Administrative Organizations*. New York : Macmillan, 1945; New York: The Free Press, 1997.
- Simon, H. (1947) *Administrative Behavior. A Study of Decision-making in Administrative Organizations*. New York: Macmillan.
- Simon, H. (1991) *Models of My Life*. New York: Basic Books.
- Singh, A., Glen, J., Zammit, A., De Hoyos, R., Singh, A., and Weisse, B. (2005) 'Shareholder value maximisation, stock market and new technology: Should the US corporate model be the universal standard?'. *International Review of Applied Economics*, vol. 19, no. 4, pp. 419-446.
- Singh, M. and Davidson, W. (2003) 'Agency costs, ownership structure and corporate governance mechanisms'. *Journal of Banking and Finance*, vol. 27, no. 5, pp. 793-816.
- Smith, B. and Amoako-Adu, B. (1999) 'Management succession and financial performance of family controlled firms'. *Journal of Corporate Finance*, vol. 5, pp. 341-368.
- Smith, J. (2011) 'Evaluating the contribution of interpretative phenomenological analysis'. *Health Psychology Review*, vol. 5, no. 1, pp. 9-27.
- Somers, M. (1998) 'We're no angels: Realism, rational choice and relationality in social sciences'. *American Journal of Sociology*, vol. 104, no. 3, pp. 722-784.
- Soper, K. (1995) *What Is Nature? Culture, Politics and the Non-Human*. Oxford: Blackwell.
- Spencer, H. (1876, 1896, 1910) *The Principles of Sociology* (3 vols). London: Appleton-Century-Crofts.
- Steier, L. (2009) 'Familiar capitalism in global institutional contexts: Implications for corporate governance and entrepreneurship in East Asia'. *Asia Pacific Journal of Management*, vol. 26, pp. 513-535.
- Sternberg, E. (1997) 'The defects of stakeholder theory'. *Corporate Governance: An International Review*, vol. 5, no. 1, pp. 3-10.
- Stinchcombe, A. (1968) *Constructing Social Theories*. New York: Harcourt, Brace and World.
- Suchman, M. (1995) 'Managing legitimacy: Strategic and institutional approaches'. *Academy of Management Review*, vol. 20, no. 3, pp. 571-610.

- Summers, M. (1969) 'Apparent in vivo pathway of granulosis virus invasion and infection'. *Journal of Virology*, vol. 4, pp. 188-190.
- Sumner, W. (1906) *Folkways*. Boston: Ginn and Co.
- Swedberg, R. (1998) *Max Weber and the Idea of Economic Sociology*. Princeton, NJ: Princeton University Press.
- Swidler, A. (1986) 'Culture in action: Symbols and strategies'. *American Sociological Review*, vol. 51, pp. 273-286.
- Tadawul (2013) Saudi Stock Exchange. Available on: <http://www.tadawul.com.sa>. [Accessed: 19th Mar 2010]
- Tadelis, S. and Williamson, O. (2010) 'Transaction cost economics', in Gibbons, R. and Roberts, J. (eds.) *The Handbook of Organizational Economics*. Princeton, NJ: Princeton University Press, pp. 159-191.
- Tashakkori, A. and Teddlie, C. (1998) *Mixed Methodology: Combining Qualitative and Quantitative Approaches*. Thousand Oaks CA: Sage Publications.
- Taylor, S. and Bogdan, R. (1984) *Introduction to Qualitative Research Methods: The Search for Meaning*. New York: Wiley.
- Thelen, K. (1999) 'Historical institutionalism in comparative politics'. *Annual Review of Political Science*, vol. 2, pp. 369-404.
- Thelen, K. and Steinmo, S. (1992) 'Historical institutionalism in comparative politics', in Steinmo, S., Thelen, K., and Longstreth, F. (eds.) *Structuring Politics*. New York: Cambridge University Press, pp. 1-32.
- Thomas, D. (2006) 'A general inductive approach for analyzing qualitative evaluation data'. *American Journal of Evaluation*, vol. 27, no. 2, pp. 237-246.
- Thompson, J. (1990) *Ideology and Modern Culture: Critical Theory in the Era of Mass Communication*. Cambridge: Polity.
- Thornton, P. and Ocasio, W. (2008) 'Institutional logics', in Greenwood, R. Oliver, C., Sahlin, K., and Suddaby, R. (eds.) *Handbook of Organizational Institutionalism*. London: SAGE Publications Ltd, pp. 99-129.
- Thorpe, R. and Holt, R. (eds.) (2008) *The Sage Dictionary of Qualitative Management Research*. London: Sage Publications Ltd.
- Tilley, C. (1988) 'Future history'. *Theory and Society*, vol. 17, no. 6, pp. 703-712.
- Tolbert, P. and Zucker, L. (1983) 'Institutional sources of change in the formal structure of organizations: The diffusion of civil service reforms: 1880-1935'. *Administrative Science Quarterly*, vol. 23, pp. 22-39.

