

Understanding the Role of Audit Bureau in the Implementation of Corporate Governance Principles: An Agency Theory Perspective

د. كمال عبد السلام محمص

قسم المحاسبة - كلية الاقتصاد والعلوم السياسية - جامعة الزيتونة

Abstract

Despite the many international claims that companies are positioned to play a pivotal role in the design and conduct of corporate governance practices, very little attention has been given to the Libyan context. The purpose of this study is to understand and identify the role played by audit bureau (AB) in the implementation of corporate governance principles within Libyan organisations. A representative group of the AB (main branches) in Tripoli was surveyed to provide their views and perceptions of corporate governance practices and implementation. A survey questionnaire was chosen for this study. The study population was mainly represented by the employees of the Administration of Corporations and Banks Control, in addition to a number of directors of departments in AB. The questionnaire was pre-tested by several members of staff in Accounting Departments at the Faculty of Economics and Political Science at Azzaytuna University. The final Arabic copies of the questionnaire were distributed in the final survey. The number of questionnaires distributed was 65 and the response rate was 80 per cent (usable questionnaires 52). The results indicate that the concept of corporate governance is still very limited in the Libyan business environment despite the partial existence of its fundamentals. These results reflect contemporary international studies, suggesting that although the respondents recognized the positive influence of corporate governance on the different stages of company's performance, they are conspicuously absent from such practices. This can be attributed to: their lack of competence in such practices; a lack of professional standards and guidance; a lack of training programmes in this area; corporate governance principles not being required by laws to be implemented. The study highlights that agency theory does not offer a generally good explanation of corporate governance practice in Libya. This approach focuses only on the causes of conflict between managers (agents) and shareholders (owners), neglecting the other stakeholders in the society. It is a financial-purpose-oriented perspective.

Keywords: Corporate governance, Audit Bureau, agency theory, Libya.

الملخص

على الرغم من المطالبات الدولية العديدة بأن تلعب الشركات دورها المحوري في تصميم وتنفيذ ممارسات حوكمة الشركات، لم يتم إعطاء مثل هذه المواضيع اهتمام كبير في البيئة الليبية. الغرض من هذه الدراسة هو فهم وتحديد الدور الذي يلعبه ديوان المحاسبة في تنفيذ مبادئ وممارسات حوكمة الشركات داخل المنظمات الليبية. ولتحقيق أهداف الدراسة تم استطلاع آراء وتصورات الموظفين بديوان المحاسبة (الفرع الرئيسي) في طرابلس. لقد تم اختيار الاستبانة كأداة لجمع المعلومات لهذه الدراسة. وتمثل مجتمع الدراسة بشكل أساسي في الموظفين بإدارة الرقابة على الشركات والمصارف بالإضافة إلى بعض مدراء الإدارات بالديوان. وقد قام الباحث بإجراء دراسة استطلاعية للاستبانة على عينة من أعضاء هيئة التدريس بكلية الاقتصاد والعلوم السياسية بجامعة الزيتونة قبل توزيعها بشكل نهائي على المشاركين في الدراسة. تم توزيع النسخ العربية النهائية من الاستبانة في المسح النهائي. وقد بلغ عدد الاستبانات الموزعة على المشاركين (65) استبانة، بنسبة ردود بلغت 80% (52 استمارة صالحة للتحليل). وتوصلت الدراسة إلى أن مفهوم حوكمة الشركات لا يزال محدودًا للغاية في بيئة الأعمال الليبية على الرغم من الوجود الجزئي لمقوماتها. تعكس هذه النتائج ما توصلت إليه الدراسات الدولية المعاصرة، مما يشير إلى أنه على الرغم من إدراك المشاركين للأثر الإيجابي لحوكمة الشركات على المراحل المختلفة لأداء الشركات، إلا أنهم غائبون بشكل واضح عن مثل هذه الممارسات. ويمكن أن يعزى ذلك إلى: افتقارهم إلى الكفاءة في مثل هذا المجال؛ نقص المعايير والإرشادات المهنية؛ نقص برامج التدريب في هذا المجال؛ غياب الالتزام القانوني لتنفيذ مبادئ حوكمة الشركات. كما سلطت الدراسة الضوء على أن نظرية الوكالة بشكل عام لا تقدم تفسيرًا جيدًا لممارسات حوكمة الشركات في ليبيا. حيث تركز هذه النظرية فقط على أسباب تعارض المصالح بين المديرين (الوكلاء) والمساهمين (الملاك)، متجاهلة أصحاب المصلحة الآخرين في المجتمع. فهي نظرية موجهة للأغراض المالية دون الاهتمام بالمصالح الأخرى للمؤسسة.

الكلمات الدالة: حوكمة الشركات، ديوان المحاسبة، نظرية الوكالة، ليبيا



1. Introduction

In recent years, corporate governance has become one of the most distinctive features of modern companies. Corporate governance is considered one of the key global indicators of corporate success, and a test of whether businesses, shareholders, stock exchanges and regulators are equipped to meet twenty-first-century market pressures (Davis, 2018). It has been a focus of attention, and increasingly so since the global financial crisis (Chambers and Odar, 2015: p. 34-55). Corporate governance is a new category of corporate social responsibility, introduced in 1993 (Hanafi, 2006: p. 166-167). Determining whether the audit bureau (AB) is an effective tool of a board of directors is a principal issue in good corporate governance.

This study is motivated to fill a gap in the literature on AB effectiveness and its determinants, and provide findings which have practical implications for the formation and functioning of AB. Previous corporate governance literature has been limited in modelling the effectiveness of AB. Most prior studies have addressed partial aspects in the design of AB effectiveness and its determinants. Thus, the central theme of this paper is the potential role of the Libyan AB in handling corporate governance within the conventional auditing framework. The findings of this study can have practical implications for an evaluation of whether, and in what circumstances, current governance structures of AB are effective in relation to the monitoring of the corporation's financial reports and external auditing. The specific objectives of this study are:

- (1) To identify the availability of the requirements of corporate governance elements.
- (2) To investigate the extent to which the application of corporate governance is related to the procedures for the audit process followed by the AB.
- (3) To examine the impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya.
- (4) To explore the role of the AB in implementing corporate governance practices in Libya.

On the basis of this discussion, this study proceeds as follows. The next section outlines the theoretical perspective of the study. The third section identifies and reviews the literature and develops hypotheses; the fourth section deals with the research



methodology; the fifth section discusses corporate governance concept and principles; while the sixth section contains the research findings. The seventh section summarises the general results of the research. The penultimate section then provides the recommendations of the study. The conclusion of this study is provided in the final section.