- Tosi, H., Brownlee, A., Silva, P., and Katz, J. (2003) 'An empirical exploration of decision-making under agency controls and stewardship structure'. *Journal of Management Studies*, vol. 40, no. 8, pp. 2053-2071.
- Trigg, R. (2001) *Understanding Social Science*, 2nd edition. Oxford: Blackwell.
- Tsoukas, H. (1994) 'What is management? An outline of a metatheory'. *British Journal of Management*, vol. 5, pp. 289–301.
- Turner, B. (1991) *Religion and Social Theory*. (vol. 10). London: SAGE Publications Limited.
- Vallejo, M. (2009) 'The effects of commitment of non-family employees of family firms from the perspective of stewardship theory'. *Journal of Business Ethics*, vol. 87, no. 3, pp. 379-390.
- Van Maanen, J. (1983) *Qualitative Methodology*. Beverly Hills: Sage Publications.
- Veblen, T. (1898) 'Why is economics not an evolutionary science?'. *Quarterly Journal of Economics*, vol. 12, pp. 373-397.
- Veblen, T. (1919) *The Place of Science in Modern Civilization and Other Essays*. New York: Huebsch.
- Vilaseca, A. (2002) 'The shareholder role in the family business: Conflict of interests and objectives between non-employed shareholders and top management team'. *Family Business Review*, vol. 15, pp. 299-320.
- Villalonga, B. and Amit, R. (2006) 'How do family ownership, control, and management affect firm value?'. *Journal of Financial Economics*, vol. 80, no. 2, pp. 385-417.
- Walliman, N. (2006) *Social Research Methods*. London: SAGE Publications Ltd.
- Watson, T. (2007) 'Organization theory and HRM', in Boxall, P., Purcell, J. and Wright, P. (eds.) *The Oxford Handbook of Human Resource Management*. Oxford: Oxford University Press, pp. 108–27.
- Watson, T. (2012) *Sociology, Work and Organisation*. London: Routledge.
- Weber, M. (1924/1968) *Economy and Society: An Interpretive Sociology*. (3 vols). Edited by Guenther R. and Claus W. New York: Bedminister Press.
- Weber, M. (1978) *Economy and Society: An Outline of Interpretive Sociology*. California: University of California Press.
- Weinberger, O. (1991) *Law, Institution, and Legal Politics: Fundamental Problems of Legal Theory and Social Philosophy* (vol. 14). Dordrecht: Kluwer Academic Publishers.

- Weingast, B. (1996) 'Political institutions: Rational choice perspectives', in Goodin, R. and Klingemann, H. (eds.) *A New Handbook of Political Science*. Oxford: Oxford University Press, pp. 167-190.
- Whetten, D. (1989) 'What constitutes a theoretical contribution?'. *Academy of Management Review*, vol. 14, no. 4, pp. 490-495.
- Wieland, J. (2005) 'Corporate governance, values management, and standards: A European perspective'. *Business and Society*, vol. 44, no. 1, pp. 74-93.
- Williamson, O. (1971) 'The vertical integration of production: Market failure considerations'. *American Economic Review*, vol. 61, pp. 112-123.
- Williamson, O. (1975) *Markets and Hierarchies: Analysis and Antitrust Implications*. New York: Free Press.
- Williamson, O. (1976) 'Franchise bidding for natural monopolies – In general and with respect to CATV'. *Bell Journal of Economics*, vol. 7, pp. 73-104.
- Williamson, O. (1979) 'Transaction-cost economics: The governance of contractual relations'. *Journal of Law and Economics*, vol. 22, no. 2, pp. 233-261.
- Williamson, O. (1985) *The Economics Institutions of Capitalism*. New York: Free Press.
- Williamson, O. (1988) 'Corporate finance and corporate governance'. *Journal of Finance*, vol. 43, no. 3, pp. 567-591.
- Williamson, O. (1991) 'Comparative economic organization: The analysis of discrete structural alternatives'. *Administrative Science Quarterly*, vol. 36, pp. 269-296.
- Williamson, O. (1996) *The Mechanisms of Governance*. New York: Oxford University Press.
- Williamson, O. (1998) 'Transaction cost economics: How it works; where it is headed'. *Economist*, vol. 146, no. 1, pp. 23-58.
- Willmott, P. and Young, M. (1957). *Family and Kinship in East London*. London: Routledge.
- Willoughby, W. (1896) *An Examination of the Nature of the State*. New York: Macmillan.
- Wilson, W. (1889) *The State and Federal Governments of the United States*. Boston: D.C. Heath.
- Wright, M., Filatotchev, I., Hoskisson, R., and Peng, M. (2005) 'Strategy research in emerging economies: Challenging the conventional wisdom'. *Journal of Management Studies*, vol. 42, no. 1, pp. 1-33.