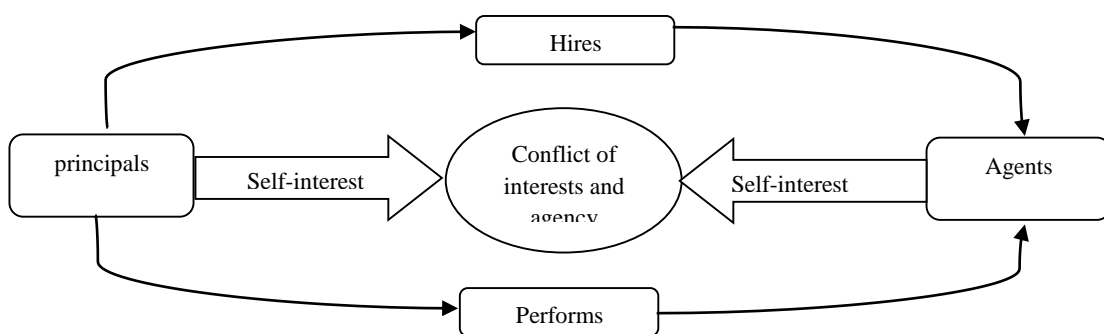
2. Theoretical perspective

Corporate governance does not have an accepted theoretical base or a common paradigm (Parum, 2005: p. 702-709). Corporate governance has been explained and analysed using different theoretical frameworks such as agency theory, stakeholder theory, legitimacy theory and stewardship theory. Reviewing corporate governance literature, however, it can be noticed that agency theory is the dominant theory (Peasnell et al., 2005: p. 1131-1346; Habbash, 2010; Al-Faryan, 2017: p. 338-349). Overview of the agency perspective will be succeeded by an analysis and critique of this perspective, justifying the choice of the theoretical framework adopted by the present study to examine the current practices of corporate governance in Libya.

Agency theory refers to shareholders, ‘the principals’, and managers, ‘the agents’, and the relationships between them, which can be defined as a contract between these parties, or delegating some decision-making authority from the principals to the agent in order to perform some service on their behalf (Jensen and Meckling, 1976: p. 305-360). Corporate governance is a complex process that involves organisational, legal, economic, political and social tools. This combination provides a unique working environment that allows to minimize costs by reducing the gap of the conflict between managers’ and owners’ interests (Shleifer and Vishny, 1997: p. 737-783; Mostepaniuk, 2017). Since the interrelationship amongst the shareholders and managers of a company fits the definition of an agency relationship, two problems are associated with agency relationships. Firstly, the conflicting objectives between the agent and the principal. This is because each party chooses its actions optimally regarding its self-determined goals (Ince, 1998: p. 51-52). Secondly, the differences in the propensity to accept risk between each party (Haniffa, 1999: p. 122-123). An agency relationship (see Figure 1) can be described as hiring a person (the agent, a director) to perform and to make decisions on behalf of the principal(s) (owners and shareholders).

The separation of ownership and the control of firms provides too much control and power to the managers of large corporations. As a manager has more sources of information, this kind of delegation of managing tasks is rational. The actions made by the manager cannot be fully supported by the owner as the owner and the manager have different information (asymmetric information), If both participants (the owner and the manager) are aiming mostly at their self-interest, there is a possibility that the agent will not act in the best interest of the principal (according to his information). As the accuracy of corporate government influences the wiliness of owners to sink their capital, it is important to understand the methods of corporate governance efficiency evaluation by governmental regulatory bodies. The example of Enron Corporation's failure shows the crucial that may corporate governance play in ensuring the rights of stakeholders, solving the conflict between managers seeking investors' goals on stable future return and potential growth (Mostepaniuk, 2017). One way of mitigating such conflicts and reducing costs may be by corporate governance mechanism (Haji, 2013: p. 647-676). Another way to control or monitor agents' behaviours, and to establish that they are not acting in a manner detrimental to the principals' interest, is by demanding access to both pecuniary and non-pecuniary information on a regular basis (Haniffa, 1999: p. 51-52). According to the agency theory, corporate governance can help mitigate various principal-agent conflicts.

Figure 1: Agency theory explanation



3. Literature review and hypotheses development

In recent years the economic crisis has become a global issue. The failures and collapses of a number of prominent companies have brought corporate governance issues to attention. Nowadays, there is a growing pressure for businesses to consider corporate



governance of their operations. As a result, corporate governance and its principles have been emerging as an important dimension of corporate accountability. Attempts to establish the relevance of accountants' knowledge and skills to the practice of corporate governance are widespread in the accounting literature (see, for example, Shleifer and Vishny, 1997: p. 737-783; Turley and Zaman, 2004: p. 305-22; Masulis et al., 2007: p. 1851-1889; Murya, 2010; Mostovicz et al., 2011: p. 613-626; Dockery et al., 2012: p. 165-175; Lary and Taylor, 2012: p. 336-354; Aguilera and Crespi-Cladera, 2016: p. 50-57; Da Costa, 2017: p. 15-23; Zagoub, 2019: p. 95-106).

Al-Matari et al. (2012: p. 241-251) suggested that certain corporate governance mechanisms could affect the performance of firms, such as chief executive officers (CEO) duality, board composition, board size and audit committee size. Peasnell et al. (2005) indicate that the likelihood of managers making income-increasing abnormal accruals to avoid reporting losses and earnings reductions is negatively related to the proportion of outsiders on the board. They also find that the chance to turn a loss into a profit or to ensure that profit does not decline, is significantly lower for firms with a high proportion of outside board members. Klapper and Love (2004: p. 703-728) investigated 495 companies from 14 emerging markets and found that there is wide variation in firm-level governance in our sample and that the average firm-level governance is lower in countries with weaker legal systems. They explore the determinants of firm-level governance and find that governance is correlated with the extent of the asymmetric information and contracting imperfections that firms face. They also find that better corporate governance is highly correlated with better operating performance and market valuation. The researchers provide evidence that firm-level corporate governance provisions matter more in countries with weak legal environments.

Durnev and Kim (2005: p. 1461-1493) studied legal framework on the corporate governance practices of 859 companies, identifying three firm attributes related to that variation: investment opportunities, external financing, and ownership structure. Using firm-level governance and transparency data from 27 countries, they found that all three firm attributes are related to the quality of governance and disclosure practices, and firms with higher governance and transparency rankings are valued higher in stock