- Wry, T. (2009) 'Does business and society scholarship matter to society? Pursuing a normative agenda with critical realism and neoinstitutional theory'. *Journal of Business Ethics*, vol. 89, pp. 151–171.
- Wymeersch, E. (1998) 'A status report on corporate governance rules and practices in some continental European states', in Hopt, K., Kanda, H., Roe, M., Wymeersch, E., and Prigge, S. (eds.) *Comparative Corporate Governance. The State of the Art and Emerging Research*, Oxford: Clarendon Press.
- Yeh, Y. (2008) 'The agency problems embedded in firm's equity investment'. *Journal of Business Ethics*, vol. 79, no. 1, pp. 151-166.
- Yeh, Y., Lee, T., and Shu, P. (2008) 'The agency problems embedded in firm's equity investment'. *Journal of Business Ethics*, vol. 79, no. 1-2, pp. 151-166.
- Yeh, Y., Lee, T., and Woitke, T. (2001) 'Family control and corporate governance: Evidence for Taiwan'. *International Review of Finance*, vol. 2, pp. 21-48.
- Yeh, Y., and Woitke, T. (2005) 'Commitment or entrenchment? Controlling shareholders and board composition'. *Journal of Banking and Finance*, vol. 29, no. 7, pp. 1857–1885.
- Yeung, H. (2006) 'Change and continuity in Southeast Asian ethnic Chinese business'. *Asia Pacific Journal of Management*, vol. 23, no. 3, pp. 229-254.
- Young, M. Willmott, P. (1986) *Family and Kinship in East London*. London: Routledge.
- Young, M. Willmott, P. (2012) *Family and Kinship in East London*. London: Routledge.
- Young, M. Willmott, P. (2013) *Family and Kinship in East London*. London: Routledge.
- Young, M., Peng, M., Ahlstrom, D., Bruton, G., and Jiang Y. (2008) 'Corporate governance in emerging economies: A review of the principal-principal perspective'. *Journal of Management Studies*, vol. 45, pp. 196-220.
- Zahra, S. and Filatotchev, I. (2004) 'Governing the entrepreneurial firm: A knowledge base view'. *Journal of Management Studies*, vol. 41, no. 5, pp. 885-898.
- Zikmund, W. (2003) *Business Research Methods*, 7th edition. New York, USA: Thomson/South-Western.
- Zucker, L. (1977) 'The role of institutionalization in cultural persistence'. *American Sociological Review*, vol. 42, pp. 726-743.
- Zucker, L. (1983) 'Organizations as institutions'. *Research in the Sociology of Organizations*, vol. 2, no. 1, pp. 1-47.

Zucker, L. (1987) 'Institutional theories of organizations'. *Annual Review of Sociology*, vol. 13, pp. 443-644.

Appendices

Appendix I: Informed Consent Form



**Nottingham University
Business School**

**Nottingham University
Business School**
Postgraduate Office

Jubilee Campus
Wollaton Road
Nottingham
NG8 1BB UK

Tel +44 (0)115 846 7634

Fax +44 (0)115 846 6981

www.nottingham.ac.uk/business

Consent Form

Dear Sir,

My name is Mazin Bukhari, and I am calling from Nottingham University Business School. I am conducting a PhD study, in the field of corporate governance, to investigate the impact of different institutions such as family, law, politics, religion, kinship, bureaucratic administration, and market on the formation of corporate governance systems in Saudi Arabia. This research is sponsored by the Ministry of Higher Education in Saudi Arabia. As an important member in your organisation, I would like to conduct an interview with you to gather rich information about this issue.

The interview will last approximately in 60 minutes. You will be asked to answer a number of questions about the topic based on your experience, background, and knowledge on voluntary basis. You have the right not to answer any certain question and withdraw from the interview at any point. Your name and the organisation will not be included in the report or in any publication. The collected data from the interview will be only used for the purpose of this study and is only available for the researcher and his supervisors. Interpretations, inferences, and quotations from this interview will be used to write the final report of this study and will probably be used in the future for conference and journal publications. I would like to emphasise that ethical considerations and confidentiality will be strictly taken into account, maintaining the anonymity of the participants and their workplaces throughout all the stages in this research. The interview will be recorded based on your approval.

Thank you for your time and help.

Appendix I: Informed Consent Form

Researcher's name: Mazin Bukhari

Email address: lixmb25@nottingham.ac.uk , mazinsb@yahoo.com

Mobile no.: +966 505353XXX (Saudi), +44 7780767XXX (UK)

Supervisor's name: Anna Soulsby, Associate Professor in Organizational Behaviour

Email address: Anna.soulsby@nottingham.ac.uk

Date:

Time:

Venue:

Name / Signature	
Age	
Permission to Record	() Yes () No
Years of experience	
Qualifications / Education	
Position	
Field Background	
Organisation Size	
Organisation Age	
Impressions	

**Appendix II: The Saudi Arabian Corporate
Governance Document**

CAPITAL MARKET AUTHORITY

CORPORATE GOVERNANCE REGULATIONS IN THE KINGDOM OF SAUDI ARABIA

Issued by the Board of Capital Market Authority
Pursuant to Resolution No. 1/212/2006
dated 21/10/1427AH (corresponding to 12/11/2006)
based on the Capital Market Law issued by
Royal Decree No. M/30
dated 2/6/1424AH

**Amended by Resolution of the Board
of the Capital Market Authority Number 1-10-2010
Dated 30/3/1431H corresponding to 16/3/2010G**

**English Translation of the Official Arabic Text
Arabic is the official language of the Capital Market Authority**

**The current version of these Rules, as may be amended, can be found on
the CMA website: www.cma.org.sa**

CONTENTS

Part 1: Preliminary Provisions

- Article 1. Preamble
- Article 2. Definitions

Part 2: Rights of Shareholders and the General Assembly

- Article 3. General Rights of Shareholders
- Article 4. Facilitation of Shareholders' Exercise of Rights and Access to Information
- Article 5. Shareholders Rights related to the General Assembly
- Article 6. Voting Rights
- Article 7. Dividends Rights of Shareholders

Part 3: Disclosure and Transparency

- Article 8. Policies and Procedures related to Disclosure
- Article 9. Disclosure in the Board of Directors' Report

Part 4: Board of Directors

- Article 10. Main Functions of the Board
- Article 11. Responsibilities of the Board
- Article 12. Formation of the Board
- Article 13. Committees of the Board
- Article 14. Audit Committee
- Article 15. Nomination and Remuneration Committee
- Article 16. Meetings of the Board
- Article 17. Remuneration and Indemnification of Board Members
- Article 18. Conflict of Interest within the Board

Part 5: Closing Provisions

- Article 19. Publication and Entry into Force

PART 1 PRELIMINARY PROVISIONS

Article 1: Preamble

- a) These Regulations include the rules and standards that regulate the management of joint stock companies listed in the Exchange to ensure their compliance with the best governance practices that would ensure the protection of shareholders' rights as well as the rights of stakeholders.
- b) These Regulations constitute the guiding principles for all companies listed in the Exchange unless any other regulations, rules or resolutions of the Board of the Authority provide for the binding effect of some of the provisions herein contained.
- c) As an exception of paragraph (b) of this article, a company must disclose in the Board of Directors` report, the provisions that have been implemented and the provisions that have not been implemented as well as the reasons for not implementing them.

Article 2: Definitions

- a) Expression and terms in these regulations have the meanings they bear in the Capital Market Law and in the glossary of defined terms used in the regulations and the rules of the Capital Market Authority unless otherwise stated in these regulations.
- b) For the purpose of implementing these regulations, the following expressions and terms shall have the meaning they bear as follows unless the contrary intention appears:

Independent Member: A member of the Board of Directors who enjoys complete independence. By way of example, the following shall constitute an infringement of such independence:

1. he/she holds a five per cent or more of the issued shares of the company or any of its group.
2. Being a representative of a legal person that holds a five per cent or more of the issued shares of the company or any of its group.

3. he/she, during the preceding two years, has been a senior executive of the company or of any other company within that company's group.
4. he/she is a first-degree relative of any board member of the company or of any other company within that company's group.
5. he/she is first-degree relative of any of senior executives of the company or of any other company within that company's group.
6. he/she is a board member of any company within the group of the company which he is nominated to be a member of its board.
7. If he/she, during the preceding two years, has been an employee with an affiliate of the company or an affiliate of any company of its group, such as external auditors or main suppliers; or if he/she, during the preceding two years, had a controlling interest in any such party.