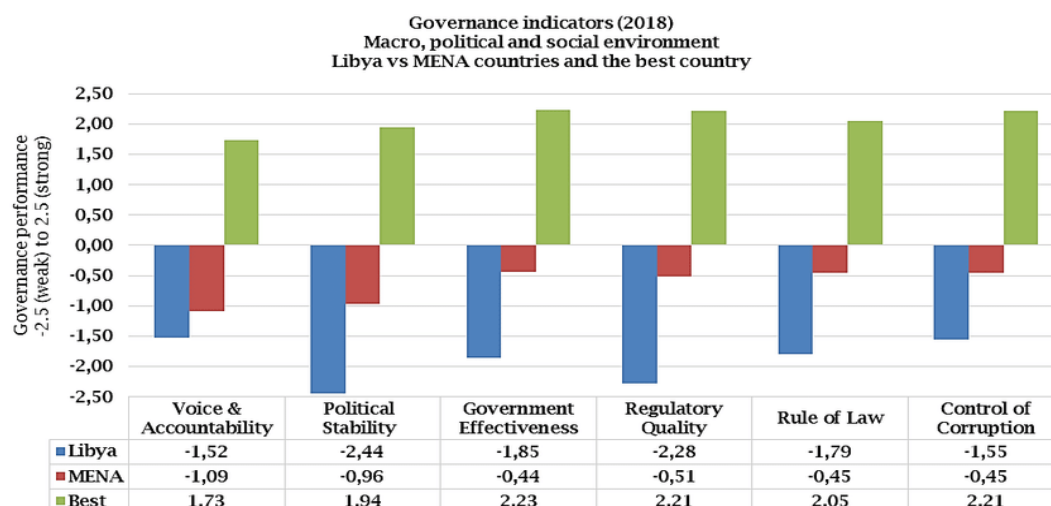
markets. All relations are stronger in less investor-friendly countries, demonstrating that firms adapt to poor legal environments to establish efficient governance practices. Elghuwee et al., (2017: p. 1-39) examine the impact of corporate governance (CG) and Islamic governance (IG) mechanisms on corporate earnings management (EM) behaviour in Oman. They find that first, on average, better-governed corporations tend to engage significantly less in EM than their poorly-governed counterparts. Second, our evidence suggests that corporations that depict greater commitment towards incorporating Islamic religious beliefs and values into their operations through the establishment of an IG committee tend to engage significantly less in EM than their counterparts without such a committee. Finally, and by contrast, they do not find any evidence that board size, audit firm size, the presence of a CG committee and board gender diversity have any significant relationship with the extent of EM.

Regarding governance, the development of corporate governance concepts and practices in a particular country depends upon the stage of development of social, political, legal, economic and corporate structure in this country (Mallin, 2013; Wright et al., 2013; Libyan Organisation of Policies and Strategies (LOPS), 2016; Mahmes, 2018). Zagoub (2019: p. 95-106) reveals that the concept of governance is still very limited in the Libyan business environment. Corporate governance adoption in Libya is still in its early stages due to the political and security situation in Libya. The economic context cannot be examined separately from the political, social and institutional framework in which the economic activity takes place. corporate governance is predicated on the recognition that the economic aspect is merely one component of the institutional lifetime, and this need to be interwoven with the recognition of the significance of political and social aspects (Gray et al., 1995: p. 47-77). To justify its continued existence, a company should appear to operate within the bounds of those activities which are deemed appropriate by society, should create communication channels with society, and should legitimise its behaviour and attitudes towards the society in which it operates (Brown and Deegan, 1998: p. 21-40; Mahmes, 2018).

Studies regarding corporate governance practices in developing, under-developed and newly industrialized countries are few in number compared with developed countries, with more focus on the Asian region (Haniffa and Hudaib, 2006: p. 1034-1062;

Limpaphayom and Connelly, 2006: p. 101-124; Chauhan and Dey, 2009: p. 69-7.; Mustafa et al., 2009: p. 45-59; Wei et al., 2010: p. 727-749; Heenetigala and Armstrong, 2011; Hamdan et al., 2013: p. 32-42; Ahmed & Hamdan, 2015: p. 21-37; Al-Ghamdi & Rhodes, 2015: p. 78-89; Buallay et al., 2017: p. 78-98; Al-Malkawi, & Pillai, 2018: p. 604-623; Al-Matar and Mgammal, 2019: p. 1-27). Very little attention has been given to the African nation (Ehikioya, 2009: p. 231-243). There is a general lack of knowledge on the state of corporate governance in the Arabic world, of which Libya is an important part, as only a small number of studies on corporate governance have been undertaken. Figure (2) illustrates Libya's governance indicators compared to the average of MENA countries and the best country.

Figure 2: Key governance indicators, Libya vs. MENA countries and the best country



Source: Kaufmann, D., & Kraay, A. (2018). *The Worldwide Governance Indicators (WGI)*. The World Bank Group.

Corporate governance in Libya did not receive any attention until the Central Bank of Libya (CBL) issued its "Corporate Governance Guideline for Libyan Commercial Banks" in 2006, and the Libyan Stock Market (LSM) issued its Corporate Governance Code for Listed companies in 2007. In 2019 the Libyan AB issued its resolution to impose companies to adopt Corporate Governance Codes, and more recently, the Ministry of Economy and Trade issued Corporate Governance Regulations in 2021. Zagoub (2019: p. 95-106) investigates the perceptions of various stakeholders towards corporate governance in Libyan commercial banks (LCBs). The findings indicate that the concept of corporate governance is new in LCBs, only introduced in 2006 when the



CBL issued its Corporate Governance Guidelines for Boards of Directors in LCBs, and thus its adoption in Libya still in its early stage. LCBs are not yet ready to accept and adopt corporate governance because of the boards and executive managements are not focused on adopting corporate governance. The guidelines are not mandatory and need board members that are practised in dealing with corporate governance issues, and therefore, the guidelines have been mostly ignored leading to many poor practices. A study of the Libyan Organisation for Politics and Strategies (2016: p. 1-19) presents the most prominent of the failure of corporate governance in Libya as follows:

- The inability of the government to control the country effectively and responsibly;
- The failure of the public administration in Libya to manage public institutions efficiently;
- The failure to promote decentralization to ensure the growth of spatial development;
- The lack of perception and the absence of training on the requirements of the practices of implementing corporate governance;
- The absence of developed models suitable for Libyan institutions and the local political, economic and social environment;
- The spread of corruption in various institutions, and failure to fight it, which may lead to hinder the economy growth of the country;
- The failure to eliminate bureaucracy and inability to develop the means of management in financial and service institutions.

All these reasons slow the progress of reforms and hinder the efforts to achieve socio-economic development and effective corporate governance practices. Consequently, the following main hypothesis was suggested:

H1. The fundamentals of corporate governance elements are not available within the Libyan context.

H2. The application of corporate governance is not related to the procedures for the audit process followed by the AB.

H3. There is no impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya.

H4. The AB does not play a role in implementing corporate governance practices in Libya.



4. Methodology

Sample selection and data collection

In general, case studies are the preferred strategy when the researcher has little control over events, and when the focus is on a contemporary phenomenon within some real-life context (Yin, 2003). This study sample comprises an exploration of the views and experience of 52 practitioners from the AB (main branches) in Tripoli regarding their reorganisational response to the corporate governance. A questionnaire was chosen for this study. Questionnaires were either sent by e-mail or handed personally to respondents. 65 questionnaires were distributed mainly to the employees of the Administration of Corporations and Banks Control in addition to a number of directors of departments in AB; out of these, 52 questionnaires were collected, giving a response rate of 80%. This rate is very good compared with the previous studies within the same domain.

Survey instrument

In designing a questionnaire, five main issues were considered by the researcher. The first is question formulation, wording and language. The second is the sequencing of the questions. The third is the content of the questionnaire. The fourth is the pilot study. Administration of the questionnaire is the fifth. Such issues can minimise bias in research (Sekaran, 2003). Application to the Arabic language was also cautiously considered. A number of previous research using data collection originally constructed in English and then translated to Arabic in relation to the research topic was reviewed (Zagoub, 2011; Aldrugi, 2013; Mahmes, 2018). This enables the researcher to choose the most appropriate terms and expressions used in such studies, which may enhance the process of designing the Arabic version of the questionnaire intended for this study. After translating the questionnaire, with the researcher did himself, it was discussed in more detail through a pilot study that involved people whose native language is Arabic, for any necessary rectification and comments.