Non-executive director: A member of the Board of Directors who does not have a full-time management position at the company, or who does not receive monthly or yearly salary.

First-degree relatives: father, mother, spouse and children.

Stakeholders: Any person who has an interest in the company, such as shareholders, employees, creditors, customers, suppliers, community.

Accumulative Voting: a method of voting for electing directors, which gives each shareholder a voting rights equivalent to the number of shares he/she holds. He/she has the right to use them all for one nominee or to divide them between his/her selected nominees without any duplication of these votes. This method increases the chances of the minority shareholders to appoint their representatives in the board through the right to accumulate votes for one nominee.

Minority Shareholders: Those shareholders who represent a class of shareholders that does not control the company and hence they are unable to influence the company.

PART 2
RIGHTS OF SHAREHOLDERS AND THE GENERAL ASSEMBLY

Article 3: General Rights of Shareholders

A Shareholder shall be entitled to all rights attached to the share, in particular, the right to a share of the distributable profits, the right to a share of the company's assets upon liquidation; the right to attend the General Assembly and participate in deliberations and vote on relevant decisions; the right of disposition with respect to shares; the right to supervise the Board of Directors activities, and file responsibility claims against board members; the right to inquire and have access to information without prejudice to the company's interests and in a manner that does not contradict the Capital Market Law and the Implementing Rules.

Article 4: Facilitation of Shareholders Exercise of Rights and Access to Information

- a) The company in its Articles of Association and by-laws shall specify the procedures and precautions that are necessary for the shareholders' exercise of all their lawful rights.
- b) All information which enable shareholders to properly exercise their rights shall be made available and such information shall be comprehensive and accurate; it must be provided and updated regularly and within the prescribed times; the company shall use the most effective means in communicating with shareholders. No discrepancy shall be exercised with respect to shareholders in relation to providing information.

Article 5: Shareholders Rights related to the General Assembly

- a) A General Assembly shall convene once a year at least within the six months following the end of the company's financial year.
- b) The General Assembly shall convene upon a request of the Board of Directors. The Board of Directors shall invite a General Assembly to convene pursuant to a request of the auditor or a number of shareholders whose shareholdings represent at least 5% of the equity share capital.
- c) Date, place, and agenda of the General Assembly shall be specified and announced by a notice, at least 20 days prior to the date the meeting;

- invitation for the meeting shall be published in the Exchange' website, the company's website and in two newspapers of voluminous distribution in the Kingdom. Modern high tech means shall be used in communicating with shareholders.
- d) Shareholders shall be allowed the opportunity to effectively participate and vote in the General Assembly; they shall be informed about the rules governing the meetings and the voting procedure.
 - e) Arrangements shall be made for facilitating the participation of the greatest number of shareholders in the General Assembly, including *inter alia* determination of the appropriate place and time.
 - f) In preparing the General Assembly's agenda, the Board of Directors shall take into consideration matters shareholders require to be listed in that agenda; shareholders holding not less than 5% of the company's shares are entitled to add one or more items to the agenda. upon its preparation.
 - g) Shareholders shall be entitled to discuss matters listed in the agenda of the General Assembly and raise relevant questions to the board members and to the external auditor. The Board of Directors or the external auditor shall answer the questions raised by shareholders in a manner that does not prejudice the company's interest.
 - h) Matters presented to the General Assembly shall be accompanied by sufficient information to enable shareholders to make decisions.
 - i) Shareholders shall be enabled to peruse the minutes of the General Assembly; the company shall provide the Authority with a copy of those minutes within 10 days of the convening date of any such meeting.
 - j) The Exchange shall be immediately informed of the results of the General Assembly.

Article 6: Voting Rights

- a) Voting is deemed to be a fundamental right of a shareholder, which shall not, in any way, be denied. The company must avoid taking any action which might hamper the use of the voting right; a shareholder

must be afforded all possible assistance as may facilitate the exercise of such right.

- b) In voting in the General Assembly for the nomination to the board members, the accumulative voting method shall be applied.
- c) A shareholder may, in writing, appoint any other shareholder who is not a board member and who is not an employee of the company to attend the General Assembly on his behalf.
- d) Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.