Based on their knowledge and perceptions, respondents were asked to indicate their assessment of agreement using a five-point Likert scale. Using the Likert scale allowed for answers that are not achievable using a yes/no question format, and extended the anticipated answers of the questionnaire, and also allowed for the answer to be a more



realistic measure of the participants' approaches and stances (Sekaran, 2010; Sarantakos, 2013). This scale is designed to allow descriptive statistics to be compiled and to measure the magnitude of the differences in the preferences among the individuals. To identify the length of each scale, the extension of this scale was calculated by $5 - 1 = 4$ and then divided by the number of scales: $4 / 5 = 0.80$. This value was added to the least value of each scale to determine their upper and lower limits. Consequently, values from 1 to 1.80 represent strongly disagree, values from 1.81 to 2.60 represent disagree, values from 2.61 to 3.40 represent agree to some extent, values from 3.41 to 4.20 represent agree, and values from 4.21 to 5 represent strongly agree (Malhotra and Birks, 2007, cited in Algeru, 2011: p. 170). To ensure that the research design was both methodologically sound and ethically defensible, full explanation for access requirements was provided to all those who were involved in this study. An official letter from the Faculty of Economics and Political Science was attached with the questionnaire.

In order to test the previously mentioned hypotheses the questionnaire comprised five sections which sought information and views on the background of the respondent; the availability of the requirements of corporate governance elements; the extent to which the application of corporate governance is related to the procedures for the audit process followed by the AB; the impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya; the role of the AB in implementing corporate governance practices in Libya. The questionnaire was pre-tested by a number of members of staff in Accounting Departments at the Faculty of Economics and Political Science at Azzaytuna University. The final Arabic copies of the questionnaire were distributed in the final survey. The number of questionnaires distributed was 65. The response rate was 80 per cent (usable questionnaires 52).

Data analysis

The data were analysed with Statistical Package for the Social Sciences software (version 22). Quantitative data analysis was conducted by first calculating the arithmetic mean values of the agreement, as well as the absolute differences between those mean scores. The statistical significance of the differences between the



expectations of participants was also tested. The significance was tested primarily by using a One Sample T-test, which is a parametric test. The results were verified by non-parametric Wilcoxon signed-rank tests. Conflicting views exist concerning the use of parametric tests with non-normally distributed and/or Likert-scale data. The use of parametric tests with Likert data has been discussed for decades (e.g. Harpe, 2015: p. 836-850; Elo et al., 2023: p. 1-37), and the traditional view is that if the assumption of normal distribution is not met, parametric methods should be avoided, and non-parametric tests should be utilized (Vickers, 2005: p. 1-12).

The reliability test was also conducted. Reliability refers to the degree of stability and consistency amongst items of a scale. According to Sekaran (2003), the reliability of a measure is established by testing for both consistency and stability. As it is of relevance to a survey questionnaire based on the five-point Likert scale, the Cronbach's Alpha test was used in this analysis. A score of >0.70 is the conventional satisfactory level of reliability coefficient (Cortina, 1993: p. 98-104; George and Mallery, 2005), and this can decrease to >0.6 (Robinson et al., 1991; Hair et al., 1998). 'Few researchers seem to know that ... a coefficient of 0.91 can be obtained from a series of items with inter-item correlation coefficients around .30, or that a test-retest reliability correlation of 0.50 may indicate a higher reliability than a split-half reliability of 0.80' (Robinson et al., 1991: p. 5).

5. Corporate governance concept and principles

The term is simply about how a company governs itself, referring to the relationships between a corporation's management, its board and stakeholders (Smith et al., 2005: p. 123-151). Corporate governance provides 'the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined' (Organisation for Economic Co-operation and Development (OECD), 2004: p. 11).

Corporate governance has been defined from many different points of view comprising different framework such as: management; organisational behaviour; accounting; legal structure; social responsibility; and politics. These different definitions depend upon the viewpoint of the policy market, practitioner, researcher or theorist (Solomon and Solomon, 2007; Gillan, 2006: p. 381-402). Although these definitions reflect different



understandings and perspectives on corporate governance, this often led to confusion as Du Plessis et al., (2005: p. 1) state that: "One thing that is clear about the concept of corporate governance is that there is no set definition as to what it means. Commentators often speak of corporate governance as an indefinable term, something – like love and happiness – which we essentially know the nature of, but for which words do not provide an accurate picture. Many have attempted to lay down a general working definition of corporate governance, yet one definition varies from another, and this often leads to confusion".

Solomon and Solomon (2007) noted that the definition of corporate governance falls along a spectrum, the narrow view at one end and broad view at the other end. She states that: "In general, the definitions of corporate governance found in the literature tend to share certain characteristics, one of which is the notion of accountability. Narrow definitions are oriented around corporate accountability to shareholders, while broader definitions of corporate governance level of accountability to shareholders and other stakeholders" (p. 14).

More recently, the term has been linked to issues such as corporate social responsibility and sustainability reporting. It has been defined as ‘an environment of trust, ethics, moral values and confidence – as a synergic effort of all the constituents of society – that is the stakeholders, including government; the general public etc.; professional/service providers – and the corporate sector’ (Aras and Crowther, 2008: p. 434). This group of social activities can therefore include disclosures relating to general statements of compliance/non-compliance with various codes; and section(s) in main audit reports indicating compliance/non-compliance with codes or separate reports by auditors on corporate governance. Investing early in a solid corporate governance framework can help ensure the company’s readiness to meet the challenges of expansion. A corporate governance structure can promote fairness and equitable treatment of employees while focusing on profitability (Center for International Private Enterprise, 2011). Drawing from multiple sources (Klapper and Love, 2004: p. 703-728; Peasnell et al., 2005; Mallin, 2013; OECD, 2015; da Costa, 2017: p. 15-23), this study provides the following definition: "Corporate governance is a set of rules, practices, and laws by which businesses are operated, regulated and controlled,

protecting stakeholder interests by ensuring reliable financial reporting, internal accounting controls, and risk management through its diligent oversight efforts".

There is no single model of good corporate governance. However, some common elements underlie good corporate governance. Regarding the implementation of appropriate system of corporate governance to business, it is necessary to follow formal principals, specifically for emerging and developing countries that only start realization of innovative methods of management. The purpose of corporate governance is to assist build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies. The priority is to put the principles to good use and for countries and corporations to harvest the benefits of better corporate governance. The principles are intended to help policymakers in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance, with a view to support economic efficiency, sustainable growth and financial stability, providing guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance. This section summarises the five main corporate governance principles as follows (OECD, 2004 & 2015; Mostepaniuk, 2017):

Principle 1: Ensuring the Basis for an Effective Corporate Governance Framework

- To establish the corporate governance framework in accordance with current legal and socioeconomic systems, to ensure and encourage companies to perform transparent and in a social efficient way.
- To provide a clear division of rights and responsibilities of representatives of the public sector and to avoid double control or contradicting regulations.
- To specify the procedure and mechanism of governmental and public control, and the methods of reporting, informing, and communication to avoid confusion.