Article 7: Dividends Rights of Shareholders

- a) The Board of Directors shall lay down a clear policy regarding dividends, in a manner that may realize the interests of shareholders and those of the company; shareholders shall be informed of that policy during the General Assembly and reference thereto shall be made in the report of the Board of Directors.
- b) The General Assembly shall approve the dividends and the date of distribution. These dividends, whether they be in cash or bonus shares shall be given, as of right, to the shareholders who are listed in the records kept at the Securities Depository Center as they appear at the end of trading session on the day on which the General Assembly is convened.

PART 3

DISCLOSURE AND TRANSPARENCY

Article 8: Policies and Procedure related to Disclosure

The company shall lay down in writing the policies, procedures and supervisory rules related to disclosure, pursuant to law.

Article 9¹: Disclosure in the Board of Directors' Report

In addition to what is required in the Listing Rules in connection with the content of the report of the Board of Directors, which is appended to the annual financial statements of the company, such report shall include the following:

- a) The implemented provisions of these Regulations as well as the provisions which have not been implemented, and the justifications for not implementing them.
- b) Names of any joint stock company or companies in which the company Board of Directors member acts as a member of its Board of directors.
- c) Formation of the Board of Directors and classification of its members as follows: executive board member, non-executive board member, or independent board member.
- d) A brief description of the jurisdictions and duties of the Board's main committees such as the Audit Committee, the Nomination and Remuneration Committee; indicating their names, names of their chairmen, names of their members, and the aggregate of their respective meetings.
- e) Details of compensation and remuneration paid to each of the following:

¹ The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making Article 9 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from the first board report issued by the company following the date of the Board of the Capital Market Authority resolution mentioned above.

1. The Chairman and members of the Board of Directors.
2. The Top Five executives who have received the highest compensation and remuneration from the company. The CEO and the chief finance officer shall be included if they are not within the top five.

For the purpose of this paragraph, "compensation and remuneration" means salaries, allowances, profits and any of the same; annual and periodic bonuses related to performance; long or short- term incentive schemes; and any other rights *in rem*.

- f) Any punishment or penalty or preventive restriction imposed on the company by the Authority or any other supervisory or regulatory or judiciary body.
- g) Results of the annual audit of the effectiveness of the internal control procedures of the company.

PART 4

BOARD OF DIRECTORS

Article 10: Main Functions of the Board of Directors

Among the main functions of the Board is the following:

- a) Approving the strategic plans and main objectives of the company and supervising their implementation; this includes:
 1. Laying down a comprehensive strategy for the company, the main work plans and the policy related to risk management, reviewing and updating of such policy.
 2. Determining the most appropriate capital structure of the company, its strategies and financial objectives and approving its annual budgets.
 3. Supervising the main capital expenses of the company and acquisition/disposal of assets.
 4. Deciding the performance objectives to be achieved and supervising the implementation thereof and the overall performance of the company.
 5. Reviewing and approving the organizational and functional structures of the company on a periodical basis.
- b) Lay down rules for internal control systems and supervising them; this includes:
 1. Developing a written policy that would regulates conflict of interest and remedy any possible cases of conflict by members of the Board of Directors, executive management and shareholders. This includes misuse of the company's assets and facilities and the arbitrary disposition resulting from dealings with the related parties.
 2. Ensuring the integrity of the financial and accounting procedures including procedures related to the preparation of the financial reports.

3. Ensuring the implementation of control procedures appropriate for risk management by forecasting the risks that the company could encounter and disclosing them with transparency.
 4. Reviewing annually the effectiveness of the internal control systems.
- c) Drafting a Corporate Governance Code for the company that does not contradict the provisions of this regulation, supervising and monitoring in general the effectiveness of the code and amending it whenever necessary.
- d) Laying down specific and explicit policies, standards and procedures, for the membership of the Board of Directors and implementing them after they have been approved by the General Assembly.
- e) Outlining a written policy that regulate the relationship with stakeholders with a view to protecting their respective rights; in particular, such policy must cover the following:
1. Mechanisms for indemnifying the stakeholders in case of contravening their rights under the law and their respective contracts.
 2. Mechanisms for settlement of complaints or disputes that might arise between the company and the stakeholders.
 3. Suitable mechanisms for maintaining good relationships with customers and suppliers and protecting the confidentiality of information related to them.
 4. A code of conduct for the company's executives and employees compatible with the proper professional and ethical standards, and regulate their relationship with the stakeholders. The Board of Directors lays down procedures for supervising this code and ensuring compliance there with.
 5. The Company's social contributions.
- f) Deciding policies and procedures to ensure the company's compliance with the laws and regulations and the company's obligation to disclose material information to shareholders, creditors and other stakeholders.