Principle 2: The Rights of Shareholders and Key Ownership Functions

- Shareholders have a right to guarantee the methods of ownership protection, transfer their shares, to be informed on the corporation's decisions and performance on a specified basis, to join and vote on the general meetings, elect

and dismiss the members of the board, to share in the net profit of a corporation, etc.

Principle 3: The Equitable Treatment of Shareholders

- Minority shareholders should be protected from the leading and dominance of controlling shareholders, forcing in a direct or hidden way to vote for their personal interest rather than mutual goals.
- The voting procedure should be explained and clarified clearly to all shareholders, to prevent the misuse of the system.
- Members of the board and key officers should inform the board about any personal benefit that can be obtained from any transaction that affects the performance of a corporation.

Principle 4: The rights of stakeholders

- All stakeholders' rights should be protected by the law; stakeholders should have an access to the information that is required for their performance.
- All stakeholders and their representatives should know the procedure of communication and reporting the board regarding the potential and existing illegal or unethical decisions, rights violation, and other concerns.

Principle 5: Disclosure and transparency

- Transparency and accessibility should be provided to the information on a company's financial and operational performance and results, key company's goals and interests, major and minor shareholders, voting and selecting policies, potential risks, concerns regarding stakeholders, a corporate governance framework and structure.
- It is required to run an annual audit by an independent and competent auditor to provide the external information on financial efficiency and to ensure that the existing internal reports are reliable and can be used for evaluating future benefits and estimating potential risks.

Principle 6: The responsibilities of the board

- The board should perform in the best interest of the company and shareholders; the board should fairly consider the interests of all shareholders regardless of the size of their shares.

- The board is responsible for creating, following, and improving, if needed, the corporate strategy, long-terms plans, risk policy, budgeting and financial planning, monitoring and evaluation of the company's performance, overseeing potential emerges, acquisitions, and capital expenditures.
- The board's functions are electing and replacing, guiding and monitoring the CEO activities.
- The board members should identify and eliminate the possible conflict of interest of the board members, top managers, shareholders, and stakeholders as well as issues on misuse of corporate assets.

6. Research results

6.1 Background information of respondents

Table (1) indicates that 40 (76.93 per cent) of respondents had professional experience exceeding five years. Nearly two thirds (63.6%) of the respondents from this group hold a Bachelor's degree. An important percentage of this group (25%) hold a Master's degree, 3.85% hold a Higher Diploma and 3.85% hold an Intermediate Diploma (Table 2). The results indicate that 78.85% of the participants hold an accounting qualification, whereas those who have a non-accounting qualification represent only 21.15% (Table 3). Furthermore, the non-preparedness of participants in handling corporate governance practices was noted by this survey. Table (4) indicates that the majority of the participants (84.62 per cent) were not subjected to any training courses or programmes to improve their knowledge about corporate governance. Based on these results and in accordance with the literature (Libyan Organisation for Politics and Strategies, 2016: p. 1-19; Mahmes, 2018; Zagoub, 2019: p. 95-106), one can say that auditors within Libyan AB are ill-equipped in handling corporate governance. This is not to say that they are incapable of change, but that they are ill-prepared through their training and education to reflect upon and respond to challenges that lie outside their existing knowledge.

Table 1: Length of experience of respondents

Length of experience (years)	Number of participants	%
< 5	12	23.08
5-10	10	19.23
11-15	11	21.15
> 15	19	36.54
Total	52	100

Table 2: Level of education of respondents

Level of Education	Number of participants	%
Intermediate diploma	2	3.85
Higher diploma	2	3.85
Bachelor	33	63.46
Master	13	25
PhD	2	3.85
Total	52	100

Table 3: Type of educational qualification of respondents

Type of educational qualification	Number of participants	%
Accounting qualification	41	78.85
Non-accounting qualification	11	21.15
Total	52	100

Table 4: Attendance at training programmes on corporate governance

Attendance at training programmes on corporate governance	Number of participants	%
YES	8	15.38
NO	44	84.62
Total	52	100

6.2 Reliability analysis

The reliability test was conducted for 38 items, i.e. the availability of the requirements of corporate governance elements (8 items), the extent to which the application of corporate governance is related to the procedures for the audit process followed by the AB (7 items), the impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya (6 items), and the role of the AB in implementing corporate governance practices in Libya (17 items). As can be seen from Table (5), the values of Cronbach's Alpha were higher than 0.6, suggesting that the items have relatively high internal reliability.

Table 5: Results of Cronbach's Alpha test of questionnaire reliability

N	Measurement items	No. of items	No. of cases	Cronbach's Alpha
1	The availability of the fundamentals of corporate governance elements	8	52	0.871
2	The extent to which the application of corporate governance is related to the procedures for the audit process followed by the AB	7	52	0.865
3	The impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya	6	52	0.896
4	The role of the AB in implementing corporate governance principles in Libya	17	52	0.960
Total		38	52	0.966

6.3 Hypotheses testing

This part of the study is concerned with analysing the data collected from subjects as the role played by the Libyan AB in implementing corporate governance principles using statistical methods to test hypotheses.

6.3.1 The availability of the fundamentals of corporate governance elements

Respondents' answers to the questions relating to the hypothesis "the fundamentals of corporate governance practices are not available within the Libyan context" were analysed using the following statistical methods:

- Frequency distribution and mean; and
- One- Sample T-test.

First – frequency distribution and mean. Table (6) shows frequency distribution, percentages and mean of respondents on "the extent of the availability of the fundamentals of corporate governance practices". The mean was used to arrange fundamentals based on their familiarity for subjects of study. They were as follows:

Fundamentals 4, 3, 2, 1, 8, 5 and 7 were ranked in that order from first to seventh with averages 3.80, 3.56, 3.35, 3.23, 2.92, 2.90 and 2.89 respectively. As all of these values are from 2.61 to 3.40, it can be concluded that the majority of respondents agreed that such fundamentals are available.

Fundamental 6 was ranked eighth with an average of 2.58. This means that the majority of respondents disagreed that such fundamental is not available.

Second – One-Sample T-test. In addition to the use of frequency distribution and means to identify how aware the subjects of the study are of the fundamentals of corporate governance elements; a T test was also used for the same purpose to test the hypothesis: "The fundamentals of corporate governance elements are not available within the Libyan context". Results shown in Table (6) indicate that calculated p-value opposite phrases related to "the availability of the fundamentals of corporate governance elements" is less than p-value (0.05). This entails to reject the hypothesis and that the overall mean degree of agreement is greater than 3 for all statements.

Table 6: Respondents' views about the availability of the fundamentals of corporate governance elements

Statements	1		2		3		4		5		Mean	Order	T-test	p-value
	No.	%	No.	%	No.	%	No.	%	No.	%				
1. Auditors of the AB are provided with all the necessary requirements to conduct their work as required.	3	6	11	20	14	27	19	37	5	10	3.23	4	21.62	0.001
2. Auditors of the AB can access records, appropriate persons to perform their job without any restrictions in order to activate the principles of governance.	2	4	9	18	15	29	21	39	5	10	3.35	3	23.95	0.002
3. The auditors can make decisions without any pressure or submission to those whose decisions can affect their interest.	3	6	6	10	13	25	19	39	11	20	3.56	2	22.76	0.004
4. The auditors have the powers that enable them to conduct their job to the fullest.	1	2	4	8	13	22	21	41	13	27	3.80	1	27.96	0.001
5. The AB provides the necessary recommendations to the boards of directors of companies when designing their internal control systems.	6	12	12	25	19	33	11	22	4	8	3.00	6	18.91	0.009
6. AB auditors receive training and continuous education on professional standards and how to activate the principles of governance.	9	18	17	35	16	27	7	14	3	6	3.00	8	16.76	0.001
7. The AB assists the various departments in companies to implement plans related to governance and internal control.	7	14	12	22	18	35	10	18	5	10	3.00	7	17.84	0.005
8. The various departments adhere to the instructions and recommendations of the auditors in a way that suits the interests of the company.	3	6	14	27	21	41	12	22	2	4	3.00	5	22.27	0.003
Overall mean score of agreement level												3.24		
Cronbach's alpha												0.873		

Results of One-Sample T-test of agreement degree of participants as one group (Table 7) indicate that calculated p-value (0.001) opposite phrases related to "the availability of the fundamentals of corporate governance elements" is less than α p-value (0.05). T table (7.000) is less than calculated T (21.394). Accordingly, it can be concluded from the analysis of the first hypothesis of study that "the fundamentals of corporate governance elements are not available within the Libyan context" is rejected.



Table 7: Agreement degree of participants as one group of the availability of the fundamentals of corporate governance elements

α P-value	Calculated p-value	One-Sample T-test	Alternative hypothesis	Zero hypothesis	95 per cent trust interval among means	Standard deviation	Mean
0.05	0.001	29.90	Mean \geq 3	Mean $<$ 3	2.986-3.500	0.306	3.24

6.3.2 The extent to which the application of corporate governance is related to the procedures for the audit process followed by the AB

Respondents' answers to the questions relating to the hypothesis stating that "the application of corporate governance is not related to the procedures for the audit process followed by the AB" were analysed using the same statistical methods used with the first hypothesis of the study. The test results are as follows.

First – frequency distribution and likely mean. Table (8) shows frequency distribution, percentages and likely mean of responses to questions on "to what extent the application of corporate governance is related to the procedures for the audit process followed by the AB". Likely mean was used to arrange requirements based on their familiarity for the subjects of the study.

Statement 2 comes first with a mean of 3.67; statement 3 come second with the mean of (3.54). Statements 1, 7, 5, 6 and 4 take the fourth, fifth, sixth, seventh and eighth places with averages of 3.33, 3.29, 3.19, 3.17 and 3.14 respectively. As all of means are from 2.61 to 3.40, it can be concluded that the subjects of the study general agree that the application of corporate governance is related to the procedures for the audit process followed by the AB.

Second – One-Sample T-test. In addition to the use of frequency distribution and means to identify the extent to which the application of corporate governance is related to the procedures for the audit process followed by the AB; a T-test was also utilised for the same purpose to test the hypothesis: "The application of corporate governance is not related to the procedures for the audit process followed by the AB". Results shown in Table (8) indicate that p-value opposite phrases related to "the relation of the application of corporate governance to the procedures for the audit process followed by the AB" is less than 0.05. This entails to reject the hypothesis and that the overall mean degree of agreement is higher than 3 for all statements.

Table 8: Respondents' views about the extent to which the application of corporate governance is related to the procedures for the audit process followed by the AB

Statements	1		2		3		4		5		Mean	Order	T-test	p-value
	No.	%	No.	%	No.	%	No.	%	No.	%				
1. The audit program followed by the auditors of the AB includes procedures to ensure that the principles of governance are applied.	1	2	8	14	21	41	17	33	5	10	3.33	3	25.99	0.002
2. The financial and administrative procedures are examined by auditors of the AB to ensure that policies, plans, systems, laws and regulations are considered.	2	4	6	10	13	25	17	35	14	27	3.67	1	23.75	0.006
3. The responsible departments of the AB discuss the internal control system with the responsible authorities within the companies.	2	4	6	12	10	16	30	59	4	8	3.54	2	27.19	0.005
4. AB auditors have sufficient knowledge of the necessary professional standards to activate the principles of governance.	3	6	8	14	24	47	13	25	4	8	3.14	7	23.29	0.003
5. The AB has a positive impact on reaching the objectives and activating governance in the company.	2	4	7	12	25	47	15	31	3	6	3.19	5	25.97	0.005
6. The competent departments of the AB play an effective role in risk management by providing recommendations in areas that are vulnerable to any risk within the company.	1	2	11	22	20	35	18	37	2	4	3.17	6	26.02	0.007
7. AB supervises investigations related to fraud and malpractice in which the company is committed and how to avoid them.	3	6	5	10	20	37	22	43	2	4	3.29	4	25.92	0.004
Overall mean score of agreement level												3.33		
Cronbach's alpha	0.865													

Results of One-Sample T-test of agreement degree of participants as one group (Table 9) indicate that calculated p-value (0.001) opposite phrases related to “the extent to which the application of corporate governance is related to the procedures for the audit process followed by the AB” is less than α p-value (0.05). T table (6.000) is less than calculated T (42.877). Accordingly, the second hypothesis of the study is rejected.

Table 9: Agreement degree of participants as one group of the extent to which the application of corporate governance is related to the procedures for the audit process followed by the AB

α P-value	Calculated p-value	One-Sample T-test	Alternative hypothesis	Zero hypothesis	95 per cent trust interval among means	Standard deviation	Mean
0.05	0.001	43.858	Mean \geq 3	Mean $<$ 3	3.157 – 3.519	0.201	3.333

6.3.3 The impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya

Respondents' answers to the questions relating to the hypothesis stating that "there is no impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya" were analysed using the same statistical methods used with the first and second hypotheses. The test results are as follows.

First – frequency distribution and likely mean. Table (10) shows frequency distribution, percentages and likely mean of responses to questions on "the impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya". Likely mean was used to arrange statements based on their familiarity for the subjects of the study. Statement 4 comes first with a mean of 3.60; statement 3 comes second with a mean of (3.56). Statements 5, 1, 6 and 2 take the third, fourth, fifth and sixth places with averages of 3.48, 3.42, 3.31 and 3.10, respectively.

As all of the above-mentioned means are from 2.61 to 3.40, it can be concluded that the subjects of the study general agree that there is an impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya.