Article 11 : Responsibilities of the Board

- a) Without prejudice to the competences of the General Assembly, the company's Board of Directors shall assume all the necessary powers for the company's management. The ultimate responsibility for the company rests with the Board even if it sets up committees or delegates some of its powers to a third party. The Board of Directors shall avoid issuing general or indefinite power of attorney.
- b) The responsibilities of the Board of Directors must be clearly stated in the company's Articles of Association.
- c) The Board of Directors must carry out its duties in a responsible manner, in good faith and with due diligence. Its decisions should be based on sufficient information from the executive management, or from any other reliable source.
- d) A member of the Board of Directors represents all shareholders; he undertakes to carry out whatever may be in the general interest of the company, but not the interests of the group he represents or that which voted in favor of his appointment to the Board of Directors.
- e) The Board of Directors shall determine the powers to be delegated to the executive management and the procedures for taking any action and the validity of such delegation. It shall also determine matters reserved for decision by the Board of Directors. The executive management shall submit to the Board of Directors periodic reports on the exercise of the delegated powers.
- f) The Board of Directors shall ensure that a procedure is laid down for orienting the new board members of the company's business and, in particular, the financial and legal aspects, in addition to their training, where necessary.
- g) The Board of Directors shall ensure that sufficient information about the company is made available to all members of the Board of Directors, generally, and, in particular, to the non-executive members, to enable them to discharge their duties and responsibilities in an effective manner.

- h) The Board of Directors shall not be entitled to enter into loans which spans more than three years, and shall not sell or mortgage real estate of the company, or drop the company's debts, unless it is authorized to do so by the company's Articles of Association. In the case where the company's Articles of Association includes no provisions to this respect, the Board should not act without the approval of the General Assembly, unless such acts fall within the normal scope of the company's business.

Article 12²: Formation of the Board

Formation of the Board of Directors shall be subject to the following:

- a) The Articles of Association of the company shall specify the number of the Board of Directors members, provided that such number shall not be less than three and not more than eleven.
- b) The General Assembly shall appoint the members of the Board of Directors for the duration provided for in the Articles of Association of the company, provided that such duration shall not exceed three years. Unless otherwise provided for in the Articles of Association of the company, members of the Board may be reappointed.
- c) The majority of the members of the Board of Directors shall be non-executive members.
- d) It is prohibited to conjoin the position of the Chairman of the Board of Directors with any other executive position in the company, such as the Chief Executive Officer (CEO) or the managing director or the general manager.
- e) The independent members of the Board of Directors shall not be less than two members, or one-third of the members, whichever is greater.
- f) The Articles of Association of the company shall specify the manner in which membership of the Board of Directors terminates. At all times, the General Assembly may dismiss all or any of the members

² The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making paragraphs (c) and (e) of Article 12 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from year 2009.

- of the Board of Directors even though the Articles of Association provide otherwise.
- g) On termination of membership of a board member in any of the ways of termination, the company shall promptly notify the Authority and the Exchange and shall specify the reasons for such termination.
 - h) A member of the Board of Directors shall not act as a member of the Board of Directors of more than five joint stock companies at the same time.
 - i) Judicial person who is entitled under the company's Articles of Association to appoint representatives in the Board of Directors, is not entitled to nomination vote of other members of the Board of Directors.

Article 13: Committees of the Board

- a) A suitable number of committees shall be set up in accordance with the company's requirements and circumstances, in order to enable the Board of Directors to perform its duties in an effective manner.
- b) The formation of committees subordinate to the Board of Directors shall be according to general procedures laid down by the Board, indicating the duties, the duration and the powers of each committee, and the manner in which the Board monitors its activities. The committee shall notify the Board of its activities, findings or decisions with complete transparency. The Board shall periodically pursue the activities of such committees so as to ensure that the activities entrusted to those committees are duly performed. The Board shall approve the by-laws of all committees of the Board, including, *inter alia*, the Audit Committee, Nomination and Remuneration Committee.
- c) A sufficient number of the non-executive members of the Board of Directors shall be appointed in committees that are concerned with activities that might involve a conflict of interest, such as ensuring the integrity of the financial and non-financial reports, reviewing the deals concluded by related parties, nomination to membership of the Board, appointment of executive directors, and determination of remuneration.