Second – One-Sample T-test. In addition to the use of frequency distribution and means to identify the impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya; a T-test was also utilised for the same purpose to test the hypothesis: "There is no impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya". Results shown in Table (10) indicate that p-value opposite phrases related to "the impact of the AB reports and its recommendations on the implementation of corporate governance practices in

companies operating in Libya” is less than 0.05. This entails to reject the hypothesis and that the overall mean degree of agreement is greater than 3 for all statements.

Table 10: Respondents’ views about the impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya

Statements	1		2		3		4		5		Mean	Order	T-test	p-value
	No.	%	No.	%	No.	%	No.	%	No.	%				
1. The auditors of the AB submit the necessary reports to the Board of Directors and the Audit Committee regarding the institutions' commitment to applying the principles and rules of governance practices.	3	6	6	12	17	31	18	37	8	14	3.42	4	23.01	0.008
2. The recommendations of the AB are taken into account in all relevant financial, accounting, technical and administrative aspects.	3	6	11	22	21	39	13	25	4	8	3.10	6	22.04	0.001
3. The AB contributes to the improvement and integrity of the financial statements and accounting disclosure in the companies' reports.	1	2	6	12	14	27	25	47	6	12	3.56	2	28.00	0.002
4. The AB takes the necessary procedures to ensure that there is no violation of the laws and regulations in force in the country and the extent of their compatibility to corporate governance practices.	1	2	4	8	15	27	27	53	5	10	3.60	1	30.65	0.002
5. AB reports help improve companies' financial performance.	1	2	6	12	17	31	23	45	5	10	3.48	3	28.00	0.001
6. The audit procedures followed by the State AB are flexible and follow the developments of the company's operations and activities.	2	4	6	12	24	47	14	27	6	10	3.31	5	24.83	0.002
Overall mean score of agreement level												3.41		
Cronbach's alpha 0.900														

Results of One-Sample T-test of agreement degree of participants as one group (Table 11) indicate that calculated p-value (0.001) opposite phrases related to “the impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya” is less than α p-value (0.05). T

table (5.000) is less than calculated T (43.770). Accordingly, the third hypothesis of the study is rejected.

Table 11: Agreement degree of participants as one group of the impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya

α P-value	Calculated p-value	One-Sample T-test	Alternative hypothesis	Zero hypothesis	95 per cent trust interval among means	Standard deviation	Mean
0.05	0.007	43.770	Mean > 3	Mean \leq 3	3.205-3.605	0.191	3.410

6.3.4 The role of the AB in implementing corporate governance principles in Libya

Respondents' answers to the questions relating to the hypothesis stating that "The AB does not play a role in implementing corporate governance practices in Libya" were analysed using the same statistical methods used with the first, second and third hypotheses hypothesis of the study. The test results are as follows.

First – frequency distribution and likely mean. Table (12) shows frequency distribution, percentages and likely mean of responses to questions on "the role of the AB in implementing corporate governance practices in Libya". Likely mean was used to arrange principles based on their familiarity for the subjects of the study.

Principles 14, 9, 10, 5 and 17 were ranked in that order from first to fifth with averages 3.58, 3.35, 3.29, 3.10 and 3.06 respectively. Principles 1, 2, 3, 4, 6, 7, 8, 11, 12, 13, 15 and 16 come equal sixth with the same mean (3). As all of means are from 2.61 to 3.40, it can be concluded that the majority of respondents agreed that such principles are implemented by AB in Libya.

Second – One-Sample T-test. In addition to the use of frequency distribution and means to identify the role of the AB in activating corporate governance principles in Libya; a T-test was also utilised for the same purpose to test the hypothesis: "The AB does not play a role in implementing corporate governance principles in Libya". Results shown in Table (12) indicate that p-value opposite phrases related to "the role of the AB in implementing corporate governance principles in Libya" is less than 0.05. This entails to reject the hypothesis and that the overall median degree of agreement is higher than 3 for all phrases.

Table 12: Respondents' views about the role of the AB in implementing corporate governance principles in Libya

	1		2		3		4		5		Mean	Order	T-test	p-value
	No.	%	No.	%	No.	%	No.	%	No.	%				
Shareholders' Rights Principle: The AB, through its recommendations and suggestions, contributes to ensuring the right of shareholders to obtain:														
1. Important and appropriate information about the company in a timely and regular manner (with regard to reports and financial statements, future plans, strategic decisions, and material events affecting the company's activities and results).	8	16	11	22	14	27	18	33	1	2	3.00	6	18.44	0.002
2. Sufficient information in a timely manner on the place and date of holding the general assemblies of shareholders, the agenda, and sufficient information to study the reports, financial statements and decisions presented to the assembly.	10	20	10	20	14	25	15	29	3	6	3.00	6	16.76	0.001
3. Information on capital structure and voting rights.	7	14	7	14	21	39	14	27	3	6	3.00	6	19.66	0.001
4. Substantive information about the financial and operational results, objectives of the company, members of the Board of Directors and managers, expected risk factors, transactions with related parties, and corporate governance policies.	7	14	7	14	19	35	15	31	4	6	3.00	6	19.27	0.001
Principle of Equal Treatment of Shareholders: The AB, through its recommendations and suggestions, contributes to ensuring equal treatment for all shareholders, ensuring their right to:														
5. View the company's financial reports.	8	16	6	12	17	33	17	31	4	8	3.10	4	18.71	0.001
6. Obtaining actual compensation in case of violation of their rights.	9	18	10	18	20	37	11	22	2	4	3.00	6	18.02	0.004
7. That the vote made by the trustees or delegates in a manner agreed with the shareholders.	7	14	10	18	21	39	13	27	1	2	3.00	6	19.91	0.006
8. That the members of the Board of Directors or the executive managers disclose the existence of any interests of their own that may be related to operations or matters affecting the company.	10	20	6	12	16	31	17	31	3	6	3.00	6	17.52	0.002
The principle of disclosure and transparency: The AB assists in:														
9. Ensuring an adequate level of disclosure of the method of reviewing the annual or interim financial reports.	4	8	6	12	14	25	24	47	4	8	3.35	2	23.08	0.001
10. Ensuring fairness in the disclosure of the financial statements by ensuring that the information contained in the financial reports reaches all parties benefiting from them.	5	10	3	6	19	35	22	43	3	6	3.29	3	23.33	0.008
11. Provide recommendations and suggestions on how to prepare reports and financial statements and measure their impact.	8	16	9	18	14	25	18	35	3	6	3.00	6	18.22	0.004

The principle of the responsibilities of the Board of Directors: The AB, through its recommendations and suggestions, assists in:														
12. Assisting the Board of Directors in directing and reviewing the company's strategy and its keenness to maximise shareholder profitability.	5	10	8	14	30	61	7	10	2	4	3.00	6	22.75	0.008
13. Assisting in preparing the compensation and salary structure, reports, incentives and benefits granted to employees and workers.	9	18	5	10	30	57	6	10	2	4	3.00	6	19.69	0.001
14. Assisting the various departments in the companies by taking the necessary measures to ensure that the company does not violate the laws and regulations in force in the country and the extent of their compatibility.	1	2	5	10	13	20	29	59	4	8	3.58	1	30.41	0.005
The principle of the role of stakeholders: The AB, through its recommendations and suggestions, assists in:														
15. Work to respect the rights of stakeholders as legislated by the law.	5	10	9	18	23	43	12	22	3	6	3.00	6	21.09	0.007
16. Finding mechanisms for stakeholder participation in improving performance levels.	7	14	7	14	23	43	12	22	3	6	3.00	6	19.76	0.001
17. Investigations related to fraud and malpractices that occur in the company and how to avoid them in order to preserve the rights of stakeholders.	5	10	7	12	24	47	12	22	4	8	3.06	5	21.27	0.002
Overall mean score of agreement level 3.08														
Cronbach's alpha 0.902														

Results of One-Sample T-test of agreement degree of participants as one group (Table 13) indicate that calculated p-value (0.001) opposite phrases related to “the role of the AB in implementing corporate governance practices in Libya” is less than α p-value (0.05). T table (16.000) is less than calculated T (52.751). Accordingly, the fourth hypothesis of the study is rejected.

Table 13: Agreement degree of participants as one group of the role of the AB in implementing corporate governance principles in Libya

α P-value	Calculated p-value	One-Sample T-test	Alternative hypothesis	Zero hypothesis	95 per cent trust interval among means	Standard deviation	Mean
0.05	0.002	52.751	Mean \geq 3	Mean < 3	2.996-3.167	0.167	3.08

7. General results

From the above discussion, it can be summarised the main research results as follows:

- There is a role played by AB in implementing corporate governance principles in Libya.

- There is a positive influence of corporate governance on the different stages of company's performance although they are conspicuously absent from such practices.
- There is a lack of competence in corporate governance practices and a lack of professional standards and guidance.
- There is a lack of training programmes in the area of corporate governance.
- Corporate governance principles not being required by laws in Libya to be implemented.
- Agency theory does not offer a generally good explanation of corporate governance practice in Libya. This approach focuses only on the causes of conflict between managers (agents) and shareholders (owners), neglecting the other stakeholders in the society. It is a financial-purpose-oriented perspective.
- Managerial ownership is negatively associated with earnings management.
- The weakness of disclosure and transparency in Libyan companies may attribute to:
 - Lack of legal requirements;
 - The attitudes of accounting education and the accounting profession towards corporate governance practices;
 - Lack of stakeholder demands;
 - The absence of national accounting standards and the weakness of financial knowledge;
 - Inadequate social, political and economic system.

8. Recommendations

The main strength of this study is its practical implications and its usefulness in providing data for further extensive corporate governance practice development. Based upon the study's findings, the following major policy recommendations are made to enhance the level of corporate governance practices in general and within the Libyan context in particular. These are:

- To improve the accounting profession status and corporate governance practices, guidelines and principles should be issued by professional accounting bodies such



- as the Libyan Accountants and Auditors Association (LAAA) and AB. This will also encourage companies to be more involved in the corporate governance practices.
- To improve the awareness of the importance of corporate governance principles, the disclosure by Libyan companies should be providing information on corporate governance principles, together with other economic and financial performance information to a wider set of audiences rather than emphasising their accountability to a limited set of user groups, which would increase the company's transparency.
 - In order to persuade corporations to adopt corporate governance principles and practices, there should be a reward and punishment system in the country. The real concern is to reform the legislative structure to make corporate governance practices mandatory. A strong monitoring attitude from government will enhance accountability mechanism, rather than leaving it as a voluntary practice.
 - Employees, especially those in accounting and audit departments, should have more training on corporate governance to improve their knowledge and raise their awareness of corporate governance practices and kept up to date with amendments to the law through regular periodicals and pamphlets.
 - Non-governmental organisations (NGOs) and businesses can together play an important role through their media in social development that will help to improving community awareness about corporate governance issues in the country.
 - By adopting corporate governance policy, companies should receive additional financial support from the state such as low-cost funding or special tax treatment that could help in lowering costs of their production, increasing demand for their products and greater investment, which ultimately may have a positive influence on the outcome of their activities and financial standing. This would also encourage other firms to engage with corporate governance.

9. Conclusion

This paper aims to understand and identify the potential role of the AB in handling corporate governance in Libya as an Arabic and developing economy. This was achieved by investigate the views and perceptions of several practitioners from the AB (main branches) in Tripoli regarding their reorganisational response to the corporate governance practices and principles.



The results indicate that the concept of corporate governance is still very limited in the Libyan business environment despite the partial existence of its fundamentals. The results indicate that the most important fundamentals for implementation of corporate governance have been understood by the participants of AB in Libya. However, these results reflect contemporary international studies, suggesting that although the respondents recognized the positive influence of corporate governance on the different stages of company's performance, they are conspicuously absent from such practices as (Ehikioya, 2009: p. 231-243; Zagoub, 2019: p. 95-106) found in their studies. This can be attributed to: their lack of competence in such an area; a lack of professional standards and guidance; a lack of training programmes in this area; corporate governance principles not being required by laws to be implemented.

A large number of participants (66.7 per cent) have no background in corporate governance, and they do not have the knowledge and skills to apply its standards correctly. The results show that the majority of participants had not undertaken any training programmes to improve their knowledge about corporate governance practices. It was not surprising to the researcher to find that most respondents involved in the survey questionnaire had limited engagement in such practice, which has led to a low level of corporate governance practices in the Libyan context. These results support some previous corporate governance studies which indicate that education is an important determinant in corporate governance practices, suggesting that with better trained and educated employees, companies are more likely to adopt innovative activities and disclose more information, including corporate governance (Lodhia, 2003: p. 715-737; Kuasirikun, 2005: p. 1035-1057; Kamla et al., 2012: p. 1170-1205). The results confirm that there is an impact of the AB reports and its recommendations on the implementation of corporate governance practices in companies operating in Libya. The results also demonstrate that the application of corporate governance is significantly related to the procedures for the audit process followed by the AB. The role of the AB in designing and implementing effective corporate governance regulation and principles for organisations is weak and limited this result is also consistent with the findings of previous studies in the field of corporate governance (see, Mahmes, 2018).



Theoretically, the study finds that agency theory does not offer a generally good explanation of corporate governance practice in Libya. The analysis illustrates that it is not advisable to limit the responsibility of companies to the making of profit regardless of their social responsibility. If the concept of ‘social value’ is absent in accounting theory, it has nothing to offer (Tinker and Okcabol, 1991: p. 329-54; Ince, 1998: p. 51-52). It would be unrealistic to ignore the presence of self-interest and expectation of wealth maximisation behaviour. However, relying upon such behaviour as the major or sole rationale for corporate governance can be criticised, especially in a public-owned market such as in Libya. Agency theory is based on utilitarian ethical behaviour (self-interest) which is not acceptable from the perspective of Islamic religion where people are expected to be responsible for others in the community. Profit maximisation has a lower priority for Libyan corporations. The main aim of Libyan companies is to achieve social welfare and the means to do so are through collective effort. This approach focuses only on the causes of conflict between managers (agents) and shareholders (owners), neglecting the other stakeholders in the society. It is a financial-purpose-oriented perspective.

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