Article 14³: Audit Committee

- a) The Board of Directors shall set up a committee to be named the "Audit Committee". Its members shall not be less than three, including a specialist in financial and accounting matters. Executive board members are not eligible for Audit Committee membership.
- b) The General Assembly of shareholders shall, upon a recommendation of the Board of Directors, issue rules for appointing the members of the Audit Committee and define the term of their office and the procedure to be followed by the Committee.
- c) The duties and responsibilities of the Audit Committee include the following:
 1. To supervise the company's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.
 2. To review the internal audit procedure and prepare a written report on such audit and its recommendations with respect to it.
 3. To review the internal audit reports and pursue the implementation of the corrective measures in respect of the comments included in them.
 4. To recommend to the Board of Directors the appointment, dismissal and the Remuneration of external auditors; upon any such recommendation, regard must be made to their independence.
 5. To supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties.
 6. To review together with the external auditor the audit plan and make any comments thereon.

³ The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making Article 14 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from year 2009.

7. To review the external auditor's comments on the financial statements and follow up the actions taken about them.
8. To review the interim and annual financial statements prior to presentation to the Board of Directors; and to give opinion and recommendations with respect thereto.
9. To review the accounting policies in force and advise the Board of Directors of any recommendation regarding them.

Article 15⁴: Nomination and Remuneration Committee

- a) The Board of Directors shall set up a committee to be named "Nomination and Remuneration Committee".
- b) The General Assembly shall, upon a recommendation of the Board of Directors, issue rules for the appointment of the members of the Nomination and Remuneration Committee, their remunerations, and terms of office and the procedure to be followed by such committee.
- c) The duties and responsibilities of the Nomination and Remuneration Committee include the following:
 1. Recommend to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards; the Committee shall ensure that no person who has been previously convicted of any offense affecting honor or honesty is nominated for such membership.
 2. Annual review of the requirement of suitable skills for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including, *inter alia*, the time that a Board member should reserve for the activities of the Board.
 3. Review the structure of the Board of Directors and recommend changes.

⁴ The Board of the Capital Market Authority issued resolution Number (1-10-2010) Dated 30/3/1431H corresponding to 16/3/2010G making Article 15 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 1/1/2011

4. Determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the company's interest.
5. Ensure on an annual basis the independence of the independent members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.
6. Draw clear policies regarding the indemnities and remunerations of the Board members and top executives; in laying down such policies, the standards related to performance shall be followed.

Article 16: Meetings of the Board

1. The Board members shall allot ample time for performing their responsibilities, including the preparation for the meetings of the Board and the permanent and ad hoc committees, and shall endeavor to attend such meetings.
2. The Board shall convene its ordinary meetings regularly upon a request by the Chairman. The Chairman shall call the Board for an unforeseen meeting upon a written request by two of its members.
3. When preparing a specified agenda to be presented to the Board, the Chairman should consult the other members of the Board and the CEO. The agenda and other documentation should be sent to the members in a sufficient time prior to the meeting so that they may be able to consider such matters and prepare themselves for the meeting. Once convened, the Board shall approve the agenda; should any member of the Board raise any objection to this agenda, the details of such objection shall be entered in the minutes of the meeting.
4. The Board shall document its meetings and prepare records of the deliberations and the voting, and arrange for these records to be kept in chapters for ease of reference.

Article 17: Remuneration and Indemnification of Board Members

The Articles of Association of the company shall set forth the manner of remunerating the Board members; such remuneration may take the form of a

lump sum amount, attendance allowance, rights *in rem* or a certain percentage of the profits. Any two or more of these privileges may be conjoined.

Article 18. Conflict of Interest within the Board

- a) A Board member shall not, without a prior authorization from the General Assembly, to be renewed each year, have any interest (whether directly or indirectly) in the company's business and contracts. The activities to be performed through general bidding shall constitute an exception where a Board member is the best bidder. A Board member shall notify the Board of Directors of any personal interest he/she may have in the business and contracts that are completed for the company's account. Such notification shall be entered in the minutes of the meeting. A Board member who is an interested party shall not be entitled to vote on the resolution to be adopted in this regard neither in the General Assembly nor in the Board of Directors. The Chairman of the Board of Directors shall notify the General Assembly, when convened, of the activities and contracts in respect of which a Board member may have a personal interest and shall attach to such notification a special report prepared by the company's auditor.
- b) A Board member shall not, without a prior authorization of the General Assembly, to be renewed annually, participate in any activity which may likely compete with the activities of the company, or trade in any branch of the activities carried out by the company.
- c) The company shall not grant cash loan whatsoever to any of its Board members or render guarantee in respect of any loan entered into by a Board member with third parties, excluding banks and other fiduciary companies.

PART 5
CLOSING PROVISIONS

Article 19: Publication and Entry into Force

These regulations shall be effective upon the date of their publication.